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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 6, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Guaranty Trust Co., Newark, N. J.	$500,000	$187,500	$2,571,815	1- 4-28
	Absorbed by Nonmember:				
2	Weequahic Trust Co., Newark, N. J. (absorbed by Washington Trust Co., Newark, N. J., a nonmember)				12-31-27
12	Citizens State Bank, San Luis Obispo, Calif. (absorbed by Security Bank & Trust Co., Bakersfield, Calif., a nonmember)				12-12-27
	Converted to Trust Company				
8	Lafayette South Side Bank, St. Louis, Mo., has converted into the Lafayette South Side Bank & Trust Co.				1- 3-28
	Change of Title:				
3	The Dime Deposit Bank, Kulpmont, Pa., has changed its title to the Dime Deposit Bank & Trust Co.				10-21-27
	Absorbed by National Bank:				
4	Shadyside Bank, Shadyside, Ohio (absorbed by First National Bank, Bellaire, Ohio)				12-24-27
7	Standard Trust & Savings Bank, Chicago, Ill. (consolidated with National Bank of the Republic, Chicago, Ill.)				12-31-27
	Withdrawal:				
10	Custer State Bank, Broken Bow, Nebr.				1- 6-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	First National Bank, Hightstown, N. J.	1- 4-28
3	Union National Bank, Mount Holly, N. J.	1- 4-28
4	Huntington National Bank, Columbus, O. (supplemental)	1- 4-28
7	First National Bank, Charleston, Ill.	1- 4-28
7	Albany Park National Bank, Chicago, Ill.	1- 4-28
7	First National Bank, Traverse City, Mich. (supplemental)	1- 4-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 13, 1928.

Changes in State Bank Membership.

Dist. No.		Date
	Absorbed by National Bank:	
8	The International Bank, St. Louis, Mo., has been absorbed by the First National Bank in St. Louis.	1- 9-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Bernardsville National Bank, Bernardsville, N. J.	1-13-28
2	Second National Bank, Cortland, N. Y.	1-13-28
5	Union National Bank, Clarksburg, W. Va.(supplemental)	1-13-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 20, 1928.

Dist. No.		Date

Changes in State Bank Membership:

Change of Title:

2	The International Acceptance Securities & Trust Co., New York, N. Y., has changed its title to International Acceptance Trust Co.	1-17-28

Absorption of National Banks:

1	The Hadley Falls Trust Co., Holyoke, Mass., has absorbed the City National Bank of Holyoke.	12-31-27
7	The Chicago Trust Co., Chicago, Ill., has absorbed the National Bank of Commerce in Chicago.	12-31-27

Converted to National Bank:

2	The Longacre Bank, New York, N. Y., has converted into The Longacre National Bank of New York.	1- 9-28

Voluntary Withdrawal:

11	Gonzales State Bank & Trust Co., Gonzales, Texas	1-20-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Bedford National Bank of Brooklyn in New York, N.Y.	1-18-28
12	Citizens National Bank, Los Angeles, Calif.	1-16-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 27, 1928.

CHANGES IN STATE BANK MEMBERSHIP.

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	International Germanic Trust Co., New York, N. Y.	$3,000,000	$2,000,000	$9,552,940	1-24-28
	Closed:				
4	West Lafayette Bank Co., West Lafayette, Ohio.				1-23-28
	Voluntary Withdrawal:				
7	Elkader State Bank, Elkader, Iowa.				1-27-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS

2	Amwell National Bank, Lambertville, N. J.	1-25-28
2	Chester National Bank, Chester, N. Y.	1-25-28
5	Cumberland National Bank, Fayetteville, N. C.	1-21-28
5	Peoples National Bank, Lexington, Va.	1-25-28
7	Alpena National Bank, Alpena, Mich.	1-25-28
8	Exchange National Bank, Jefferson City, Mo.	1-25-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 3, 1928.

CHANGES IN STATE BANK MEMBERSHIP.

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	Union Trust Co., Endicott, N. Y.	$100,000	$100,000	$2,095,595	1-28-28
8	Lafayette-South Side Bank & Trust Co., St. Louis, Mo.	2,000,000	1,000,000	30,088,902	2- 3-28
	Consolidated with National Bank:				
2	New Netherland Bank, New York, N. Y. (consolidated with the Seaboard National Bank, New York, N. Y.)				1-30-28
7	Central Savings Bank, Detroit, Mich. (consolidated with the First National Bank in Detroit, Mich.)				1-30-28
	Voluntary Withdrawal:				
6	Bank of Zebulon, Zebulon, Ga.				1-28-28
	Absorption of National Bank:				
2	Bayonne Trust Co., Bayonne, N. J., has absorbed the Bayonne National Bank, Bayonne, N. J.				2- 1-28
	Absorption of Nonmember:				
12	Cache Valley Banking Co., Logan, Utah, a member, has absorbed the Farmers Banking Co., Cache Junction, Utah, nonmember.				1-13-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Hudson County National Bank, Jersey City, N. J. (confirmatory)	1-31-28
2	Chase National Bank, New York, N. Y. (confirmatory)	1-31-28
3	First National Bank, Absecon, N. J.	2- 2-28
3	First National Bank, Lehighton, Pa.	2- 2-28
5	Citizens National Bank, Hendersonville, N. C.	1-31-28
5	Staunton National Bank, Staunton, Va.	2- 2-28
7	National Bank of the Republic, Chicago, Ill. (confirmatory)	2- 2-28
7	First National Bank, Lake Forest, Ill.	1-31-28
7	First National Bank, Gary, Ind.	2- 2-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 10,1928.

CHANGES IN STATE BANK MEMBERSHIP

Dist. No.		Date
	Absorption of National Bank	
2	The Interstate Trust Co., New York, N. Y., a member, has absorbed the Hamilton National Bank, New York, N. Y.	1-16-28
	Closed:	
6	Southern Bank & Trust Co., Miami, Fla.	2- 4-28
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
2	United National Bank in New York, New York, N. Y.	2-10-28
4	First National Bank, Marietta, O. (Supplemental)	2-10-28
5	First National Bank, Rocky Mount, N. C.	2-10-28
7	St. Johns National Bank, St. Johns, Mich.	2-10-28
10	Stillwater National Bank, Stillwater, Okla.	2-10-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 17, 1928

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
7	Peoples Wayne County Bank, Detroit, Mich.	$11,000,000	$22,000,000	$33,000,000	2-15-28
	Succeeded by State member:				
7	The Peoples State Bank and Wayne County & Home Savings Bank, both of Detroit, Mich., members, have been succeeded by the Peoples Wayne County Bank, Detroit, Mich., a member.				2-15-28
	Closed:				
7	Bellevue State Bank, Bellevue, Iowa				2-16-28
	Voluntary Withdrawals:				
4	First-American Bank & Trust Co., Lima, Ohio				2-11-28
3	Mill Hall State Bank, Mill Hall, Pa.				2-11-28
	Merger between State members:				
2	The Bank of Coney Island, Brooklyn, N. Y., has merged into the Brooklyn Trust Co., Brooklyn, N. Y., both being members.				1-10-28
	Absorbed by Nonmember:				
12	United Bank & Trust Co., San Francisco, Calif., has been absorbed by the Security Bank & Trust Co., Bakersfield, Calif., a nonmember.				2- 4-28
	Change of Title:				
11	The Guaranty Bond Bank & Trust Co., Gatesville, Texas, has changed its title to Guaranty Bank & Trust Co.				2- 9-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Portland National Bank, Portland, Maine (confirmatory)	1- 7-28
3	Erie National Bank, Philadelphia, Pa.	2-14-28
3	Penn National Bank, Reading, Pa. (supplemental)	2-14-28
5	American Exchange National Bank, Greensboro, N. C.	2-14-28
7	First National Bank of Marshall County, Plymouth, Ind.	2-14-28
7	Union City National Bank, Union City, Mich.	2-14-28
9	First National Bank, West Concord, Minn.	2-14-28
11	Public National Bank, Houston, Texas	2-14-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 24, 1928

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Absorption of Nonmember:	
2	The International Germanic Trust Co., New York, N. Y., a member, has absorbed the Terminal Trust Co., New York, N. Y., a nonmember.	2-18-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

5	First National Bank, Strasburg, Va.	2-21-28
3	City National Bank & Trust Co., Philadelphia, Pa.	2-20-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 2, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Change of Title:	
2	The Title Guaranty and Trust Company, Plainfield, N. J., has changed its title to Guaranty Trust Company.	2-17-28
	Closed:	
6	Douglasville Banking Co., Douglasville, Ga.	2-28-28
12	Security State Bank, Ashton, Idaho	2-28-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Boston National Bank, Boston, Mass.	3- 2-28
1	Orange National Bank, Orange, Mass.	2-27-28
2	City National Bank, South Norwalk, Conn.(Supplemental)	2-28-28
3	National Bank of Kennett Square, Kennett Square, Pa.	2-27-28
7	Citizens National Bank, Kokomo, Ind. (Supplemental)	2-27-28
7	First National Bank, Lebanon, Ind.	2-28-28
7	Citizens National Bank, Martinsville, Ind.	3- 2-28
8	American National Bank, Vincennes, Ind.	2-27-28
9	National Bank of Commerce, Superior, Wis.	2-27-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 9, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Merger:	
2	The East Orange Bank, East Orange, N. J., a member, and the Central Trust Co. of Essex County, East Orange, N. J., a nonmember, have merged into the Savings Investment & Trust Co., East Orange, N. J., a member.	3- 5-28
	Closed:	
7	Farmers Savings Bank, Lytton, Iowa	3- 5-28
	Succeeded by Nonmember:	
11	The First State Bank, Rice, Texas, a member, has been succeeded by the First State Bank of Rice, nonmember.	3- 1-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Lynbrook National Bank, Lynbrook, N. Y.	3- 6-28
3	First National Bank, Berwick, Pa.	3- 9-28
7	American National Bank, Woodstock, Ill.	3- 9-28
9	United States National Bank, Deer Lodge, Mont.	3- 5-28
10	First National Bank, Independence, Mo.	3- 9-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 16, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
3	Lansdale Title & Trust Co., Lansdale, Pa.	$125,000	$37,500	$162,500	3-10-28
11	First State Bank, Wolfe City, Texas	25,000	- -	128,893	3-15-28
	Withdrawal:				
10	Farmers State Bank, St. Edward, Nebr.				3-15-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS

2	Lincoln National Bank, Passaic, N. J.	3-12-28
2	Peoples National Bank, White Plains, N. Y.	3-12-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 23, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership				
3	Wildwood Title & Trust Co., Wildwood, N. J.	$100,000	$150,000	$1,499,784	3-20-28
12	First Security Bank, Pocatello, Idaho	100,000	50,000	1,701,146	3-19-28
	Closed:				
4	Farmers & Merchants Bank Co., Metamora, Ohio				3- 5-28
	Reopened:				
4	West Lafayette Bank Co., West Lafayette, Ohio				3-15-28
	Consolidated with Nonmember:				
9	The Enderlin State Bank, Enderlin, N. Dak., has consolidated with the Peoples Bank, Enderlin, N. Dak., a nonmember.				1-27-28
	Voluntary Withdrawal:				
10	Bank of Chelsea, Chelsea, Okla.				3-19-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Paterson, N. J. (confirmatory)	3-22-28
2	First National Bank, Hornell, N. Y.	3-22-28
3	Union National Bank & Trust Co., Mount Holly, N. J. (confirmatory)	3-22-28
3	First National Bank, Montoursville, Pa.	3-22-28
3	Northeast National Bank of Holmesburg in Philadelphia, Pa.	3-22-28
3	First National Bank, Tyrone, Pa.	3-22-28
7	First-McKeen National Bank & Trust Co., Terre Haute, Ind.	3-22-28
9	National Bank of Montana, Helena, Mont.	3-22-28
12	First National Bank, Waitsburg, Wash.	3-22-28
12	First National Bank, Athena, Oreg.	3-22-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 30, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
7	Center Line State Savings Bank, Center Line, Mich.	$60,000	$60,000	$1,249,062	3-29-28
	Change of Title:				
2	The Bank of Genesee, Batavia, N. Y., has changed its title to the Genesee Trust Company.				3-22-28
	Converted to National Bank				
2	The Bank of America, New York, N. Y., has converted into the Bank of America National Association.				3-26-28
	Closed:				
6	Central Bank & Trust Co., Lakeland, Fla.				3-24-28
	Absorbed by National Bank:				
7	The Guaranty State Bank, Knoxville, Iowa, has been absorbed by the Knoxville National Bank & Trust Co.				
	Voluntary Withdrawal:				
10	Fort Lupton State Bank, Fort Lupton, Colo.				3-30-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Athol National Bank, Athol, Mass.	3-30-28
2	Bank of America National Association, New York, N. Y.	3-26-28
2	Commercial Exchange National Bank in New York, N. Y.	3-26-28
5	Nicodemus National Bank, Hagerstown, Md.	3-24-28
7	Roseland National Bank, Chicago, Ill.	3-30-28
11	Citizens National Bank, Floresville, Texas	3-30-28
12	Farmers & Merchants National Bank, Reno, Nev. (supplemental)	3-30-28
12	First National Bank, Eugene, Oreg. (supplemental)	3-30-28
12	First National Bank, Pendleton, Oreg. (supplemental)	3-30-28
12	Farmers National Bank, Colfax, Wash. (supplemental)	3-30-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 6, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
8	Community Bank & Trust Co., Hot Springs, Ark.	$75,000	$25,000	$684,644	4- 6-28
	Voluntary Withdrawal:				
4	West Lafayette Bank Co., West Lafayette, Ohio				4- 4-28
	Succession by Nonmember:				
7	The La Grange State Bank and the La Grange Trust and Savings Bank, La Grange, Ill., both members, have consolidated and were succeeded by the La Grange State Trust and Savings Bank, nonmember.				4- 2-28
	Absorption of Nonmember:				
7	The Farmers & Merchants State Bank, Sebewaing, Mich.,a member, has absorbed the Sebewaing State Bank, nonmember.				
	Consolidation with Nonmember:				
12	The Farmers & Merchants Bank, Walla Walla, Wash., a member, has consolidated with the Union Trust Co., Walla Walla, Wash., a nonmember, under new charter and title of Union Bank & Trust Co.				3-19-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Public National Bank, Rochester, N. H.	4- 6-28
2	First National Bank, Freehold, N. J.	4- 4-28
2	United Capitol National Bank & Trust Co., New York, N. Y. (Confirmatory)	4- 4-28
3	Citizens National Bank, Lewistown, Pa.	4- 6-28
3	Littlestown National Bank, Littlestown, Pa.	4- 6-28
5	First National Bank, Rocky Mount, N. C. (Confirmatory)	4- 4-28
6	Mobile National Bank, Mobile, Ala.	3-31-28
6	Sanford Atlantic National Bank, Sanford, Fla.	4- 6-28
11	Peoples National Bank, Tyler, Texas	4- 6-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 13, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	State Bank of Mayville, Mayville, N. Y.	$50,000	$100,000	$1,269,318	4- 7-28

Absorption of National Bank:

4	The Chagrin Falls Banking Co., Chagrin Falls, Ohio, a member, has absorbed the First National Bank of Chagrin Falls.	2-11-28

Merged with Nonmember:

5	The Bank of Cheraw, Cheraw, S. C., a member, has merged with the Bank of Chesterfield County, Cheraw, S. C., under the title of Bank of Cheraw & Chesterfield County, nonmember.	1-30-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

8	Trenton National Bank, Trenton, Mo.	4- 9-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 20, 1928

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
3	Liberty State Bank & Trust Co., Mount Carmel, Penna.	$150,000	$150,000	$1,636,645	4-14-28
8	Sarah-Olive Bank, St. Louis, Mo.	120,000	24,000	412,618	4-16-28
9	Iron Exchange Bank, Hurley, Wis.	75,000	37,500	1,375,658	4-20-28
	Merger of Member and Nonmember:				
3	The Commonwealth Title Insurance & Trust Co., Philadelphia, Pa., a nonmember, merged with and under the title of the Provident Trust Co. of Philadelphia, a member.				4- 7-28
	Closed:				
7	Farmers Savings Bank, Palmer, Iowa.				4-14-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS.

1	Townsend National Bank, Townsend, Mass.	4-17-28
2	Allenhurst National Bank, Allenhurst, N. J.	4-17-28
2	Putnam County National Bank, Carmel, N. Y.	4-17-28
2	Saratoga National Bank, Saratoga Springs, N. Y.(Supplemental)	4-17-28
3	Penn's Grove National Bank, Penn's Grove, N. J.	4-18-28
3	Delaware County National Bank, Chester, Penna.	4-18-28
3	Peoples National Bank, State College, Penna.	4-18-28
5	American National Bank, Roanoke, Va. (Supplemental)	4-17-28
6	East Tennessee National Bank, Knoxville, Tenn.	4-18-28
7	First National Bank, Batesville, Ind. (Supplemental)	4-18-28
12	Continental National Bank, Salt Lake City, Utah	4-18-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 27, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
6	Continental Trust Co., Macon, Ga.	$150,000	$50,000	$1,690,934	4-27-28
	Withdrawals:				
6	Farmers & Merchants Bank, Hurtsboro, Ala.				4-21-28
10	Farmers State Bank, Genoa, Nebr.				4-27-28
	Consolidation of State Members:				
8	The American Trust Company and the Franklin Bank, both of St. Louis, Mo., members, have consolidated under the title of Franklin-American Trust Company, St. Louis, Mo., a member.				4-21-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Bank of America National Association, New York, N. Y.	(Confirmatory)	4-27-28
7	First National Bank, Lake Forest, Ill.	(Confirmatory)	4-27-28
7	Dysart National Bank, Dysart, Iowa	(Confirmatory)	4-27-28
9	Security National Bank, Sioux Falls, S. Dak.	(Supplemental)	4-24-28
10	First National Bank, Farmington, N. Mex.		4-27-28
12	Citizens National Trust & Savings Bank, Los Angeles, Cal.	(Confirmatory)	4-27-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 4, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
4	Merchants & Miners Bank, Paint Borough, Pa. (P.O. Scalp Level)	$30,000	$35,000	$374,559	5- 1-28
12	Union Bank & Trust Co., Walla Walla, Wash.	200,000	25,000	2,396,497	4-27-28
	Voluntary Withdrawal:				
7	Bank of Oakfield, Oakfield, Wis.				5- 4-28
5	Farmers Bank, Belhaven, N. C.				5- 1-28
11	First State Bank, Crowell, Texas.				4-30-28
	Change of Title:				
7	The Alpena County Savings Bank, Alpena, Michigan, has changed its title to Alpena Trust & Savings Bank.				4- 7-28
	Absorption of National Bank:				
11	The First State Bank, Celina, Texas, a member, has absorbed the Farmers & Merchants National Bank of Celina, Texas.				2-28-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Westwood, N. J.	5- 2-28
3	Moxham National Bank, Johnstown, Pa.	5- 2-28
3	Northeast National Bank of Holmesburg in Philadelphia, Pa.	4-28-28
3	Philadelphia National Bank, Philadelphia, Pa. (confirmatory)	5- 2-28
10	Union National Bank, Wichita, Kans.	5- 4-28

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FEDERAL RESERVE BOARD

WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 11, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership	
	None.	
	Consolidation:	
3	The Lincoln Trust Co., Scranton, Pa., nonmember, has consolidated with the Peoples Savings & Dime Bank & Trust Co., Scranton, Pa., member, under the title of Dime Bank-Lincoln Trust Co.	5- 5-28
	Conversion:	
12	The Lumbermens Bank & Trust Co., Hoquiam, Wash., has converted into The Lumbermens National Bank & Trust Co.	4-30-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	Third National Bank & Trust Co., Camden, N. J.	5- 1-28
7	First National Bank, Peoria, Ill.	5- 7-28
11	Citizens National Bank, Denison, Texas	5- 7-28
12	Lumbermens National Bank & Trust Co., Hoquiam, Wash.	4-30-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 18, 1928.

Dist.		Date
	CHANGES IN STATE BANK MEMBERSHIP:	
	Admitted to Membership:	
	None.	
	Voluntary Withdrawals:	
4	Farmers State Bank, Eldorado, Ohio	5-16-28
6	Bank of Camilla, Camilla, Ga.	5-12-28
7	Winneshiek County State Bank, Decorah, Iowa	5-18-28
	Reopened:	
6	Southern Bank & Trust Co., Miami, Fla.	4-30-28
	Succeeded by Nonmember:	
8	Lafayette County Trust Co., Lexington, Mo. (succeeded by Lexington Savings Trust Co.)	5-14-28
	AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:	
2	Pacific Coast Trust Co., New York, N. Y.	5-14-28
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
1	National Mount Wollaston Bank, Quincy, Mass.	5-18-28
1	First National Bank, Manchester, N. H.(supplemental)	5-18-28
3	Nanticoke National Bank, Nanticoke, Pa.	5-18-28
3	Manayunk-Quaker City National Bank, Philadelphia,Pa. (confirmatory)	5-18-28
7	First Galesburg National Bank & Trust Co., Galesburg, Ill. (confirmatory)	5-18-28
7	First National Bank, East Chicago, Ind.	5-18-28
9	Citizens National Bank, Houghton, Mich.	5-18-28
10	First National Bank, Dewey, Okla.	5-14-28

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Federal Reserve Bank of St. Louis

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 25, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Merger of State Members:	
2	The Central Mercantile Bank & Trust Co., New York, N.Y., merged with the Bank of United States, New York, N. Y., under title of the latter.	5-18-28
	Absorption of National Bank:	
4	The Citizens Trust & Savings Bank, Columbus, Ohio, has absorbed the First National Bank in Columbus.	5-15-28
	Voluntary Liquidation:	
6	Pendergrass Banking Co., Pendergrass, Ga.	2-19-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Central National Bank, Freehold, N. J.	5-24-28
2	Ticonderoga National Bank, Ticonderoga, N. Y.	5-24-28
3	Mt. Airy Nat. Bank & Trust Co. in Philadelphia, Pa.	5-21-28
6	Merchants & Planters Nat. Bank, Sylacauga, Ala.	5-24-28
6	Munroe and Chambliss Nat. Bank, Ocala, Fla.	5-24-28
6	Putnam National Bank, Palatka, Fla.	5-24-28
10	Union National Bank, Manhattan, Kans.	5-24-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 1, 1928.

Dist. No.		Capital	Surplus	Total resources	Date
	CHANGES IN STATE BANK MEMBERSHIP				
	Admitted to Membership:				
7	American State Bank, Frankenmuth, Mich.	$25,000	$15,000	$784,065	5-28-28
	Absorption of National Bank:				
1	The B. M. C. Durfee Trust Co., Fall River, Mass., a member, has absorbed the Massassoit-Pocasset National Bank of Fall River.				5-28-28
	Change of Title:				
4	The Citizens Trust & Savings Bank, Columbus, Ohio, has changed its title to the First-Citizens Trust Company.				5-15-28
	Voluntary Withdrawal:				
6	The Bank of Madison, Madison, Ga.				5-25-28
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:				
1	Andover National Bank, Andover, Mass.				6- 1-28
1	Newport National Bank, Newport, R. I.				6- 1-28
2	Bridgehampton National Bank, Bridgehampton, N. Y.				6- 1-28
3	National Bank of Malvern, Malvern, Pa.				5-28-28
3	Pelham National Bank & Trust Co., Philadelphia, Pa.				5-28-28
7	First National Bank, Perry, Iowa				6- 1-28
11	First National Bank, La Grange, Texas				6- 1-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 8, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
3	Steelton Trust Co., Steelton, Pa.	$125,000	$125,000	$961,586	6- 6-28

Absorption of National Banks:

1	The B. M. C. Durfee Trust Co., Fall River, Mass., has absorbed the Metacomet National Bank of Fall River.	5-28-28
2	The Manufacturers Trust Co., New York, N. Y., has absorbed the United Capitol National Bank & Trust Co., New York, N. Y.	6- 5-28

Closed:

7	State Bank of Blairsburg, Blairsburg, Iowa.	6- 5-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	Lehigh National Bank, Catasauqua, Pa.	6- 7-28
6	Hamilton National Bank, Chattanooga, Tenn.	6- 7-28
7	Hammond National Bank & Trust Co., Hammond, Ind.(confirmatory)	6- 1-28

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X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 15, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Voluntary Withdrawal:	
9	Rock County Bank, Luverne, Minn.	6-15-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

10	First National Bank, David City, Nebr.	6-12-28

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X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 22, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
None.		

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Blackstone Canal National Bank, Providence, R. I. (Supplemental)	6-19-28
3	Pennsylvania National Bank, Pottsville, Pa.	6-19-28
5	First National Bank, Charlotte, N. C.	6-19-28
5	Central National Bank, Spartanburg, S. C.(Supplemental)	6-22-28
6	Morgan County National Bank, Decatur, Ala.	6-22-28
7	Jackson Park National Bank, Chicago, Ill.	6-22-28
7	Portage Park National Bank, Chicago, Ill.	6-22-28
12	Washington National Bank, Ellensburg, Wash.(Supplemental)	6-22-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 29, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Admitted to Membership: Capital	Surplus	Total resources	Date
2	Franklin Bank & Trust Co., Newark, N. J.	$200,000	$160,000	$3,796,237	5-15-28
7	Iowa State Bank, Algona, Iowa	50,000	7,500	632,282	6-29-28
7	Kalamazoo Trust & Savings Bank, Kalamazoo, Mich.	600,000	200,000	7,725,042	6-29-28
	Succeeded by State Member:				
2	Mutual Bank of Roseville, Newark, N. J. (Succeeded by the Franklin Bank and Trust Co., Newark, N. J., a member)				5-15-28

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FEDERAL RESERVE BOARD

27

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5034

January 10, 1928.

SUBJECT: Code Word to cover new Issue of Treasury Notes, Series C-1930-32, in Telegraphic Transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "BESTOWAL" has been designated to cover the new issue of Treasury Notes, dated January 16, 1928, Series C-1930-32.

This word should be inserted in the Federal Reserve Telegraphic Code Book following the supplemental code word "BESTIRRED" at the bottom of page 26.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5035

January 11, 1928.

SUBJECT: Reserves Against Dividends Declared but Unpaid.

Dear Sir:

The question has been presented to the Board whether a member bank is required to maintain reserves against a dividend for the period intervening between the date of the declaration of the dividend and the date on which it is paid.

The Federal Reserve Board is of the opinion that this question should be answered in the negative. Reserves are required to be maintained only against deposits. While the declaration of a dividend creates a liability it does not create a deposit liability. Reserves are not required in such cases until cashiers' checks are issued by the bank to its stockholders for their proportionate shares of the dividend or their deposit accounts are credited with the proper amounts.

By Order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

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

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Federal Reserve Bank of St. Louis

X-5037

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

January 11, 1928.

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, 1927, to December 31, 1927, amounting to $113,600, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston	150,000	150,000			10,000	310,000
New York		150,000				150,000
Philadelphia	200,000	200,000		10,000		410,000
Cleveland	250,000	100,000		25,000		375,000
Richmond	75,000		125,000	10,000		210,000
Atlanta	75,000	100,000	75,000			250,000
Chicago	150,000	250,000	75,000	20,000		495,000
St. Louis	100,000	150,000	25,000			275,000
Minneapolis	100,000	50,000				150,000
Kansas City	100,000	50,000	25,000			175,000
Dallas	150,000	50,000	50,000			250,000
San Francisco		50,000	100,000			150,000
	1,350,000	1,300,000	475,000	65,000	10,000	3,200,000

3,200,000 sheets @ $35.50 per M $113,600.00

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

Boston	$ 11,005.00
New York	5,325.00
Philadelphia	14,555.00
Cleveland	13,312.50
Richmond	7,455.00
Atlanta	8,875.00
Chicago	17,572.50
St. Louis	9,762.50
Minneapolis	5,325.00
Kansas City	6,212.50
Dallas	8,875.00
San Francisco	5,325.00
	$113,600.00

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

Respectfully,
S. R. Jacobs,
Deputy Commissioner.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

X-5038

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 18, 1928.

SUBJECT: Holidays during February, 1928.

Dear Sir:

On Monday, February 13th, in observance of the Anniversary of the birthday of Abraham Lincoln, 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 be open for business:

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

On Tuesday, February 21st, the New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed in observance of Mardi Gras. Please include your credits of February 21st for the New Orleans Branch with your credits in the Gold Fund Clearing of February 23rd.

On Wednesday, February 22nd, Washington's birthday, the offices of the Federal Reserve Board and of all Federal reserve banks will be closed.

On Friday, February 24th, the Havana Agency of the Federal Reserve Bank of Atlanta will be closed account holiday.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5039

January 18, 1928

SUBJECT: Administration of Section IV(b) of Regulation D.

Dear Sir:

Section IV(b) of Regulation D, Series of 1928, reads as follows:

> "Notice to directors of banks deficient in reserves.- Whenever it shall appear that a bank is not paying due regard to the maintenance of its reserves, the Federal reserve agent will address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this regulation regarding the maintenance of reserves and the personal liability of the directors permitting violations of the law."

This section is purposely phrased in such a way as to admit of some flexibility and to afford the Federal reserve agents an opportunity to exercise a reasonable discretion in its administration. The Board, however, will expect the Federal reserve agents to administer this section of the regulation in such a way as to carry out its purpose, and to address letters to the directors of all member banks which are not paying due regard to the maintenance of their reserves unless there is very good reason for refraining from sending such letters.

Before sending such letters, the Board desires the Federal reserve agent to consult the chief national bank examiner of his district or the State bank supervisor and ascertain whether there is anything in the circumstances surrounding such bank which would render it inadvisable to send such letter. If the chief national bank examiner or the State bank supervisor knows of no good reason why such letters should not be sent, the Federal reserve agent should at once address to each director of the bank in question a letter such as that contemplated by the above provision of the regulation. If the chief national bank examiner or the State bank supervisor, however, is of the opinion that the circumstances are such as to render it inadvisable to write such a letter to the directors thereof, the Federal reserve agent, before sending such letters to the directors of the bank in question, shall report the facts to the Federal Reserve Board with his recommendation.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5043

January 23, 1928.

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

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-5043-a and X-5043-b, covering in detail operations of the main line, Leased Wire System, during the month of December, 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.

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

Enclosures:

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF DECEMBER, 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	Per cent of total bank Business (*)
Boston	40,718	1,345	42,063	6,945	-	35,118	3.84
New York	155,860	-	155,860	11,799	72	143,989	15.77
Philadelphia	46,590	1,629	48,219	6,133	-	42,086	4.61
Cleveland	87,077	2,451	89,528	7,891	-	81,637	8.94
Richmond	63,380	3,109	66,489	7,670	-	58,819	6.44
Atlanta	61,252	2,424	63,676	9,981	-	53,695	5.88
Chicago	115,027	3,537	118,564	11,808	-	106,756	11.69
St. Louis	88,377	3,017	91,394	8,343	-	83,051	9.09
Minneapolis	37,948	3,393	41,341	4,785	-	36,556	4.00
Kansas City	88,982	3,202	92,184	8,261	-	83,923	9.19
Dallas	78,332	7,005	85,337	6,455	-	78,882	8.64
San Francisco	120,000	2,416	122,416	13,676	-	108,740	11.91
Total	983,543	33,528	1,017,071	103,747	72	913,252	100.00
			402,086	93,302		308,784	
			1,419,157	197,049	72	1,222,036	
			100.00%	13.88%	.01%	86.11%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-5043-b)

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

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X-3043-b

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, DECEMBER, 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	$750.33	$260.00	$490.33
New York	975.17	-	-	975.17	3,081.46	975.17	2,106.29
Philadelphia	225.00	-	-	225.00	900.79	225.00	675.79
Cleveland	296.66	-	-	296.66	1,746.88	296.66	1,450.22
Richmond	190.00	-	-	190.00	1,258.38	190.00	1,273.05(&)
Atlanta	270.00	-	-	270.00	1,148.95	270.00	878.95
Chicago	3,923.66(#)	-	-	3,923.66	2,284.23	3,923.66	1,639.43(*)
St. Louis	207.00	-	-	207.00	1,776.19	207.00	1,569.19
Minneapolis	193.73	-	-	193.73	781.60	193.73	587.87
Kansas City	275.64	-	-	275.64	1,795.73	275.64	1,520.09
Dallas	251.00	2.25	-	253.25	1,688.26	253.25	1,435.01
San Francisco	370.00	-	-	370.00	2,327.21	370.00	1,957.21
Federal Reserve Board	-	-	$15,251.63	$15,251.63			
	$7,437.86	$2.25	$15,251.63	$22,691.74	$19,540.01	$7,440.11	$13,944.00
				3,151.73(a)			1,639.43 (b)
				$19,540.01			$12,304.57

(&) Includes $204.67 for branch line business transmitted over main line circuit.
(#) Includes salaries of Washington Operators.
(*) Credit.
(a) Received $3,150.73 from Treasury Department and $1.00 from War Finance Corporation covering business for the month of December, 1927.
(b) Amount reimbursable to Chicago.

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Federal Reserve Bank of St. Louis

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X-5044 35

FEDERAL RESERVE BOARD

Office Correspondence

October 5, 1927.

To Mr. Wyatt

Subject: Uniform Answer to be used in Collection Cases.

From Mr. Wingfield.

As requested, I have examined the answer submitted by Mr. Stroud which he suggests be used in all cases brought against Federal reserve banks for negligence in collecting checks in order that the handling of such cases may be uniform. My suggestions with reference to this answer are as follows:

(1) The answer is quite long and it seems to me that much of the detailed description of the Federal Reserve System contained in it might more appropriately be placed in a brief on the case and the answer would thus be materially shortened.

(2) Paragraphs 7, 9 and 10 on pages 4, 5 and 6 of the answer do not contain matter closely related to the point at issue and in my opinion these paragraphs could be considerably boiled down and shortened.

(3) In paragraph 11, at the bottom of page 6, reference is made to the charges which may be made by Federal Reserve Banks for making collection. This reference is apparently taken from Section 13 of the Federal Reserve Act and should have to do with charges by member and nonmember banks for paying checks drawn upon themselves.

(4) There is apparently a typographical error in the third line from the top on page 10. The word"receipted" should be "received".

(5) Paragraph 17 would in my opinion more appropriately follow paragraph 18 of the answer. If so arranged the answer would read more smoothly.

Respectfully,

B.M.Wingfield
Assistant Counsel

Papers attached
BMW
OMC

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Copy X-5044-a

36

SQUIRE, SANDERS & DEMPSEY
COUNSELLORS AT LAW
The Union Trust Building
Cleveland

June 15, 1927.

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

Dear Sir:- In re: Speer Hardware Company vs. Federal Reserve Bank of Dallas.

In accordance with your request, Mr. Strater and I have reviewed the form of answer prepared by Mr. Stroud for the Federal Reserve Bank of Dallas in the above entitled case.

Mr. Strater and I both feel it is hardly practicable for a standard form to be worked out which would serve generally in cases involving questions of the character which arose in the above entitled action, but I believe that Mr. Stroud's answer is of value in helping counsel in other Reserve Banks because it contains a very complete history of the development of the Federal Reserve System and the basis on which the collection function has been undertaken by the several Federal Reserve Banks.

It seems to me that paragraph eleven on page six would be improved if it were redrafted to include only the first sentence. In the second sentence, you will note that the phrase reading "and also for collection" hardly seems complete, and should, I think, read "and also for collection maturing notes and bills".

As to the concluding clause in the eleventh paragraph commencing "and that the Federal Reserve Board, should, by rule, fix the charges, etc." Mr. Strater calls attention to the fact that this recital is unfortunate in that under the provision of Section 16 of the Federal Reserve Act, the duty of fixing charges to be collected by a member bank from its patrons is mandatory, but the Federal Reserve Board has not attempted to exercise the authority granted by this provision.

Your will recall that during the time whon Governor Harding was a amember of the Board the question of fixing these charges was considered but no definite action was taken with respect thereto. In view of this situation, it seems questionable whether specific reference should be made to this provision of the Federal Reserve Act.

Yours very truly,

SN:RG Sterling Newell.

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X-5044-b

37

June 9, 1927.

Locke, Locke, Stroud & Randolph,
American Exchange Building,
Dallas, Texas.

Attention: Mr. E. B. Stroud.

Gentlemen:

I have received and read with much interest your letter of June 3rd commenting on Mr. Powell's letter of May 19th with reference to your proposed uniform answer to be used in check collection suits.

I agree with you as to the importance of educating the courts with reference to the modern developments in check collection practices and the obsolescence of the old common law rules governing same. The only difference of opinion between Counsel, however, seems to be as to the proper method of accomplishing this desired result and the expediency of setting up all of this information in the answer. It has occurred to me that it might be advisable to prepare a pamphlet describing the modern developments in check collections and citing authorities of which the courts will take judicial notice, as has been done in some of the check collection cases recently tried. Such a pamphlet could be used as an appendix to the briefs filed in court and, where permissible, might be made exhibits attached to the answer. I should like very much to have your viewson this suggested modification of your plan.

With all best wishes, I am,

Cordially yours,

Walter Wyatt,
General Counsel.

WW MD

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X-5044-c

38

FEDERAL RESERVE BANK

OF SAN FRANCISCO

June 6, 1927.

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

Dear Mr. Wyatt:

I have given careful consideration to the form of answer transmitted to you by Counsel to the Federal Reserve Bank of Dallas on May 10 and by you transmitted to respective Counsel to the other Federal reserve banks for examination and suggestions.

As stated to you in my letter of June 3, 1927, I am of the opinion that this type of answer would not be acceptable to the courts of the states comprising the Twelfth Reserve District. A great deal of the matter contained in the answer is purely historical and informative. It is no doubt true, as stated by the Counsel to the Federal Reserve Bank of Dallas, that the courts need to be more fully advised as to the recent changes which have occurred in the collection of cash items and while it might be possible to place this information before a court during the trial of the case, I do not believe that it would stand the test of a motion to strike under our western practice. I note that the author of the answer has attempted to make the historical allegations acceptable by alleging that they were known to the plaintiff, but this would not save the historical and informative matter from being stricken if the court held that it was not necessary to a determination of the issues before it.

Section 453 of the Code of Civil Procedure of California, after which the pleading codes of most of the other western states are modeled, provides, among other things, that sham and irrelevant answers and irrelevant and redundant matter inserted in an answer may be stricken out upon such terms as the court may in its discretion impose. I have succeeded in numerous occasions in invoking this statute to strike from an answer matter which, it seems to me, was more vitally connected with the issues than the historical matter included in the answer under consideration.

In our type of pleading there is another objection to this form of answer in that there are several defenses interposed without being separately stated. Our rules require that each separate defense must be separately set out and that no two defenses can be included within the same statement.

For the foregoing reasons I do not believe that the answer submitted would serve as a model. In so saying, I do not in any manner mean to criticize

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Federal Reserve Bank of St. Louis

Walter Wyatt, Esq.,

the pleading of Counsel to the Federal Reserve Bank of Dallas. Under the civil practice which I believe is in vogue in Texas, this type of pleading is no doubt good and certainly the answer is most illuminating. A great deal of the matter included therein can be placed before the court in the form of testimony, although not included in the pleadings, on the ground that it is introductory and incidental to the issues involved. The answer submitted could, I believe, well be taken by counsel to the other Federal reserve banks as a model outline for such proof.

Personally I do not believe it is possible to adopt any model form of answer which will serve in any given case. The facts in every case differ and it seems to me that the pleadings must be framed and the defenses outlined to meet the situations as they arise. It is of course always expedient to plead Regulation J and the check collection circular of the individual bank. It is also usually expedient to plead custom and, in most cases, estoppel if the facts warrant it. Further than this I do not believe any model of answer can be used and even the manner in which these defenses are to be pleaded must depend upon the circumstances in each case.

Therefore, while I appreciate the opportunity of reading the form of answer prepared by Counsel to the Federal Reserve Bank of Dallas, it is my opinion that neither this form nor any other which can be outlined in advance can be used as a model for all collection cases. It seems to me that the better plan is for the counsel to the Federal reserve banks to keep themselves well abreast of the current decisions relating to this matter and to frame their pleadings as the exigencies of the particular case require. Perhaps you would like to call to the attention of Counsel to the Federal Reserve Bank of Dallas the case of Lincoln County v. Gibson, decided by the Supreme Court of Washington during April of this year and reported at 255 Pac. 119. This case involves the question of the effect of an authorization to charge and seems to be strongly in favor of the position taken by the Federal Reserve Bank of Dallas. In this same connection, the case of Oregon Iron Co. v. Kelso Bank, 129 Wash. 109, 224 Pac. 569, is of interest.

Yours very truly,

Albert C. Agnew,
Counsel.

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FEDERAL RESERVE BANK
OF SAN FRANCISCO

June 3, 1927

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

Dear Mr. Wyatt:

I acknowledge your letter of May 18, 1927, transmitting copy of letter dated May 10, 1927, addressed to you by Counsel to the Federal Reserve Bank of Dallas. With your letter was transmitted a copy of an answer filed in the case of Speer Hardware Company v. Federal Reserve Bank of Dallas.

I note that Mr. Stroud suggests that this form of answer or some modification thereof might be used as a more or less uniform answer to be employed by all Federal reserve banks in similar cases.

I have examined the form hastily but have not yet had the opportunity to give it critical attention. I believe that the informative portions of the answer will prove very beneficial where that type of pleading is permitted. Under our practice and under the practice in most of the states of this district, however, I fear that the answer would be subject to a motion to strike on the ground of irrelevancy and redundancy.

At the first opportunity I will give the answer a more critical examination and will then write to you my further observations thereon.

With kindest personal regards, I am

Yours very truly,

Albert C. Agnew,
Counsel.

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the most frequently occurring, but, in a large measure, the future success of the universal check-clearing and collection system depends upon the principles which may be established.

For these reasons, we concur in the suggestion of Mr. Powell that it would be desirable to discuss the question at a meeting of all of the counsel of the bank, or a committee might be designated.

Very truly yours,

Locke, Locke, Stroud & Randolph.

EBS-f.

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LAW OFFICE OF
LOCKE, LOCKE, STROUD & RANDOLPH,
American Exchange Building,
Dallas, Texas.

June 3, 1927.

Federal Reserve Board,
Washington, D. C.

Attention Walter Wyatt, General Counsel.

Gentlemen:

We have your letter of May 31st, enclosing copy of Mr. Powell's letter of May 19th. We appreciate very much the friendly and constructive criticism contained in Mr. Powell's letter.

We understand, of course, that the matter of pleading varies in the different jurisdictions, and that the form which we submitted may not be adaptable for use in all cases.

Under the Texas practice, the pleading serves the purpose not only of stating the causes of action or the grounds of defense, but also as an explanation to the court and jury of the facts. In drafting the answer we were prompted to elaborate, due to the fact that we believe it quite essential in this kind of litigation to thoroughly inform the court and jury of the background as well as of the facts pertinent to the particular transaction, in order that a comprehensive idea may be obtained, and we may thereby overcome some of the rather antiquated rules of law that have been established under a commercial practice entirely different from that now employed.

We were prompted to make the allegations full and complete under the belief that even though exceptions should be urged and sustained, the argument on the exceptions would serve to educate the court, notwithstanding the fact that the answer might eventually have to be amended in some respects, should the exceptions be sustained.

It will hardly be possible to adopt a form of answer in this character of litigation which may be used verbatim in all jurisdictions, but it is our thought that the submission of this form might serve as a basis upon which we might proceed to formulate some general answer to be used as far as possible, but, of course, changed to meet the requirements of different jurisdictions. We feel that this type of litigation is of the utmost importance to the entire system, because it is not only

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FEDERAL RESERVE BOARD

Office Correspondence

May 26, 1927.

To Mr. Wyatt

Subject: Draft of Uniform Answer submitted by Mr. Stroud.

From Mr. Vest

As requested by you, I have read the tentative draft of answer prepared by Mr. Stroud to be filed in the case of Speer Hardware Company v. Federal Reserve Bank of Dallas, which Mr. Stroud suggests be used as a basis for answers in all cases of this kind against Federal reserve banks. The answer appears to be amply sufficient to cover all phases of the case, and I have practically no criticisms.

In paragraph 6 the answer discusses collection and remittance charges and states that income derived from such sources was formerly a substantial part of the income of each bank. I do not understand the reason for bringing into a case of this kind this point, which has to do with the par clearance question, and especially it does not seem to me desirable to go out of the way to make a formal admission that these charges were formerly a substantial part of the income of banks.

The broad general statements made in paragraphs 20 and 21 with reference to the knowledge of practically every one as to methods of collection employed by Federal reserve banks would seem to be rather difficult to prove in whole. Inasmuch as these statements appear to go beyond what is actually necessary in the case, however, this does not seem important, as evidence sufficient to charge the parties interested in each particular case with knowledge could probably be presented readily.

In the second line of paragraph 31, it appears that the word "drawee" should be "drawer".

While I am quite willing to accept Mr. Stroud's judgment as to what is best in cases of this kind since he has had so much experience with them, it does seem to me that the answer proposed is unnecessarily long and would be burdensome to the court. It seems to me that it might be a wiser plan to use only such portions of this answer as seem to be relevant and necessary to each particular case.

Respectfully,

George B. Vest
Asst. Counsel

GBV
OMC

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44

FEDERAL RESERVE BANK

OF MINNEAPOLIS

May 24, 1927.

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

My dear Mr. Wyatt:

I have your letter of the 18th with copy of Messrs. Locke, Locke, Stroud & Randolph's answer in Speer Hardware Company vs. Federal Reserve Bank of Dallas.

In Minnesota, a defendant cannot by his answer bring into the case a third party. In a similar case here against the Federal Reserve Bank of Minneapolis I would send copy of the summons and complaint to the City National Bank of Dallas, with notice requiring it to defend or be bound by the judgment.

Under our statutes, a complaint is to contain "a plain and concise statement of facts constituting a cause of action, without unnecessary repetition", and an answer is to contain denials of controverted allegations in the complaint and "a statement, in ordinary and concise language, of any new matter constituting a counterclaim or defense". This calls for ultimate facts, not evidenciary facts, nor statements of law. Judicial notice is taken of the common law, of all Federal legislation, and in a State court of all statutes of the state. It follows that only statutes of other states and law of foreign countries need be pleaded when material. This is all commonplace, and I simply mention it to show that in this state much of this answer would, in my opinion, be stricken out on motion as irrelevant and redundant matter.

Please do not understand this as criticism of the answer. I assume it is most excellent in the jurisdiction where it is filed. All I mean to say is that I do not think it is serviceable as a standard form in Minnesota.

Yours very truly,

AU/mg A. Ueland.

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Walter Wyatt, Esq.,

Thanking both you and Mr. Stroud for furnishing me with this form, I am

Very truly yours,

J. G. McConkey,
Counsel.

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FEDERAL RESERVE BANK

of

ST. LOUIS

May 21, 1927.

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

Dear Mr. Wyatt: RE:- SUGGESTED FORM OF ANSWER- CHECK COLLECTION

I am in receipt of your letter of the 18th including suggested form of answer in the check collection matters suggested by Mr. Stroud.

You will recall that when I was in Washington, you mentioned that Mr. Stroud was then working on a form of answer which might be of general use to all the banks in the defense of these cases.

Upon returning to St. Louis, I wrote immediately to Stroud for a skeleton of the answer, if he had completed it. He was good enough to send me a copy by return mail, and, I used it freely in the preparation of the answer I had to file in one of these cases before the Chancery Court in Memphis. I added to it a clause showing the volume both in numbers of items and amounts of collections handled by the Federal Reserve Banks each month, together with the Treasurer's statistical department report showing the amount of money in circulation. This latter was for the purpose of showing the Court the physical impossibility of settling balances by the shipment of funds, and, the Court in the case of RAINWATER vs. FEDERAL RESERVE BANK OF ST. LOUIS, 290 S.W., page 69, had used these figures in its opinion.

I employed Mr. J. W. Canada to represent me locally in the matter, and, when I forwarded to him the answer for his inspection and filing, I inquired whether, under the Tennessee pleadings and practices, the Court would permit us to go quite as far as I had in the matter. He advised me that he thought there could be no successful attack made on the pleadings by reason of the length of the answer.

In my experience in trying the preference cases before the Courts, they were always eager to find out as much as they could about the workings of the Federal Reserve System, and, in both petition and brief, I went as far as I thought the rules of pleading would permit in educating the Court up to the difference between the operations of a commercial bank and a Federal Reserve Bank.

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I am quite in sympathy with the suggestion of Mr. Stroud that it might be highly advantageous to the Federal Reserve Banks for their counsel to agree in substance on a form of answer in cases of this kind; but I am of the view that such form of answer ought to be worked out in a conference between several or all of the attorneys for the several Federal Reserve Banks; and if you should deem it advisable at any time in the comparatively near future to call a conference of the several counsel for the Federal Reserve Banks, I certainly think it would be an excellent idea to put this matter on your program.

I realize that in thus writing, and in effect criticising the answer, I am laying myself open to the charge that it is always easy to criticise provided the one making the criticism is not called upon to make a constructive suggestion. Fortunately for the Federal Reserve Bank of Chicago, I have had no litigation of this kind, though some litigation has been threatened and in fact is now threatened; but so far none has been brought.

I shall be much interested to hear from you as to the reaction of the respective counsel for the other Federal Reserve Banks.

With kind regards, and thanking you, I am

Yours very truly,

C. L. Powell,
Counsel.

CLP.

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FEDERAL RESERVE BANK OF CHICAGO

Chicago May 19, 1927.

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

RE: SPEER HARDWARE CO. vs. FEDERAL RESERVE BANK OF DALLAS.

My dear Mr. Wyatt:

I am in receipt of your favor of yesterday enclosing copy of letter of Messrs. Locke, Locke, Stroud & Randolph of Dallas, Texas, counsel for the Federal Reserve Bank of Dallas, of date May 10, 1927, and the copy of the answer in the above entitled cause.

I have read with great interest the answer in the Speer case, and I deem it a most excellent exposition of the purposes and workings of the Federal Reserve Act. Likewise, I think it is an excellent treatise on the development of banking practice under the Federal Reserve Act. With slight elaboration it would constitute an admirable argument in favor of the pleader's contention of the non-liability of the Federal Reserve Bank of Dallas in connection with the check involved. Mr. Stroud (no doubt it is his handiwork) has therein brought out in an admirable way many distinctive features of the Federal Reserve system; and personally I am very glad you sent the document to me.

However, as a pleading in the courts with which I am familiar, I am of the view that it would be subject to many objections, which I need not point out. I am familiar with fact pleading, and not with a pleading such as this which devotes so many pages to the exposition of the law which it is claimed is applicable and governs under the facts pleaded.

I do not mean to be understood as saying that the custom or practice which has grown up and inheres in the collection of checks under the Federal Reserve system would have no proper place in a pleading of this kind; but it does seem to me that the pleading as a fact pleading is encumbered by too much"baggage" in the way of an exposition of the law applicable to the case.

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In the District Court of Dallas County for
the 68th Judicial District of Texas.

--oOo---

Speer Hardware Company,	)	
	)	
v.	)	No. 67,388-C.
	)	
Federal Reserve Bank of Dallas.	)	

--oOo---

Defendant's First Amended Original
Answer.

--oOo---

To the Honorable District Court:

Now, by its attorneys, comes Federal Reserve Bank of Dallas, the defendant in the above styled cause, and under leave of the court files this its first amended original answer, in lieu of its original answer heretofore filed. So amending, it makes reply as follows to the original petition of the plaintiff heretofore filed and to any amendment of the same that hereafter may be filed. At the same time it complains of, and makes a party defendant to this cause, The City National Bank of Dallas, and shows unto the court as follows the grounds of its said complaint.

1. The defendant excepts to the petition of the plaintiff, and says that the same is insufficient in law to require of it any further answer thereto.

2. The defendant denies all and singular the allegations in said petition contained.

3. This defendant is a banking corporation created and existing under and by virtue of an act of the Congress of the United States approved December 23, 1913, and commonly known as the Federal Reserve Act. In receiving the check described in the plaintiff's petition and in all that this defendant did with reference to such check, this defendant acted strictly in accordance with, and by and under the authority of, the provisions of the said Federal Reserve Act and the amendments thereto and the regulations of the Federal Reserve Board thereunder and the act of the Congress of the United States, commonly known as the National Bank Act, and the instructions and the regulations of the Comptroller of the Currency thereunder. Under such statutes, regulations and instructions, this defendant is not liable in any sum to the plaintiff, and, accordingly, it now expressly sets up and claims immunity thereunder.

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4. Under the authority of said Federal Reserve Act the area of the United States was divided into twelve districts denominated Federal Reserve Districts, and a Federal Reserve Bank was created and organized in each district to perform therein the functions specified and permitted in the said act. The Eleventh Federal Reserve District, as originally defined and since continuing, under the authority of said act, embraces the state of Texas and a portion of each Arizona, New Mexico, Oklahoma and Louisiana. This defendant is the Federal Reserve Bank for the Eleventh Federal Reserve District, as thus constituted, and performs the functions of a Federal Reserve Bank under the said act.

5. Prior to the enactment of the Federal Reserve Act, the banking system of the United States consisted of national banks created and existing under the authority of the act of Congress known as the National Bank Act, and of state banks and trust companies organized under the laws and authority of the several states. Though, by law, the Comptroller of the Currency of the United States possessed and exercised general supervision and visitorial powers over such national banks, the banking system of the country lacked unity; the currency of the country, consisting largely of national bank notes, was not sufficiently elastic, and the means open to banks for rediscounting commercial paper were insufficient, in extent and otherwise, for the needs of the country. Accordingly, the Federal Reserve Act was enacted, as stated in the preamble thereof, "to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

6. Prior to the enactment of the Federal Reserve Act, there were in the United States but few inter-city clearing houses for checks, that is to say, clearing houses for checks held by a bank in one city drawn on a bank in another city, and the few such clearing houses of this nature in existence were limited in the territory served, being restricted to banks within a short distance of some one or two central cities. Save in the exceptional instances mentioned, collection of checks drawn upon banks in other cities involved the selection and employment of trusted agencies and frequently actual shipments of coin or currency by express. Primarily, the clearing houses in existence were intra-city clearing houses, -functioning in a single city, of which the banks of that city alone were members, and confined to the clearing of the checks held by each against the others. Banks receiving from their depositors or others checks drawn on banks situated in other, especially, distant cities, commonly made a charge for the service of collection. Likewise, banks receiving for callection checks drawn on themselves or on other local banks, if such checks were received from distant points and were expected to be remitted for to such points, commonly made a charge for such collection remittance. The income from such collection and remittance charges constituted a substantial part of the income of each bank. Such charges were an expense and an inconvenience to the recipients of such checks. To avoid such expense

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and inconvenience, many business houses declined to receive checks drawn on distant banks, and demanded bank drafts, drawn on a domestic or nearby reserve city bank, or on a bank in New York or Chicago. Banks commonly made a charge for the issuance of such drafts, and the income from such charges also constituted a substantial part of the income of each bank. Such charges were an expense and inconvenience to those remitting money. The result was that business transactions between citizens of the United States separated by more than a short distance were retarded and burdened by the expense and inconvenience of such charges, that personal checks on banks were restricted in circulation principally to an area within a radius of a few hundred miles from the location of the bank on which such checks were drawn, and that a large amount of coin and currency, actually shipped from place to place, was necessary for the transaction of the business of the country.

7. The enactment of the Federal Reserve Act effected no change in the supervision by the Comptroller of the Currency of the operations of all national banks. On the contrary, such supervision ever since has continued the same as before such enactment.

8. But by the provisions of the Federal Reserve Act a board known and designated as the Federal Reserve Board was created. Such board was promptly appointed and organized after the enactment of said law, and ever since has functioned thereunder. Such board sits at Washington, in the district of Columbia, and under said act possesses and exercises general supervision of the twelve Federal Reserve Banks created under the authority of the said act, including this defendant, and possesses and exercises the power to make and promulgate, from time to time, regulations governing the operations of said Federal Reserve Banks, including this defendant.

9. In and by said Federal Reserve Act, it was provided that every national bank organized under the act of Congress, aforesaid, should subscribe to the capital stock of the Federal Reserve Bank in its district, and should become a member bank of such Federal Reserve Bank, and that, if any national bank failed to subscribe to the stock of such Federal Reserve Bank and to become a member of the same, it should forfeit all rights, privileges and franchises granted to it under the National Bank Act. Such rights, privileges and franchises, by the express terms of such National Bank Act, were subject to forfeiture for violation of any law. Every national bank which chose to retain the rights, privileges and franchises granted to it under the National Bank Act became a stockholder and a member bank of some one of the Federal Reserve Banks. Such Federal Reserve Act also made provisions for admitting state banks as member banks of such Federal Reserve Banks.

10. The twelve Federal Reserve Banks, including this defendant, and all their member banks, embracing all national banks in the United States and many state banks, now comprise what is known as the Federal Reserve System of the United States. It is a unified system, under the general supervision of the Federal Reserve Board. Such Federal Reserve Banks, among other functions, have custody of the reserves required by law to be maintained by all national and other member banks against

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their deposit liabilities, and of other funds that their member banks may deposit with them, and they extend credit to, and rediscount commercial paper for, their member banks, and, under properly safeguarded provisions, they issue from time to time Federal Reserve Bank notes which constitute, and afford, an elastic currency. Such Federal Reserve Banks in their operations are strictly limited by law; they do not receive deposits from individuals, but, save for certain exceptions immaterial to this litigation, are confined in their dealings to banks.

11. But it was, also, specifically provided in said Federal Reserve Act that the Federal Reserve Board might, at its discretion, exercise the functions of a clearing house for the Federal Reserve Banks, or might designate a Federal Reserve Bank to exercise such functions, and might also require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks. It was provided, that any Federal Reserve Bank might receive from any of its member banks, and also under certain conditions from non-member banks, deposits of current funds in the form, among others, of checks and drafts, payable upon presentation, and, also, for collection, without prohibition, however, to such Federal Reserve Banks to make reasonable charges therefor, to be determined and regulated by the Federal Reserve Board, but not to exceed ten cents per $100. Also, it was specifically provided in and by said act that every Federal Reserve Bank should receive on deposit at par from member banks or from Federal Reserve Banks, checks and drafts drawn upon any of its depositors, and when remitted by a Federal Reserve Bank, checks and drafts drawn by any depositor in any other Federal Reserve Bank or member bank upon funds to the credit of said depositor in said Federal Reserve Bank or member bank, and that the Federal Reserve Board should, by rule, fix the charges to be collected by the member banks from its patrons whose checks should be cleared through the Federal Reserve Bank, and the charge which might be imposed for the service of clearing or collection rendered by the Federal Reserve Bank.

12. The Federal Reserve Board, in pursuance of the general and specific authority conferred upon it by said act, determined that the national good would be promoted and that business transactions between citizens of the United States would be facilitated and that the circulating medium of the United States available for the settlement of financial balances between its citizens would be increased without augmenting the supply of coin or currency in circulation, if personal checks on member banks of the Federal Reserve System, wherever situated, might be cleared and collected without charge, and if in consequence such checks might be used freely by the business interests of the country in remitting funds from one city to another, however remote, and thus a nation-wide circulation be attained by such checks.

13. The Federal Reserve Board determined that the Federal Reserve Banks should afford a gratuitous agency to all member banks to collect checks on other banks, and should enable a member bank to collect at par, without charge, any check held by it, drawn on any other member bank in the United States, and, to such extent as was possible, drawn on any non-member bank in the United States.

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14. Thereupon, the Federal Reserve Board made and promulgated regulations for the accomplishment of such purpose, and such regulations have been amended and revised from time to time. Regulation J, Series 1924, was made and promulgated by the Federal Reserve Board and superseded the former and similar regulations on the same subject. A copy of such regulation is attached to this answer as Exhibit 1, and is made a part hereof. At the same time, the Federal Reserve Board deemed it necessary and proper that such gratuitous service should be rendered by the Federal Reserve Banks only on such terms as from a business standpoint were practicable and inexpensive and free from improper risk of liability on the part of the Federal Reserve Banks.

15. In and by said Regulation J, Series of 1924, the said Federal Reserve Board announced that, in pursuance of the authority vested in it under said Federal Reserve Act, and desiring to afford both to the public and to the various banks of the country a direct, expeditious and economical system of check collection and settlement of balances, it had arranged to have each Federal Reserve Bank exercise the functions of a clearing house and to collect checks for such of its member banks as desired to avail themselves of its privileges, and for such non-member state banks and trust companies as might maintain with the Federal Reserve Bank balances sufficient to qualify them, under the provisions of section 13 of the said reserve act, to send items to Federal Reserve Banks for purposes of exchange or of collection, and it prescribed that each Federal Reserve Bank should exercise the functions of a clearing house and should collect checks under the general terms and conditions set forth in said Regulation J. In and by said Regulation J, said Federal Reserve Board prescribed that each Federal Reserve Bank should receive at par from its member banks and from non-member clearing banks in its district, checks drawn on all meber and nonmember clearing banks, and checks drawn on all other nonmember banks which were collectible at par in funds acceptable to the Federal Reserve Bank of the district in which such nonmember banks were located; that each Federal Reserve Bank should receive at par from other Federal Reserve Banks and from all member and nonmember clearing banks in other Federal Reserve Districts which were authorized to route directly for the credit of their respective Federal Reserve Banks, checks drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which were collectible at par in funds acceptable to the collecting Federal Reserve Bank; that each Federal Reserve Bank should publish a time schedule showing the time at which any item sent to it would be counted as reserve and become available for withdrawal or other use by the sending bank; that, for all checks received, the sending bank would be given immediate credit or deferred credit, in accordance with such time schedule and as provided in said Regulation J; that for all such checks as were received for immediate clearance in accordance with such time schedule, immediate credit subject to final payment should be given upon the books of the Federal Reserve Bank, at full face value, in the reserve account or clearing account, upon day of receipt,

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and the proceeds should at once be counted as reserve and become available for withdrawal or other use by the sending bank; that for all of such checks as should be receipted for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, should be entered upon the books of the Federal Reserve Bank at full face value, but the proceeds should not be counted as reserve nor become available for withdrawal or other use by the sending bank, until such time as might be specified in such time schedule, at which time credit should be transferred from the deferred account to the reserve account or clearing account, subject to final payment, and should then be counted as reserve and become available for withdrawal or other use by the sending bank. Further, in and by said Regulation J, said Federal Reserve Banks were authorized to handle such checks subject to the terms and conditions specified in said Regulation, and it was prescribed that each member and nonmember clearing bank which should send checks to any Federal Reserve Bank for deposit or collection should by such action be deemed (a) to authorize the Federal Reserve Banks to handle such checks subject to the terms and conditions specified in said Regulation J, and (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. Among the terms and conditions specified in said Regulation J and referred to as aforesaid, were (1) that a Federal Reserve Bank should act only as agent of the bank from which it should receive such checks and should assume no liability except for its own negligence and its guaranty of prior endorsements; (2) that a Federal Reserve Bank might present such checks for payment or send such checks for collection, direct to the bank on which they were drawn or at which they were payable, or, in its discretion, might forward them to another agent with authority to present them for payment, or send them for collection, direct to the bank on which they were drawn or at which they were payable; (3) that a Federal Reserve Bank might, 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 should not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, or for the failure of the drawee bank or any agent to remit for such checks, or for the non-payment of any bank draft accepted in payment or as a remittance from the drawee bank or any agent; (4) that checks received by a Federal Reserve Bank or its member or nonmember clearing banks should, ordinarily, be forwarded or presented direct to such banks, and such banks should 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 accounts or clearing accounts, provided, however, that any Federal Reserve Bank might reserve the right, in its check collection circular, to charge such item to the reserve account or clearing account of any such bank, at any

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time when, in any particular case, the Federal Reserve Bank should deem it necessary to do so; (5) that checks received by a Federal Reserve Bank payable in other districts, should be forwarded for collection, upon the terms and conditions provided in said Regulation J, to the Federal Reserve Bank of the district in which such checks should be payable; (6) that the amount of any check for which payment in actually and finally collected funds should not be charged back to the forwarding bank, regardless of whether or not the check itself could be returned. Further, said Federal Reserve Board, in and by said Regulation J, prescribed that each Federal Reserve Bank should also promulgate rules and regulations not inconsistent with the terms of law or of said Regulation J, governing the details of its check clearing and collection operations, that such rules and regulations should be set forth by the Federal Reserve Banks in their letters of instruction to their member and nonmember clearing banks, and should be binding upon any member or nonmember clearing bank which should send any check to such Federal Reserve Bank for collection, or to any other Federal Reserve Bank for the account of such Federal Reserve Bank, for collection.

16. To further facilitate the collection of checks, the Federal Reserve Board prescribed and required that the twelve Federal Reserve Banks should make contributions in gold to a Gold Settlement Fund, which should be maintained in Washington, D. C., under the control and supervision of the Federal Reserve Board, and which should serve the said banks as a clearing fund for their check collecting and other transactions, one with another. Said fund, though fluctuating in amount, aggregates nearly always more than $500,000,000 in gold, of which this defendant bank has contributed and maintains as a balance for its settlements, a sum fluctuating usually between $10,000,000 and $30,000,000. By debits and credits to the accounts of the various Federal Reserve Banks in this fund, settlements are made by the Federal Reserve Banks among themselves, for all checks collected by one for another, or for other transactions requiring payment of funds by one to another. Such credits and debits are under the supervision of the Federal Reserve Board; settlements are effected not by checks or drafts forwarded by one bank to another through the mails, but by daily telegraphic authorization of credits or debits for the current day's transactions. Thus, settlements are daily effected of large amounts between the Federal Reserve Banks, however remote one may be from another, without any delay whatever, and without the shipment of coin or currency, and without any such charge for collection or remittance, as hereinbefore explained, and as was common among banks before the establishment of the Federal Reserve System.

17. At the times of all of the transactions involved in this suit, and for a long period before such transactions, The City National Bank of Dallas, The Merchants National Bank of Ft. Smith, and The First National Bank of Broken Bow were member banks of the Federal Reserve System. All were national banks created and existing under and by virtue of the National Bank Act. The City National Bank of Dallas and The First National Bank of Broken Bow were stockholders and member banks of this defendant. The City National Bank of Dallas has been such a stockholder and member bank from the very organization of this defendant, and was

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one of the largest and most important of the member banks of this defendant. The Merchants National Bank of Ft. Smith was a stockholder and member bank of the Federal Reserve Bank of St. Louis, the Federal Reserve Bank for the Eighth Federal Reserve District.

18. Pursuant to the authority conferred upon them by law and to the aforesaid regulations of the Federal Reserve Board, the twelve Federal Reserve Banks, including this defendant, organized check clearing and collection departments and began to function and perform services as clearing houses for member banks and as agencies for collection of checks transmitted to them by member banks.

19. The said Regulation J, Series of 1924, ever since its making and promulgation, as aforesaid, has been in full force and effect throughout the United States, and has been binding upon the said twelve Federal Reserve Banks, including this defendant, in their transactions with member banks of the Federal Reserve System, including said The Merchants National Bank of Ft. Smith and said The City National Bank of Dallas, and binding on member banks, including the said banks just named, in their transactions with Federal Reserve Banks, including this defendant, and, both actually and constructively, has been known and assented to by said Federal Reserve Banks, including this defendant, and member banks, including said The Merchants National Bank of Ft. Smith and The City National Bank of Dallas. It has become a part of the law, contract relationship and custom governing the collection of all checks by or through national banks or other member banks of the Federal Reserve System, especially by or through any Federal Reserve Bank, to which all such banks have assented as among themselves and which is implied, if not particularly mentioned and expressed, in all of their transactions among themselves, one with another. This was true at the time of, as well as long before the date of, all transactions involved in this suit.

20. The business interests of the country, including all depositors in, and persons having dealings with, member banks of the Federal Reserve System, have known, both actually and constructively, of the change in business practices effected by the Federal Reserve Board and the Federal Reserve Banks, as aforesaid, in the matter of collecting checks, and have ratified and approved the same. They have known that all National Banks have become and are member banks of the Federal Reserve System and that they use the gratuitous services of the Federal Reserve Banks as clearing houses and as agencies for collection of checks drawn on banks in other cities; and they have known, both actually and constructively, that the operations of such Federal Reserve Banks with respect to such clearing and collection services are governed by the Federal Reserve Act and the regulations of the said Federal Reserve Board; and by entering into such relations with a member bank and continuing relations with a member bank, and depositing in, or otherwise entrusting to, a member bank, a check drawn upon a bank in another town, they have done so with the knowledge that such bank, in due course, would or might use the Federal Reserve Bank as a gratuitous agency for collecting or clearing such check, and that the relationship of such bank with the Federal Reserve Bank with reference to such transaction would be such as the Federal Reserve Board has prescribed or might prescribe; and

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actually and constructively they have known of all such regulations, and expressly and impliedly they have assented to all of the same,--including in each case the aforesaid Regulation J. The allegations of this paragraph are true as applied to, and are applicable to, the plaintiff as a depositor of and a person having delaings with The Merchants National Bank of Ft. Smith at the time of, and for a long period before, all the transactions involved in this suit.

21. Indeed, all of the facts hereinbefore averred were the subject of public discussion in every state in the United States, including Texas, Oklahoma and Arkansas, over a period of several years and have been the subject of newspaper and magazine comment and discussion continuously since the enactment of the Federal Reserve Act and everywhere in the United States, including the states of Arkansas, Oklahoma and Texas, and are matters of common knowledge to all persons, and were known, both actually and constructively, to the plaintiff and to The Merchants National Bank of Ft. Smith and The City National Bank of Dallas at the times of all of the transactions involved in this suit.

22. Further, pursuant to the authority conferred upon it by law and the aforesaid regulations of the Federal Reserve Board, this defendant made and promulgated rules and regulations specifying the terms and conditions upon which it would perform clearing and collecting functions for its member banks.

23. The terms and conditions in effect at the time of all of the transactions involved in this suit are specified in Circular No. 5, Series of 1925, issued by this defendant on or about, and under date of, June 18, 1925, entitled "Transit Operations - Time Schedules of Availability," and Circular No. 2, Series of 1926, issued by this defendant on or about, and under date of, June 21, 1926, entitled "Transit Operations- Collection of Cash Items". A copy of said Circular No. 5, Series of 1925, is attached hereto, marked Exhibit 2, and made a part hereof, and copy of said Circular No. 2, Series of 1926, is attached hereto, marked Exhibit 3, and made a part hereof.

24. A copy of each of said circulars had been duly transmitted by this defendant to, and received by, The City National Bank of Dallas long prior to the dates of all of the transactions involved in this suit, and had been, and thereafter continuously were, assented to by said The City National Bank of Dallas, and the contents thereof became a part of a contract between this defendant and The City National Bank of Dallas with reference to each check transmitted by said The City National Bank of Dallas to this defendant, including the check of three thousand dollars involved in this suit.

25. In and by said Circular No. 2, Series of 1926, it was provided, among other things, that the said circular contained the current terms and conditions under which this defendant would handle cash items for member banks; that this defendant bank would receive checks and drafts drawn on banks listed in the inter-district collection list as published and revised from time to time by the Federal Reserve Board

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(which inter-district collection list included said The First National Bank of Broken Bow): that, in order to expedite the forwarding of checks and obtain prompt credit, member banks were asked to sort and list checks in separate letters in accordance with the divisions of the current time schedules of this defendant; that availability should be plainly indicated on each letter as "immediate credit," "one day," "two days," etc.; that business days only should be counted in determining availability, -- for instance, that a letter containing two-day items received on Saturday within the hours designated in the current time schedules would be available the following Tuesday; that should cash letters contain checks not sorted according to the time taken for collection as shown by such schedules, credit might be deferred for a period sufficient to collect items of longest availability contained therein, and that all items should be described by inserting the name and address, or the American Bankers Association transit number, of the drawee bank; that all checks received by this defendant under the terms of such circular would be credited to the member bank's deferred account upon receipt, but subject to final payment, and that the proceeds would become available when the time indicated by current time schedules had elapsed, but also, subject to final payment; that acknowledgments of member banks' cash letters would show the date of receipt of the same by this defendant and the date upon which the amount would be transferred by this defendant from the deferred to the reserve account of the member bank; that credit for such checks and availability of the proceeds of such checks in each instance would be subject to actual receipt of payment; that in such connection, attention of the member bank was invited to the fact that the divisions of the time schedules of the defendant were based upon the average mail time required for items to reach the paying bank from the defendant, plus the estimated time required for remittance of the paying bank to reach this defendant, and that they did not necessarily indicate the actual receipt by this defendant of returns and that, therefore, it must be borne in mind by the member bank that advice by the defendant of availability could not be considered as advice of actual payment; that if circumstances should unduly delay or make impracticable the collection of any checks, the amount of such item would be charged back to the member bank sending the same; that each bank sending checks or other cash items to this defendant by such act would be understood to have agreed to the terms and conditions of such circular and also to the terms and conditions of the aforesaid Regulation J of the Federal Reserve Board, which terms and conditions were copied in said circular.

26. Further, it wasprovided in and by said circular that member banks receiving items from this defendant during business hours must forward remittances to this defendant on the same day; that remittance might be made in cash (when prepared and forwarded in accordance with the method outlined in the defendant's current circular pertaining to cash shipments), or by draft (subject to final payment), the proceeds of which would be immediately available upon receipt; that immediately available remittances consisted of (a) a draft drawn by a member bank against collected funds in its reserve account with this defendant, (b) drafts drawn on another

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bank in the city from which the defendant's cash letter was forwarded, in this instance on any bank in the city of Dallas, Texas, - (c) drafts payable through the Reserve City Clearing House, and so stamped, and (d) funds transferred by wire to this defendant; that member banks were urged to carry on their general ledger two accounts with this defendant, one to be known as "Reserve Account" (collected funds) and the other "Deferred Account"; that all items forwarded to this defendant for credit, whether available for immediate credit or not, should be charged by the member bank into the "Deferred Account" and on the date such items were available for reserve, in accordance with the current time schedules of availability of this defendant, they should be charged by the member bank into the "Reserve Account" and credited out of the "Deferred Account" and that by adopting such system and checking this defendant's transcript daily, member banks would be able to determine accurately the amount of their available daily balances and thus avoid penalties for deficient reserves.

27. In and by said Circular No. 5, Series of 1925, the defendant promulgated the schedules of availability for items received by it from member banks for collection, and therein it was specified that credit for any item and availability of the proceeds of any item in each instance were subject to actual receipt by the defendant of payment as specified in this defendant's current circular on Transit Operations, Collection of Cash Items, to-wit, for the dates of the transactions involved in this suit, the said Circular No. 2, Series of 1926; that in order to expedite the forwarding of checks and to obtain prompt credit, member banks were requested to sort and list checks in separate letters, in accordance with the divisions of the said schedules, as set forth in said Circular No. 5; that a notation should be placed on each letter plainly indicating when the items included were expected to be available as reserve, - immediate credit, one day, two days, etc.; that business days only were to be counted in determining the availability date,- for instance, that a letter containing two day items received by the defendant on Saturday within the hours designated in the schedules set forth in said Circular No. 5 would be available the following Tuesday; that should a cash letter contain checks not sorted according to the time taken for collection, as shown by said schedules, credit for the total of the letter might be deferred at the discretion of the defendant for a period sufficient to collect items of longest availability contained therein. According to the time schedules of availability set forth in said Circular No. 5, items drawn on banks in Broken Bow, Oklahoma, were not available for immediate credit or for credit on the first business day after receipt, or on the second business day after receipt, or on the third business day after receipt, but were available only on the fourth business day after receipt, the said town, Broken Bow, Oklahoma, being within the Eleventh Federal Reserve District and within Dallas territory, as specified in said schedule, and being included in said schedule in the following description; "4 business days after receipt; Dallas territory, except points noted in 2-day and 3-day divisions."

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28. The City National Bank of Dallas transmitted the check for three thousand dollars involved in this suit to the defendant with its cash letter of October 15, 1926, for collection by this defendant and for deferred and reserve credit to the account of said The City National Bank of Dallas under and in pursuance of the said Regulation J, Series of 1924, of the Federal Reserve Board and the said Circular No. 2, Series of 1926 of this defendant and the said Circular No. 5, Series of 1925, of this defendant, and the terms of said Regulation J, Series of 1924, and of said Circular No. 2, Series of 1926, and of said Circular No. 5, Series of 1925, became a part of the contract between said The City National Bank of Dallas and this defendant with reference to the said check of three thousand dollars.

29. In and by the said contract it was agreed between said The City National Bank of Dallas and this defendant that the said item should be entered, first, to the credit of the "Deferred Account" of said The City National Bank of Dallas with this defendant; that on the fourth business day after the receipt of said item by this defendant, the amount should be transferred from the "Deferred Account" to the "Reserve Account" of said The City National Bank of Dallas with this defendant but that such credit to "Deferred Account" and such credit oravailability to "Reserve Account" should in each instance be subject to actual receipt by this defendant of payment of the item in actually and finally collected funds; that this defendant would act only as agent of said The City National Bank of Dallas, and none other, and would assume no liability except for this defendant's own negligence and its guaranty of prior endorsements; that this defendant might present such check for payment or might send the check for collection direct to the bank on which it was drawn and that this defendant might, at its discretion, and at its option, either directly or through an agent, accept either cash or bank draft in payment of or in remittance for such check and that it would not be held liable for any loss resulting from the acceptance of a bank draft in lieu of cash, or for the failure of the drawee bank or any agent to remit for such check, or for the non-payment of any bank draft accepted by this defendant in payment or as a remittance from the drawee bank or any agent; that the check received by this defendant would ordinarily be forwarded or presented direct to the bank on which it was drawn and that such bank would be required to remit or pay therefor at par in cash or bank draft acceptable to this defendant, or, at the option of this defendant, to authorize this defendant to charge its reserve account or clearing account, and that this defendant might 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 this defendant should deem it necessary to do so, and that the amount of any check for which payment in actually and finally collected funds should not be received by this defendant should be charged back to said The City National Bank of Dallas regardless of whether or not the check itself could be returned; and further that said The City National Bank of Dallas authorized this defendant to handle such checksupon all the terms and conditions aforesaid and that it warranted its own authority to give this defendant such authority and that it agreed to indemnify this defendant for any loss resulting from the failure of said The City National Bank of Dallas to have such authority.

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30. Moreover, the agreement aforesaid in respect of the acceptance from the collecting or drawee bank, to which a check might be forwarded by this defendant for collection and remittance or for payment, of a bank draft drawn by the collecting or drawee bank on some correspondent convenient to this defendant, was in accordance with the custom which then existed and which had existed for a great many years and which was uniform and universal among the banks generally of the United States, including those in Arkansas, Oklahoma and Texas. It was a practice of long standing and universally followed by banks in Arkansas, Oklahoma and Texas, as well as in the other states of the United States, for a forwarding bank to receive and accept from any collecting or drawee bank in any town to which it might have forwarded a check for collection or drawee bank might return on account of such check, to-wit, either coin and currency shipped by express, or a draft drawn by such collecting or drawee bank on some bank in a reserve city or otherwise convenient to the forwarding bank. Such custom was known to the plaintiff and The Merchants National Bank of Ft. Smith and The City National Bank of Dallas at the time of all of the transactions involved in this suit and all relationships involved in this suit were entered into with the knowledge of such custom and with the expectation and intention that such custom should be followed and should become a part of the contract governing such relationship and verily it did become a part of each such contract.

31. The check of three thousand dollars involved in this suit was a simple direction by the drawee thereof to The First National Bank of Broken Bow, Oklahoma, to pay the sum of three thousand dollars to Speer Hardware Company. Said check was received by this defendant from The City National Bank at Dallas, Texas, as aforesaid, on October 15, 1926, and at such time it bore the regular endoresements of Speer Hardware Company, the payee thereof, The Merchants National Bank of Ft. Smith and The City National Bank of Dallas, in the order stated. This defendant entered the said item on October 15, 1926, to the "Deferred Account" of said The City National Bank of Dallas, subject to the receipt therefor of actually and finally collected funds by the defendant. On the same day of the receipt of said check, to-wit, October 15, 1926, the defendant transmitted the said check directly, by mail, to The First National Bank of Broken Bow, for collection and remittance. In due course, in accordance with this defendant's time schedule of availability, this defendant transferred the credit to The City National Bank of Dallas on account of said item, from the Deferred Account to the Reserve Account of said The City National Bank of Dallas, subject, as aforesaid, to the receipt by this defendant therefor of actually and finally collected funds. But this defendant, at such time, had not received actually and finally collected funds, or, indeed, any remittance from said The First National Bank of Broken Bow, and on October 21, 1926, this defendant telegraphed to said The First National Bank of Broken Bow for a report concerning the said check and other checks transmitted by this defendant to the said bank on October 15, 1926. About noon of October 22, 1926, this defendant was advised by telephone, by an officer of said bank, that the directors of said bank had caused said bank to close its doors on the morning of October 22, 1926, and had placed its affiars in charge of a National Bank

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Examiner acting under the directions of the Comptroller of the Currency of the United States. At about the same time, and within a few minutes afterwards, this defendant was advised by telephone by R. H. Collier, Chief National Bank Examiner for the district embracing Broken Bow, and acting under the directions of the Comptroller of the Currency of the United States, that said bank had been closed, that its affairs were in charge of a National Bank Examiner under him and under the authority of the Comptroller of the Currency of the United States, and that the defendant should honor no checks whatever drawn upon it by said bank, whether said checks were issued prior to the closing of said bank or not.

32. Under and by virtue of the National Bank Act, the Comptroller of the Currency of the United States possesses and exercises, and he did possess and exercise at the aforesaid date and long before, the power, through National Bank Examiners or other of his representatives, to take charge of the affairs of a national bank that had suspended payment or closed its doors, or become insolvent, and to conserve the assets of such bank for the benefit of all persons entitled thereto , in accordance with their respective rights and, in due course, to appoint a receiver for said bank, and, through said receiver, to administer, disburse and distribute the assets of said bank among creditors and stockholders, in accordance with their respective rights.

33. The said Comptroller of the Currency, in carrying out his supervisory and visitorial powers over national banks, has appointed National Bank Examiners for different districts, to-wit, the Federal Reserve Districts, and a Chief Examiner for each district. The said Examiners are the direct representatives of the Comptroller of the Currency, in their respective districts in executing the instructions of the Comptroller of the Currency and performing his functions with reference to banks, in their respective districts.

34. The said R. H. Collier was at the time aforesaid, and is yet, the Chief National Bank Examiner representing the Comptroller of the Currency in the district embracing Broken Bow, Oklahoma, to-wit, the Eleventh Federal Reserve District, and the aforesaid instruction received by this defendant from the said R. H. Collier, was in pursuance of the direction and authority of the Comptroller of the Currency.

35. Indeed, the Comptroller of the Currency, in pursuance of the authority of the National Bank Act, had prescribed rules and regulations for the government of National Bank Examiners and of receivers of national banks, and among such rules and regulations is a rule and regulation, in effect, that upon the closing of the doors of any national bank, a bank examiner shall immediately take charge thereof in behalf of and by the authority of the Comptroller of the Currency, and there shall be delivered at once by said Examiner to all banks and other institutions with which the said closed bank maintained any account, notice that said bank had closed and instruction not to pay any check or draft thereafter presented, drawn by said closed bank, to the end that all funds of the closed bank at the moment of closing, should be held intact and preserved for administration in accordance with law and the rules of the Comptroller of the Currency.

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36. On receiving the aforesaid advice, on October 22, 1926, that said The First National Bank of Broken Bow had closed its doors and that its affairs were in charge of a National Bank Examiner acting under the Comptroller of the Currency, the defendant immediately notified The City National Bank of Dallas that it had received such advice, and that it had received no remittance on account of said check.

37. On October 23, 1926, the defendant received in the mail, from said The First National Bank of Broken Bow, a check drawn by it on this defendant and dated October 20, 1926, for three thousand nine hundred seventeen and 27/100 dollars, an amount which was the aggregate of several checks sent by this defendant to said bank on October 15, 1926, including the check for three thousand dollars involved in this suit. Said check of three thousand nine hundred seventeen and 27/100 dollars was not paid by this defendant, because of the closing of said The First National Bank of Broken Bow, the taking charge of its affairs by a National Bank Examiner under the direction of the Comptroller of the Currency of the United States, as aforesaid, and the aforesaid instructions received from the Chief National Bank Examiner, and the regulations of the Comptroller of the Currency of the United States, as aforesaid. The check received by this defendant was a simple direction by said The First National Bank of Broken Bow to this defendant to pay to itself the sum of three thousand nine hundred seventeen and 27/100 dollars.

38. When this defendant received advice, as aforesaid, that said The First National Bank of Broken Bow had closed its doors, and when this defendant also received the aforesaid instructions from the Chief National Bank Examiner, the defendant charged back the amount of said check of three thousand dollars to the reserve account of said The City National Bank of Dallas, and informed said The City National Bank of Dallas of said action, and said The City National Bank of Dallas duly assented and agreed to such charge. No exception to such charge has been taken at any time by said The City National Bank of Dallas, On the contrary, the said bank has continuously acquiesced in said charge and has reconciled its accounts with this defendant and agreed with this defendant upon the amount owing to it by this defendant a number of times since the date of said charge, and always on the basis of the propriety of the said charge.

39. Further, said The City National Bank of Dallas, as this defendant is informed and believes and, therefore, avers, charged back the amount of said check to the account maintained with it by said The Merchants National Bank of Ft. Smith, Arkansas, and duly advised said The Merchants National Bank of Ft. Smith, Arkansas, of said charge, and said bank duly assented and agreed to such charge. Furthermore, as this defendant is informed and believes, and, therefore, alleges, said The Merchants National Bank of Ft. Smith, upon receiving such advice from said The City National Bank of Dallas, itself charged back to the account maintained with it by the plaintiff the amount of said check, and the plaintiff assented and agreed to said charge. Each aforesaid agreement with reference to each aforesaid action in charging back the amount of said check constituted a ratification and approval and a practical interpretation of the correctness of the same and all actions of The City National Bank of Dallas and of this defendant aforesaid.

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40. This defendant made no contract with, and assumed no obligation, duty or responsibility to, any person whatever save and except The City National Bank of Dallas and under the Federal Reserve Act had no authority to make any contract in this connection with any one other than a forwarding member bank. Particularly, it made no contract with, and assumed no responsibility to, either the plaintiff or The Merchants National Bank of Ft. Smith, and could not lawfully have made any contract with either of them. It had no transaction with either of them, and it knew of them only as prior endorsers of the said check received by this defendant from said The City National Bank of Dallas. This defendant dealt with said The City National Bank of Dallas in reliance on the said check and the said endorsements thereof, and the said contract made by this defendant with The City National Bank of Dallas. This defendant dealt with said The City National Bank of Dallas with reference to said check believing that said bank was the owner of said check, and was possessed of full authority to make the contract which said bank did make with this defendant, as aforesaid, with reference to the said check.

41. Furthermore, as this defendant is informed and believes, and therefore alleges, the said check was transmitted by the plaintiff and by said The Merchants National Bank of Ft. Smith to The City National Bank of Dallas, with knowledge that said The City National Bank of Dallas would, and with intention that it should, transmit the same to this defendant, and make use of this defendant's gratuitous services in the collection of said check, rendered under and in accordance with the said Regulation J, Series of 1924, of the Federal Reserve Board, and the terms of this defendant's aforesaid circulars promulgated in pursuance of said Regulation J, Series of 1924, and that the said plaintiff and said The Merchants National Bank of Ft. Smith encouraged and induced said The City National Bank of Dallas to take such action with reference to such check, and impliedly, if not expressly, they assented to such action and are bound by the terms of said Regulation J, Series of 1924, of the Federal Reserve Board, and Circular No. 2, Series of 1926, and Circular No. 5, Series of 1925, of this defendant.

42. Wherefore, this defendant is not liable to the plaintiff in any sum whatever; but if, notwithstanding such fact, this defendant should be held liable to the plaintiff in any sum, then this defendant says that such liability could result only from lack of authority on the part of said The City National Bank of Dallas to make with this defendant the contract aforesaid with reference to the said check of three thousand dollars and that, as aforesaid, said The City National Bank of Dallas warranted that it possessed such authority and promised to indemnify this defendant against any loss resulting to this defendant from the failure of said The City National Bank of Dallas to have such authority. Wherefore, said The City National Bank of Dallas is liable over to this defendant for any sum of money that the plaintiff herein may recover against this defendant.

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In consideration of the premises, this defendant prays that it may go hence without day and recover its costs in this behalf incurred; but in the event that any recovery herein is allowed to this plaintiff against this defendant, this defendant prays that it may have judgment over and against The City National Bank of Dallas for an equivalent amount. And the defendant prays for all different and additional relief to which it may be entitled.

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Attorneys for Defendant.

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EXHIBIT I

Regulation J, Series of 1924

(Superseding Regulation J of 1920)

CHECK CLEARING AND COLLECTION

Section 1. Statutory Provisions

Section 16 of the Federal reserve act authorizes the Federal Reserve Board to require each Federal reserve bank to exercise the function of a clearing house for its member banks, and section 13 of the Federal reserve act, as amended by the act approved June 21, 1917, authorizes each Federal reserve bank to receive from any non-member bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal reserve bank a balance sufficient to offset the items in transit held for its account by the Federal reserve bank.

Section II. General Requirements

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal reserve bank exercise the functions of a clearing house and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember State banks and trust companies as may maintain with the Federal reserve bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal reserve banks for purposes of exchange or of collection. Such nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal reserve bank shall exercise the functions of a clearing house and collect checks under the general terms and conditions hereinafter set forth.

Section III. Checks Received for Collection

(1) Each Federal reserve bank will receive at par from its member banks and from nonmember clearing banks in its district, checks drawn on all member and nonmember clearing banks,

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and checks drawn on all other nonmember banks which are collectable at par in funds acceptable to the Federal reserve bank of the district in which such nonmember banks are located.

(2) Each Federal reserve bank will receive at par from other Federal reserve banks, and from all member and nonmember clearing banks in other Federal reserve districts which are authorized to route direct for the credit of their respective Federal reserve banks, checks drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectable at par in funds acceptable to the collecting Federal reserve bank.

(3) No Federal reserve bank shall receive on deposit or for collection any check drawn on any nonmember bank which can not be collected at par in funds acceptable to the Federal reserve bank of the district in which such nonmember bank is located.

Section IV. Time Schedule and Availability of Credits.

(1) Each Federal reserve bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available for withdrawal or other use by the sending bank. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

(2) For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal reserve bank at full face value in the reserve account or clearing account upon day or receipt, and the proceeds will at once be counted as reserve and become available for withdrawal or other use by the sending bank.

(3) For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal reserve bank at full face value, but the proceeds will not be counted as reserve nor become avaialable for withdrawal or other use by the sending bank until such time as may be specified in such time schedule, at which time credit will be transferred from the deferred account to the reserve account or clearing account subject to final payment and will then be counted as reserve and become available for withdrawal or other use by the sending bank.

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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 nonpayment 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 accounts 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.

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(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.

Section VI. 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 its check clearing and collection operations. Such rules and regulations shall be set forth by the Federal reserve banks in their letters of instruction to their member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check to such Federal reserve bank for collection or to any other Federal reserve bank for the account of such Federal reserve bank for collection.

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C O P Y X-4853

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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.

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Baker, Hostetler & Sidlo
Cleveland

STATE OF MINNESOTA

COUNTY OF HENNEPIN

DISTRICT COURT

FOURTH JUDICIAL DISTRICT

FIRST STATE BANK OF HUGO, MINNESOTA)
)
Plaintiff)
)
-v-.)
)
THE FEDERAL RESERVE BANK OF MINNEAPOLIS)
)
Defendant)

BRIEF ON NOTICE FOR JUDGMENT. NOTWITHSTANDING THE VERDICT, OR A NEW TRIAL.

The motion in this case alleges generally that the verdict is not justified by the evidence, and that the verdict is contrary to law. In addition to this, nine specific errors of law occurring at the trial are set forth. This memorandum is addressed to the general ground alleged in the motion.

The law of Minnesota, as found in the General Statutes, Section 9495, and interpreted by the Supreme Court, is, that where there is any evidence about which reasonable minds might differ, the verdict of the jury will not be disturbed. Where there is evidence indicating that the plaintiff has a good cause of action or the defendant a good defense, but there is a fatal defect in the evidence, a new trial would be granted in order that the defect may be cured. Where, however, there is no competent evidence reasonably tending to sustain the verdict, judgment will be directed non obstante. See General Statutes, Minnesota, 1923, Section 9495. (laws 1895, Chapter 320): Cruikshank v. St. Paul Fire & Marine

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Insurance Company, 75 Minn. 266: Marquardt v. Hubner, 77 Minn. 442: Ailink v. Chicago, Milwaukee & St. Paul Railway Company, 169 N.W. 250: Hess v. Great North Western Railway Company, 108 N.W. 7.

The statement made by Lovely, J., in Minneapolis Sash & Door Company v. Great Northern Railway Company, 86 N.W. 451, is as follows:

> "The rule that a court should not interfere with the undoubted functions of the jury to pass upon the weight of the evidence has always been upheld by this court. Counsel has referred us to several decisions where the proposition has been stated in different ways to the effect that 'a case should not be taken from a jury where there is evidence to support the verdict', or, 'where there is evidence reasonably tending to do so'. These expressions correctly state the abstract legal rule, but that rule must be applied to each particular issue as it arises; and where there is no evidence reasonably tending to support a verdict, the duty of the court to say so is imperative, and while courts in that respect, must not usurp the functions of the jury, they may not either ignore the right of any party to demand interference with the privilege of a jury to indulge in conclusions based upon intangible surmises and speculations.
>
> Verdict for defendant affirmed."

In some of the later cases the rule is stated to be that

> "Judgment non obstante veredicto will be ordered only when the evidence is conclusive against the verdict."
> Trovatten v. Hanson. 213 N.W. 536.

We respectfully submit that it was the duty of the trial court to arrest the case from the jury at the conclusion of the plaintiff's case, for the reason that there was no evidence which justified the submission of any question to the jury, but that the defendant was then entitled to a judgment in its favor. Further, that the complete record contains no evidence which would sustain the verdict; no evidence about which reasonable minds could disagree, and that the court should now direct judgment non obstante, there being no indication in

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the record of any ability on the part of the plaintiff to produce any more evidence upon a further trial.

As this memorandum is addressed to the trial judge no extended statement of facts is necessary. In brief, the plaintiff is a state bank operating at Hugo; the defendant, the Federal Reserve Bank of Minneapolis. The defendant, pursuant to powers conferred upon it by federal statute and in accordance with directions from the Federal Reserve Board, acts as a clearing house and undertakes check collections for its member banks and certain non-member banks, voluntarily maintaining adequate balance with it. The Federal Reserve Board having directed the defendant bank to act as a clearing house and to make check collections, it became the duty of the Federal Reserve Bank of Minneapolis to perform those functions. It accordingly informed the Federal Reserve Board at Washington that it was prepared to act and would undertake to collect checks on all banks in Minnesota. It issued an invitation to all banks in Minnesota, member and non-member, to cooperate in the use and performance of its clearing house and collection facilities. The Hugo Bank declined for the reason that it preferred to collect exchange upon such of its checks as were not presented over the counter for payment, and the Federal Reserve Bank was prohibited by law from paying such exchange. The Federal Reserve Bank thereupon wrote an argumentative letter to the Hugo Bank asking it to reconsider its position, and saying that it would be obliged to undertake to collect checks upon the Hugo Bank by causing them to be presented for payment at the Bank, but that it desired to do this in the manner most convenient to the Hugo Bank, and would under no circumstances attempt or permit any accumulation of checks which might embarrass the Hugo Bank. The

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Hugo Bank declined to reconsider its position, and from April 17th to 30th, 1920, the Federal Reserve Bank sent such checks as it received on the Hugo Bank either to the American Railway Express Company or to the Postmaster at Hugo, for counter presentation, and remission of proceeds in cash. On April 30, 1920, the Hugo Bank wrote to the Federal Reserve Bank that it had decided to pay at par all checks received by the Federal Reserve Bank upon it for collection, and authorized the Federal Reserve Bank to send them through the mails with a promise of remission by draft. From April 30, 1920, to October 1, 1924, the Federal Reserve Bank sent such checks as it received direct to the Hugo Bank and received in return drafts at par for the proceeds. On September 25, 1924, the Hugo Bank notified the Federal Reserve Bank of Minneapolis that on and after the 1st of October, 1924, it intended to reinstate exchange charges. On receipt of this letter the Federal Reserve Bank noted the Hugo Bank as not on the par list and discontinued handling checks on that bank. On the 10th day of November, 1925, this action was brought by the Hugo Bank, claiming that the action of the Federal Reserve Bank of Minneapolis in placing it on the par list in 1920, and in sending checks for collection over the counter by the American Railway Express Company and the postmaster at Hugo, were unlawful acts and constituted coercion. That acting under the duress of these unlawful acts the Hugo Bank had remitted at par from April 30, 1921, to October 1, 1924, and had been damaged by the loss of the exchange charges which it would have imposed upon checks, but for its coerced acquiescence in the demand of the Federal Reserve Bank of Minneapolis to it remit at par by draft for such checks. The verdict rendered by the jury is an attempt to estimate the amount of the alleged loss.

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Manifestly the verdict can not be permitted to stand unless some part of the action of the Federal Reserve Bank of Minneapolis was, (1), unlawful, and (2) the Hugo Bank was in fact coerced thereby.

We respectfully submit that both on principle and on authority neither of these positions can be sustained.

ON PRINCIPLE

The trial judge recognized that there was no actual malice or spite in the action of the Federal Reserve Bank of Minneapolis, and therefore withdrew from the consideration of the jury the question of punitive damages. He did, however, submit to the jury the question as to whether, under all the circumstances, the action of the Federal Reserve Bank of Minneapolis contained such elements of disinterested and impersonal malevolence as would convert its acts, otherwise lawful, into unlawful conduct, for the consequence of which it could be held in damages. By this holding the court differentiated the case at bar from the Brookings case and Catlettsburg case (Brookings State Bank v. Federal Reserve Bank of San Francisco, 277 Fed. 430 and 281 Fed. 222, and Farmers and Merchants Bank v Federal Reserve Bank of Cleveland. 286 Fed. 610), in both of which there were elements not present in the case at bar. In the Brookings case the demand that the payee bank should actively dishonor its own obligations, and in the Catlettsburg case, the inexcusable activities of an overzealous agent, made a legal basis for the plaintiffs' claims, which is wholly absent here.

Nevertheless the court did directly submit to the jury to determine whether the action of the Federal Reserve Board of

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Minneapolis was unlawful. The affirmative of this the court permitted the jury to find if it found that the purposes of the Federal Reserve Bank of Minneapolis was to coerce the Hugo Bank. It will therefore be helpful to examine the character of the parties and the character of the transactions.

The Hugo Bank is a state bank organized under the laws of the state of Minnesota, which has elected not to become either a member or an affiliated non-member of the Federal Reserve Bank of Minneapolis. It therefore has all the rights which are conferred by the laws of the state of Minnesota upon such institutions. It has correspondingly the duties of such institutions. When the Hugo Bank accepts deposits in ordinary commercial accounts subject to check, it makes contracts with its depositors to the effect that it will pay checks drawn by depositors on presentation, and this is the only contract it does make. In law the Hugo Bank is under the direct and affirmative obligation to pay checks drawn on collected funds whenever they are presented over its counter. The banks of the country among themselves have established practices of clearance and exchange, but these practices are all voluntary and may be discontinued at will. The sole enforcible legal obligation of the Bank is to pay the check in cash when presented over its counter. From this it results that if a check on the Hugo Bank is held by a person outside of Hugo and it is inconvenient for him either in person or by agent to present the check and receive the cash, he may, with the consent of the Hugo Bank, have the check collected on presentation in the form of a draft on funds subject to the order of the Hugo Bank, and at a place more convenient to the payee of the check.

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For this service or convenience to him above the contract obligation of the Hugo Bank, the payee of the check may consent to pay a service charge. When he does so consent the amount charged is called 'exchange for remission of proceeds'. The payee is, however, under no obligation to accept a draft with or without exchange charges. He is free to go to Hugo in person and present the check over the counter and to receive in cash par. He is equally free to send the check to another bank in Hugo or to an acquaintance to act as his agent to present the check and receive cash, and he may make any arrangement he chooses with such other bank or agent for the service they render him. In the absence of a special contract between the Hugo bank and its depositors, the bank can not legally impose any obligation upon the payee of its depositors' checks as to the vehicle they shall use in presenting those checks for payment. The fact that the Hugo Bank has heretofore found it profitable to pay checks by draft, less exchange, and that it resents the introduction of any facilities which will obviate the inconvenience of personal presentation by payees is immaterial.. For instance, if there were in Minneapolis a large number of people who daily received checks drawn on the Hugo Bank and they clubbed together to defray the expense of sending a messenger, daily, to Hugo to present their checks and collect them in cash, it is clear that the Hugo Bank would have no right to complain. Similarly, if a man made a business of presenting checks for other people and advertised that he would make personal presentation and collection of all checks on banks which charged exchange for remission of proceeds, at a cost to the payees less than the exchange charge, the fact that he did it for personal gain and that he

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was diminishing the income of the Hugo Bank would be entirely immaterial. The Hugo Bank's obligation is to pay on presentation. When the payee can not present in person he may have to pay a service charge to have the presentation made for him, but he can select his own agent, and the fact that the agent performs the service for personal gain or any other interested motive, is immaterial. The situation, in short, simply is that the Hugo Bank, having profited for a while by the inconvenience which absence imposed upon payees, ceases to profit when the payees find a way to overcome the inconvenience.

As we shall see when we consider the subject of clearing houses, modern business has responded to the need for rapid par collection by the establishment, in great industrial and commercial centers, of agencies especially designed to remove the burden of distance between the payees of checks and the banks upon which they are drawn. It is clearly the right of the Hugo Bank to stand apart from the path of progress in this matter if it so desires, since all these arrangements are voluntary and form no part of the contract between a bank and its depositors. But the Hugo Bank can not complain if, having elected thus to stand aside, progress makes a path to it which merely facilitates the performance of the contractual obligations which the bank has undertaken, and presumptively desires promptly to carry out.

The Federal Reserve Bank of Minneapolis is a constituent member of the Federal Reserve system, established by act of Congress in 1913 "to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." The system thus established consists

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of twelve Federal Reserve banks operating in designated territorial districts and covering with their operations the entire United States. Each of these banks is chartered by authority of the Federal Reserve Act. Each Federal Reserve Bank is owned by its members, the members being all the national banks of each district, which are required to be members, and such state banks as elect to become members. The twelve banks thus organized operate under the Federal Reserve Board, an agency of the federal government, its members appointed by the President and confirmed by the Senate, and having certain necessary qualifications as representative both of the industrial and commercial interests of the country and its geographical divisions. The powers of the Federal Reserve Board are enumerated in Section 16 of the Act. Among them are the power "to exercise general supervision over said Federal Reserve banks" and "the Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among federal reserve banks, and their branches, and may, at its discretion, exercise the functions of a clearing house for such federal reserve banks, or may designate a federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks".

An Advisory Council is created by Section 12 of the Act in order to surround the Federal Reserve Board with advisors drawn from the wisest and most responsible men of affairs in the country, upon questions of finance effecting the public interest. Indeed every part of the law discloses that the Federal Reserve system is a great piece of national financial legislation enacted to serve

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high public ends under legislative power which has been recognized and acted upon ever since the decision of McCulloch v Maryland. 4 Whst 316, in which it was held both that Congress had power to incorporate the bank of the United States, and that it was competent for Congress to give a bank so incorporated such powers, and to impose upon it such duties as in the legislative discretion were deemed appropriate to the carrying out of the purposes for which it was authorized. Indeed the court went further and held that

> "The states have no power by taxation or otherwise to retard, impede, burden, or in any manner control the operations of the constitutional laws enacted by Congress to carry into execution the powers vested in the general government".

It would seem clear that if the sovereign states of the union may not burden an agency of the general government, individuals and private corporations a fortiori may not impose such burdens.

The title of the Federal Reserve Act discloses in a general way its purpose. The history of the Act and of the evils which it sought to remedy are matters of common knowledge. For fifty years the business and industry of the country had been periodically paralyzed by crises and panics which grew out of the maladjustments of the general financial system to the needs of the country. It came to be intolerable that private and public enterprises and well-being should be convulsed, with recurring frequency and destructiveness, by stringencies produced by the inflexibility of the currency on the one hand and the lack of availability of theoretical reserves on the other. It is difficult to conceive a subject more fundamental to the general welfare of the country and

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its people than a sound and adequate financial system. Congress therefore recognized that the banking business was affected with a public interest too vital to leave unregulated. It bade all private interests to stand aside and in this great piece of constructive legislation established a currency system under the immediate supervision of the Government itself. To that system it gave powers which it deemed appropriate, and among them was the power to create and regulate a flexible currency adequate to the needs of the country. That an adequate currency should be provided entailed, in the opinion of Congress, the utmost freedom and facility in the use of checks and in their collection. It therefore directed the Federal Reserve Board to act as a clearing house for all the Federal Reserve Banks, in consequence of which the vast financial transactions of the entire United States are in fact cleared daily through the Federal Reserve Board by the use of the Gold Settlement Fund. (The Gold Settlement Fund was created by having each Federal Reserve Bank deposit gold in the Treasury of the United States at Washington. Each bank received for its deposit a book credit to which is debited or credited at the close of each day's business upon telegraphic advice from the Federal Reserve Bank the net balances due to or from each other Federal Reserve Bank. By this means the daily transactions between Federal Reserve Banks, both on their own account and for the account of their member banks, are settled by a mere book transfer of title to gold, without shipment thereof. In operation this fund constitutes a daily nation-wide clearance between the Federal reserve banks of the several districts and their members.) Further, it authorized the

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Federal Reserve Board to require the Federal Reserve Banks to act as clearing houses for their members. While this is optional with the Federal Reserve Board, it is obligatory on the part of the members, when the Federal Reserve Board so directs.

Whatever the Federal Reserve Bank of Minneapolis therefore did in the matter of acting as a clearing house, was done in response to a mandatory duty imposed by the Federal Reserve Act. The Hugo Bank, of course, does not challenge the right of the Federal Reserve Bank of Minneapolis to act as a clearing house for its members, but it does ask that an inference be drawn from its conduct in so acting, which we respectfully submit is inadmissible since that conduct is the performance of a duty imposed by law.

The Federal Reserve Act in Section 13 authorizes Federal Reserve Banks, inter alia, to receive from its members and certain other sources deposits of checks for collection, provided such checks be in terms payable upon presentation, and further to receive checks solely for the purpose of collection when they are payable upon presentation within its district. Similarly, it may receive such checks for collection under certain circumstances from non-member banks. By the terms of the Act this power is otherwise unlimited, that is to say, so far as our present purposes are concerned, the Federal Reserve Bank of Minneapolis is authorized to receive for collection from the authorized sources any check payable upon presentation within its district. A proviso at the end of the section preserves the right of member and non-member banks alike to make exchange charges, inter se, but prohibits such exchange charges being made against the Federal Reserve Banks.

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The Federal Reserve Act has been amended from time to time with a manifest purpose of broadening and strengthening the power and duty of the Federal Reserve Banks in the matter of check collection, and the extent to which the purpose of Congress has been accomplished is shown by the fact that from the year 1916 to 1924 the clearing and collection operations of the system have grown as follows:

	Amount of items handled each year	Number of items handled each year
1916	$13,000,000,000	29,000,000
1917	52,000,000,000	85,000,000
1918	122,000,000,000	173,000,000
1919	136,000,000,000	305,000,000
1920	157,000,000,000	452,000,000
1921	119,000,000,000	523,000,000
1922	151,000,000,000	585,000,000
1923	196,000,000,000	639,000,000
1924	201,000,000,000	669,000,000 *

We find therefore that the Federal Reserve Bank of Minneapolis as part of the national financial system created by act of Congress, is the fiscal agency of the Government itself; is authorized to receive checks payable upon presentation; is prohibited from paying exchange charges; and is directed by the Federal Reserve Board pursuant to the language of the Act, to act as a clearing house and check collection agency for its members.

A "clearing house" is a piece of machinery designed to facilitate the presentation and collection of checks. Its machinery and operations are well understood. In Crane v. Fourth Street National Bank, 173 Pa. 566, it is said

> "A 'clearing house' is an ingenious device to simplify and facilitate the work of banking, and reaching an adjustment and payment of the daily balance due to and from banks at one time and place on each day. In practical

*Round numbers only are given.

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> operation it is a place where the representatives of the national banks of a city meet, and under the supervision of a competent committee or officer, selected by the associated bankers, settle their accounts with each other and make and receive payments of balances, and so clear the transactions of the day for which the settlement is made."

(State banks are ordinarily members of clearing houses, as well as national banks). See also National Exchange Bank v. National Bank of North America. 132 Mass. 147. The payees of checks, instead of being required to travel about and present them at the counters of the respective banks upon which they are drawn, deposit them in their own bank. Each bank in a community, limited in size only by the convenience of the arrangement, sends a representative daily to a central place, and there each representative presents to every other representative all the checks he has drawn upon other banks. Reciprocal presentations are thus made. Balances are struck and payments made through the clearing house so that each representative carries away in checks on his own bank, or money, the equivalent of the checks on other banks taken by him to the meeting. Presentation made in the clearing house is legal presentation to the drawee bank, and protest for non-payment can be made upon clearing house presentation. No exchange charges are possible in clearing house operations, for what is done there is the exact equivalent of counter presentation as to each check, and therefore entails the obligation of par cash payment.

Ordinarily the clearing house includes in its membership all banks in good standing in the community. If, however, there be banks in the community that are not members of the clearing house, a member bank receiving checks from its depositors or for collection on

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such a bank, sends a messenger and makes collection over the counter in cash. If, therefore, the Hugo Bank were in Minneapolis it would be a member of the clearing house and no exchange would be paid on its checks. If it were not a member of the clearing house, its checks would be collected over the counter by messenger. The physical fact is that Hugo is some miles away from Minneapolis, but the right of any bank in Minneapolis to collect checks on the Hugo Bank by messenger is indisputable, and when the Federal Reserve Bank of Minneapolis receives checks for collection, it has exactly the same right to send a messenger to Hugo or to employ an agent in Hugo to present those checks over the counter that any other bank or any individual payee of such checks would have. The fact that the Federal Reserve Bank of Minneapolis is required to act as a clearing house and check collecting agency for its members neither deprives it of the right to make counter presentation of checks to the Hugo Bank through an agent, nor, by any rational process of reasoning, colors its action in so doing with an unlawful purpose.

As a matter of fact, clearing houses are not restricted in their operations to cities, or necessarily even to states. The whole of New England is organized into one clearing house, and there is no reason why the bank of Hugo might not be admitted into membership into a voluntary clearing house in Minneapolis, nor is there any reason why the Federal Reserve Bank of Minneapolis should not extend its collecting operations to the Hugo Bank through agency presentation. Indeed the clearing house and collection function of the Federal Reserve Bank of Minneapolis is performed throughout its district which comprises the states of Minnesota, Montana, North Dakota and South Dakota.

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So that the whole United States is divided into twelve clearing house and collection districts, as each Federal Reserve Bank performs a like function for its members and others. The clearing operations of the Federal Reserve banks are not performed by offsetting balances but by requiring remittances from each bank, but the net result is the same since the balances due to the several banks are in fact credited to their respective reserve accounts and are of course subject to withdrawal. This mechanical difference does not affect the essential identity in the matter of the clearing operation.

Regulation J of the Federal Reserve Board as amended on May 9, 1924, authorizes Federal reserve banks to accept exchange drafts in remittance for checks. This authorization, however, was not in the 1920 edition of the regulations and was not operating during the period when most of the checks in the Hugo case were collected. As a matter of general law apart from the present authorization of Regulation J, the Federal Reserve Bank of Minneapolis, when it accepts a check for collection, is legally bound to collect the proceeds of that check in cash. If it sends the check to the drawee bank and accepts a draft in payment, it is liable for any loss thereby incurred. Of course, as a matter of fact, presentation by mail and settlement by draft is a common practice sanctioned by convenience, but its legal duty is to present the check and demand cash payment. Federal Reserve Bank of Richmond v. Malloy, 264 U. S. 160.

The concession therefore made from April 1920 to October 1924 was not made by the Hugo State Bank, but made by the Federal Reserve Bank of Minneapolis, which assumed the risk of loss in accepting payment for checks by draft, when its strict legal obligation to those

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for whom it was acting was to demand and receive only cash. If the Federal Reserve Bank of Minneapolis had each day during that period mailed checks to the Hugo bank and demanded cash by return mail, the Hugo bank, if it complied with the demand, would have been obliged to keep on hand the same amount of cash as if the checks were presented over its counter. If it had refused to remit cash, as it would have had a right to do, the Federal Reserve Bank of Minneapolis would have had no alternative except to send a messenger, so that if both parties to this case had lived up to their strict legal rights and obligations, counter presentation, with whatever inconvenience and loss it entailed to the Hugo Bank or to the presenting bank, would have been the only possible procedure.

This being the nature, situation, and relative rights of the parties, let us examine briefly the acts of each: The Federal Reserve Bank of Minneapolis being directed by the Federal Reserve Board to receive and collect checks at par, regardless of expense, sent out circular letters to all banks in its district calling their attention to its powers and duties under the regulations of the Federal Reserve Board, and asking all such banks as were not members to fall in voluntarily with the plans for par clearance contemplated by the Federal Reserve Board and the statute, this being the only kind of collection permitted by the Federal Reserve Act.

Acquiescing replies were received by the Federal Reserve Bank of Minneapolis from practically all banks in its district. A few of these banks, including the Hugo State Bank, declined or failed to reply to the invitation.

The Federal Reserve Bank of Minneapolis then notified the Federal Reserve Board in Washington that it was prepared to collect at

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par checks on all banks in the State of Minnesota, and a circular was issued by the Federal Reserve Board in Washington for distribution to the member and non-member clearing banks in the Federal Reserve system, notifying them that checks on all banks in Minneapolis could be collected through the Federal Reserve Banks at par.

The Federal Reserve Bank of Minneapolis then wrote an argumentative letter to the Hugo State Bank urging them to reconsider their refusal and informing them, in conciliatory and reassuring terms, that in the event of their noncompliance with the request, the Reserve bank would be obliged to resort to counter presentation, but that it would do so with the utmost consideration for the Hugo Bank and would avoid accumulation.

The Hugo State Bank made no acknowledgment of this letter, and for a brief time the Federal Reserve Bank of Minneapolis did cause counter presentation of checks through the American Railway Express Company and the Postmaster at Hugo, such presentation being admitted to have been unaccompanied by any circumstances in the slightest degree annoying or calculated to cause comment or inconvenience.

The Hugo State Bank then notified the Federal Reserve Bank of Minneapolis that it had decided to remit at par by draft upon mail presentation, but in its letter made no protest, asserted no rights, and complained of no wrong.

From April 30, 1921 to September 25, 1924, the Federal Reserve Bank mailed checks to the Hugo State Bank and accepted in return drafts drawn on funds to the credit of the Hugo State Bank in a bank in St. Paul. During all this period the relations between the two banks were friendly; there was at no time any complaint or protest on

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the part of the Hugo State Bank, nor any claim that it was being injured or damaged, or that its action was otherwise than voluntary.

In September 1924 the Hugo State Bank notified the Federal Reserve Bank of Minneapolis that it proposed to resume imposition of exchange charges on the first day of October, 1924. It continued, however, from the date of this notice until the first day of October to remit by draft at par, but in this notice there was again a complete absence of any complaint as to past transactions or any claim of damage or loss, but on the contrary a voluntary agreement to continue to remit by draft at par from the date of the notice until the first day of October, 1924.

On the first day of October 1924 the Federal Reserve Bank of Minneapolis ceased to handle checks drawn on the Hugo State Bank.

Upon this state of facts the trial Judge permitted the jury to find for the plaintiff if they found that the inclusion of the phrase "All banks in Minnesota", in the par clearance circular of the Federal Reserve Board, was for the purpose of bringing checks upon the Hugo State Bank for the Federal Reserve Bank for collection which would not otherwise come there, which he held would, as a matter of law, be accumulation, and if the purpose of this accumulation was to compel the Hugo State Bank to fall in with the plan of the Federal Reserve Bank by remitting in drafts at par for checks presented by mail.

The Federal Reserve Bank of Minneapolis being an agency created by the Federal Government for the purpose, among others, of affording the facility, economy and convenience of par collection of checks to the business interests of the country, it is error to hold that it would be improper or unlawful for it to advertise the existence of that facility

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in the widest possible manner, or that any attribution of illegal or improper motive should follow from such advertisement. Clearly, Congress having intended this benefit for the use of the people, the Federal Reserve Banks would be blameworthy if they concealed their readiness to perform this service or allowed knowledge of it to leak out only by word of mouth or inference. As a matter of fact the collection circular in question was printed and distributed by authority of the Federal Reserve Board. It did not contain the name of the Hugo State Bank, made no reference to its refusal to remit at par by draft, but simply stated the readiness and ability of the Federal Reserve Bank of Minneapolis to collect at par from all banks in the State of Minnesota. There is not a syllable in this record which shows that any officer of the Federal Reserve Bank of Minneapolis thought or expected or desired that its process of agency presentation would result in any change of mind on the part of the Hugo State Bank. The Federal Reserve Bank had made a quiet, effective and relatively inexpensive arrangement for the collection of checks in Hugo; its agents there performed the service unostentatiously and maintained apparently agreeable relations with the officers of the Hugo Bank. The Federal Reserve Bank did not repeat or re-urge its invitation, and when the Hugo State Bank later notified the Federal Reserve Bank that it had decided to remit at par by draft, there was no expression of satisfaction from any officer of the Federal Reserve Bank of Minneapolis which would in the slightest degree indicate the successful accomplishment of a coercive design. The business was simply begun on the new basis in a matter of fact way, and continued as long as the Hugo State Bank desired it to be continued, and then, upon its request, discontinued.

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Meantime, no officer of the Hugo State Bank ever made even the mildest protest against agency presentation. The officers of the bank testified in this case and disclaimed having had any fear that the Federal Reserve Bank of Minneapolis would accumulate checks for the purpose of inconveniencing the Hugo Bank. Indeed, they expressly state that the sole fear they had was that one day's checks on their bank, without accumulation, might at some time seriously impair their strong-box cash. They apparently weighed this inconvenience against remission by draft at par and decided voluntarily to adopt the latter course. Throughout the following years they made no complaint or protest. They kept no record of transactions to establish any loss; they sought no legal intervention to restrain the Federal Reserve Bank from resuming counter presentation. As a matter of fact they were wholly unaware of the fact that they had acted otherwise than voluntarily or that they had sustained any loss. One of the officers of the Hugo Bank in 1924 read a newspaper statement with regard to the Brookings case, which he misinterpreted, whereupon fresh consideration was given to the subject, and a decision reached to resume exchange charges. But apparently more than a year elapsed before the Hugo Bank realized that it had been deprived of its free will by the coercive and wrongful acts of the Federal Reserve Bank of Minneapolis to such an extent as to create in it a right of action for damages.

Coercion, if this be it, has not only progressed beyond the ancient form of "violence and putting in fear of bodily harm", but has become an attenuated and pallid thing, depending for its existence upon an assumed but undisclosed state of mind of the officers of the Federal Reserve Bank of Minneapolis rather than any consciousness on the part of

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the officers of the Hugo Bank that they dared not act in accordance with their own will and wish. Aikins v. Wisconsin, 195 U. S. 194: First National Bank v. Fellows, 244 U.S. 416: 9 Ruling Case Law, 722-723: York v. Hinkle, 80 Wisc. 624.

We are aware of the fact that there is a class of acts, legal in themselves, which become tortious when done with a wrongful motive. For the most part acts in this class are either those done out of pure malice, where the actor derives no benefit beyond the gratification of hatred or ill will toward the person acted upon, or conspiracies to injure by the annoying or injurious repetition of lawful acts with a similar motive, but we believe there is no respectable authority holding that acts required or authorized by law in furtherance of a public object or benefit can be made unlawful by the pleasure afforded to those acting on behalf of the public from the fact that the public advantage sought is being more and more widely attained.

As a matter of fact there are four parties to this law suit, the Hugo State Bank, the Federal Reserve Bank of Minneapolis, the public at large and particularly the business interests of the public to whom expeditious par collection is a large benefit, and the Government of the United States, which has an interest in both efficient business agencies and a sound fiscal system.

With regard to these four parties the following observations seem justified. The Hugo State Bank is a domestic corporation of the State of Minnesota engaged in a lawful business and entitled to be protected in all of its rights, but not entitled to be shielded from the normal results of competition in its own field or to be protected against the effects of improved methods in the transaction general

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business.

The Federal Reserve banks are really semi-public institutions organized, not for the purpose of private profit, but for the purpose of serving the public. Such banks operate the par clearance system at large expense to themselves and without any remuneration or indirect advantage whatsoever. It is purely a non-profit public service and action taken in furtherance of it is to be judged not by the standards which might with propriety be applied among capital business enterprises. Congress has felt that there were general advantages in the par clearance system which justified it in requiring that service to be performed by the Federal reserve banks without compensation. Whatever expenditures the Federal reserve banks therefore make in performing this service is imposed upon those banks by the act of Congress and can not be regarded as expenditures made by the Federal reserve banks in the pursuit of any private purpose or private advantage. There can be little doubt that if the Federal reserve banks were really competitors of the Hugo State Bank, they would have a legal right to afford the service of free par collection as a competitive method of making their facilities more attractive than those of their rivals. But this case is even stronger than that, for as we have pointed out, the Federal reserve bank is not a competitor, seeks and derives no advantage and is expending money for which it receives no return in the performance of a duty which Congress has, as we think, directed or in any case has authorized it to perform.

The interest of the public at large in par clearance is manifest and overwhelming. Whatever justification there may at one time have been for the imposition of exchange charges for the remittance of proceeds of checks, it has long since disappeared. The ease and economy

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with which funds can be transferred and debts settled by checks has been a large feature in the rapid growth of American business and banking and the rapid increase in the use of checks as a medium of exchange is a part of the general progress we have made. Uniformity of practice with regard to checks is one of the essential elements of their successful use and a sporadic attack upon checks by banks here and there setting up a barrier to their free flow at par is an annoyance and burden to business which belongs to the age of the toll gate on the highways. The whole history of our financial legislation is inspired by the purpose on the part of Congress to give us uniformity in our exchange mediums. A full exposition of the benefits of par clearance to the public would require many pages of concise statement but the slightest familiarity with the practice of circuitous routing which preceded the establishment of the par clearance system will satisfy any one. In effect the par clearance system enables the business man to get 100 per cent payment in the most convenient and expeditious manner for his invoices. It has made the check of the business man acceptable for all purchases everywhere and has obviated the necessity of purchasing drafts or carrying bank balances at distant places in order to meet its payments. It has reduced to a minimum the time required to collect checks, thus making the proceeds of the checks available to their owner much sooner than formerly and has correspondingly expedited the handling of checks, thus minimizing the chance of loss through bank failures and overdrafts by providing prompt advice and return of dishonored checks.

The interest of the Government of the United States in this matter is both direct and indirect. In the Federal Reserve System, the Government has built a great fiscal agent, thus insuring the prompt

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and safe dispatch of the business of the Government to the extent that it depends upon checks due it and from it. Indirectly, however, the Government has created in the Federal Reserve System an agency which prevents disastrous crises and panics which for years have afflicted the country, and it is not unlikely that the protracted prosperity which this country has witnessed now for some years is more due to the existence and operation of the Federal Reserve System than to any other one cause. It is quite certain that the magnificent success of our war financing would have been impossible without the Federal Reserve System. How far the par clearance of checks is essential to this system it is not necessary for us to inquire. The Congress has deemed par collection an appropriate part of the Federal Reserve Act and as it is obviously not an unlawful thing, the discretion of Congress as to its usefulness in accomplishing public objects must be accepted as conclusive.

The Federal Reserve Act deprives the Hugo State Bank of none of its rights, indeed it affords it great advantages as part of the general system of the country. If it be true, though it is certainly not demonstrated, that an incidental loss is imposed upon the Hugo Bank which exceeds the incidental benefits that bank derives for the services rendered to it by the Federal Reserve banks, the loss obviously is of a kind which must be expected by an institution which seeks to capitalize the inconvenience of its customers when a more convenient agency is created for their benefit and protection. In other words it is damnum absque injuria as held by Mr. Justice Brandeis in American Bank and Trust Company v. The Federal Reserve Bank of Atlanta.

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ON AUTHORITY

Fortunately the exact legal questions at issue in this case have been decided in a series of cases of which one finally reached and was decided by the Supreme Court of the United States.

In the Brookings case, 277 Federal 430, Judge Wolverton held:

> "The defendant therefore was acting within its authority in maintaining an agent at Brookings for making collections over the counter of plaintiff's bank and paying the expenses entailed thereby."

In the same case upon final hearing, 281 Federal 222, Judge Wolverton again held that the action of the Federal Reserve Bank of San Francisco in maintaining an agent at Brookings for counter presentation of checks was within its legal right, and while he suggests the maintenance of an agent at Brookings as an undue expense to be weighed for the purpose of determining the motive of the bank of San Francisco, his holding on that subject was rather that the purpose was shown by the correspondence than that it could be inferred from the maintenance of the agent.

In the Catlettsburg case, 286 Federal 610, Judge Cochran assumed the right of the Federal Reserve Bank of Cleveland to present checks received by it over the counter of a state bank but held that it could not accumulate such checks and make a demand therefor in an unusual manner for the purpose of coercion. Whatever doubts Judge Cochran had are practically stated by him to be in disagreement with the opinion of Judge Evans in the Atlanta Case, which he declines to follow, but

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that we shall see the Atlanta case was examined and affirmed by the Supreme Court of the United States. It is important however to note that the accumulation of which Judge Cochran was speaking was the deliberate withholding of checks until they reached a large amount.

In the Atlanta case Judge Evans in the District Court dismissed the bill. In this he was sustained by the Circuit Court of Appeals, 269 Federal 4. The case then went to the Supreme Court of the United States and was reversed, 256 U.S. 350. From the opinion by Mr. Justice Holmes we learn that the reversal was due to the fact that the allegations of the bill were that there was a deliberate accumulation for the purpose of injuring and coercing the American Bank and Trust Company and the Supreme Court held that it might be possible to prove, under that allegation, such misconduct as would entitle plaintiff to a remedy. When the case was returned to the District Court Judge Evans heard the evidence and again dismissed the bill as he found the evidence insufficient to sustain any charge of illegal action against the Federal Reserve Bank of Atlanta. In the course of his opinion Judge Evans says:

> "In the discharge of its duties, with respect to the collection of checks deposited with them, and with respect to performing the functions of a clearing house, the several federal reserve banks are empowered to adopt any reasonable measure designed to accomplish these purposes. To that end a Federal Reserve Bank may send checks to the drawee bank directly, for remittance through the mails of collections without cost of exchange. If the drawee bank refuses to remit without deduction of the cost of exchange it is in the power of the several Federal Reserve Banks to employ any proper instrumentality or agency to collect the checks from the drawee bank, and it may legitimately pay the necessary cost of this service. ***** The process of the daily collection of checks, in the exercise of the clearing house functions, is not rendered un-

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> lawful becuase of the fact that of the checks handled two or more of them may be drawn on the same bank. ***** It is a legitimate feature of the clearing house function of a federal reserve bank to publish a par clearance list, that is, a list of banks on which checks are drawn that will be collected at par by the federal reserve banks. ***** I see no objection to including in the par clearance list the names of towns or cities with a representation that the federal reserve bank will undertake to collect at par checks drawn on any bank (member or non-member) in such town or city."
>
> 280 Federal 940.

On appeal from this decision the case was again reviewed in the Circuit Court of Appeals, 284 Federal 424. The decision of Judge Evans was affirmed. The Catlettsburg case was distinguished, on the facts, and the law, as stated by Judge Evans, approved. In the course of the opinion by Walker, Judge, and it may be incidentally remarked that Judge Walker is one of the most venerated and respected circuit judges in the federal judicial system, it is said:

> "We are not of opinion that a bank in receipt for collection of checks on other banks is guilty of an abuse of its right as such holder when, in due course with reasonable promptness without designed delay or accumulation and in a proper manner it presents or caused to be presented those checks to the drawees for payment in cash. In so doing the collecting bank would be exercising its right as a holder of checks received by it for collection and would not be guilty of an abuse of that right for an unlawful purpose. If the holder of the checks is guilty of no wrong the fact that the payer is inconvenienced by having to pay in cash would not give the latter a valid ground of complaint. Inconvenience resulting to one party from another's exercise of a right in a lawful way does not give the former a right of action".

Judge Walker further quotes from the opinion of Judge Evans in such fashion as to indicate that the kind of accumulation which might become unlawful is the deliberate accumulation or withholding of checks until they reach a large amount and then causing them to be presented for payment in cash, so as to compel the drawee bank to maintain so much cash as to drive it out of business or, as an alternative, to agree to remit

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at par. This would be unlawful and is distinguished from presentation in due course from day to day as checks are received, as is admitted to have been done in the case at bar.

It is of the highest importance in this case to distinguish between accumulation as that word is used in the opinion of Mr. Justice Holmes in American Bank and Trust Company v. The Federal Reserve Bank of Atlanta and the mere concentration of checks which appeared in this case. From the instructions given by the trial judge to the jury, it appears that the Judge held as a matter of law that there was an accumulation of checks in this case but the fact is that there was not. Mr. Justice Holmes held that an accumulation of checks over a period of time by delaying their presentation until the Federal Reserve Bank had accumulated sufficient number to embarrass the plaintiff would be wrongful if done with a wrongful motive, but there was neither such fact nor such motive present in this case. Such concentration of checks as took place was merely the checks of a single day, presented daily for payment, and it could have made no difference to the State Bank of Hugo whether the checks of a particular day were presented by one collecting agency or by several. As a matter of fact this concentration of each days checks into one collecting hand simplified the situation for the Hugo Bank, which was never in any real danger of embarrassment for if a letter had come to it demanding more cash than it had on hand, it would always have been possible, by telephone or by messenger, to have arranged to have its St. Paul correspondent with which it kept its reserve to deposit for its account with the Federal Reserve Bank in Minneapolis whatever sum was necessary. The officers of the Hugo Bank in express terms disclaimed having had any fear that the Federal Reserve Bank of Minneapolis

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would accumulate checks against it so that the question of accumulation is out of the case for all these reasons: it did not exist in fact; it was not threatened; it was not feared.

Finally this case came before the Supreme Court of the United States, 262 U.S. 640. The opinion of the Circuit Court of Appeals was affirmed. In the opinion of the court Mr. Justice Brandeis discusses the whole subject of exchange and points out the amendments to the Federal Reserve Act made for the purpose of extending and strengthening its check collection functions and services. The class of checks which Federal reserve banks are authorized to collect is held to those payable upon presentation. On page 648 the opinion says:

> "Federal reserve banks are thus authorized by Congress to collect for other reserve banks, for members and for affiliated non-members, checks on any bank within their respective districts if the check is payable on presentation and can in fact be collected consistently with the legal rights of the drawee without paying an exchange charge. Within these limits Federal reserve banks have ordinarily the same right to present a check to the drawee bank for payment over the counter as any other bank, state or national, would have."

It is interesting to observe that, in the opinion of the Supreme Court, the expressed willingness of the Federal Reserve Bank of Atlanta to accept remission by draft at par was regarded as negativing any possible unlawful intent in counter presentation. On page 648 it is clearly held that when that alternative is offered the country bank faces not coercion but legitimate competition and that any loss it may suffer by electing to remit by draft at par is damnum absque injuria.

Were the foregoing decisions upon the precise questions here involved less conclusive, it would be enough to show, on the evidence in this record, by the admissions of the officials of the Hugo

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State Bank that they remitted by draft at par not because of any coercion but because of a claim of mistake of law on their part. The losses of the Hugo Bank must therefore be regarded as voluntary payments made under a mistake of law and not recoverable. But we put this point on one side and stand on the broad ground that the Federal Reserve Bank of Minneapolis was performing a duty which it was authorized to perform by a Federal statute and commanded to perform by an official body, the Federal Reserve Board, which had the power so to command, that its acts in this behalf were wholly within its rights and were performed in a manner consistent with every right of the Hugo State Bank and considerate of the convenience of that bank. Further that as a matter of law the Hugo Bank could not have been coerced by the action of the Federal Reserve Bank of Minneapolis because that action was not unlawful and that, on the plain showing of the record, the Hugo Bank was not coerced but acted voluntarily as the result of a consideration of its own interest when it faced the competition of a facility created by Congress in the public interest.

CONCLUSION

Under the decision of the Supreme Court of the United States in American Bank and Trust Company v. Federal Reserve Bank of Atlanta, 262 U.S. 640, it is clear that the defendant acted within its lawful rights in presenting checks for collection over the counter without any undue accumulation when the plaintiff refused to remit at par.

The evidence discloses no disinterested malevolence on the part of the plaintiff sufficient, even under the most extreme view of the law, to render its lawful acts unlawful. On the contrary, it is clear that the Federal reserve bank was influenced solely by a desire

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to carry out what it understood to be the national policy of affording to the entire country a complete and efficient system for the collection of checks at par. It had been instructed by the Federal Reserve Board that this was the national policy and had been directed to do everything within its lawful power to accomplish it. There was no accumulation of checks and no effort to embarrass the plaintiff in any way.

In short, the defendant acted within its legal rights, and without such a motive as would render its legal acts unlawful. As stated by Mr. Justice Brandeis in American Bank and Trust Company v. Federal Reserve Bank of Atlanta, supra, the "loss here shown is of the kind to which business concerns are commonly subjected when improved facilities are introduced by others, or a more efficient competitor enters the field. It is damnum absque injuria."

Neither on the law nor the facts, therefore, was the plaintiff entitled to a judgment; the evidence was insufficient to sustain a verdict for the plaintiff; and the Court should now render a judgment for the defendant, notwithstanding the verdict.

Respectfully submitted,

(S) Newton D. Baker
Of Counsel
The Federal Reserve Bank of
Minneapolis.

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Law Offices
UELAND & UELAND
401 New York Life Building
Minneapolis

November 26, 1927.

Hon. Newton D. Baker,
1924 Union Trust Building,
Cleveland, Ohio.

My dear Mr. Baker:

In the Bank of Hugo case the trial judge filed an order on the 21st inst. denying our motion for judgment notwithstanding the verdict or for a new trial-- denying both as to judgment and as to new trial.

I have today completed the taking of an appeal from the order to our supreme court, and I shall proceed, without delay, to have the record on the appeal printed.

As to size of pages of the printed record, the rules of our supreme court and those of the Supreme Court of the United States differ slightly. The rules of the latter court prescribe a slightly larger page both as to width and length of the page and as to width and length of the printed matter on it.

Contemplating that we may have to go to the Supreme Court of the United States from an adverse decision, and knowing that the clerk of that court will use, as far as it goes, the printed record in the state supreme court, I shall have printed a sufficiently large number of copies of the record so as to have enough for use in the U.S. Supreme Court, thereby diminishing the cost of printing in that court, if we shall have to go there, and I shall get an order from our supreme court waiving compliance with its rules as to size of printed pages and have the size conform to the rules of the U.S. Supreme Court.

I apprehend that if we should have to go to the Supreme Court of the United States it would have to be under subdivision (b) of P.344 of the Code of Laws of the United States because, it seems to me, we can hardly claim that the validity of a statute of the United States is drawn in question so as to come under subdivision (a) of that section and thus be able to get the case up on a writ of error, but that we would have to claim that it is a case where title, right, privilege or immunity is specially set up or claimed under a statute of-- or authority exercised under the United States, and therefore have to get review on certiorari under subdivision (b). This, however, I have not given any special study.

As soon as I have the record printed I will prepare a statement of facts and assignment of errors for the printed brief in accordance with our state practice, and I shall then communicate with you with a view to the preparation of the rest of the brief.

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Under the rules of our supreme court we have 60 days from today in which to file with the clerk 12 copies of our printed record and printed brief, but I am morally certain I can get that time extended, if we should need an extension.

I mail a copy of this letter to Mr. Wyatt.

Yours very truly

(S) A. Ueland.

AU/mg

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FEDERAL RESERVE BANK

OF MINNEAPOLIS

May 6, 1927.

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

Dear Sir:

In the case of First State Bank of Hugo to recover $19,105, there was returned today, after five days trial, a verdict against us for $1229.99.

The verdict rests on the following facts:

The Hugo bank, a State bank, was solicited the same as other State banks to go on the par list. On March 30, 1920, it refused. A bulletin dated April 1 and distributed about April 15, 1920, showed on the par list "All banking institutions in Minnesota". On April 12, this bank wrote the Hugo bank asking it to reconsider its decision not to be on the par list and explaining it could not pay exchange and that most other banks had agreed to be on the par list and stating that unless the Hugo bank reconsidered its refusal the Federal Reserve Bank would have to arrange to have checks received collected in cash over the counter, but that this would be without embarrassing the Hugo bank by any accumulation of checks except that should one be received one day for less than $100 it might be held over to save expense. No response being received, collection was made over the counter day by day, in part by the American Railway

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Express Company and in part by the Postmaster at Hugo, from April 17 to April 30, 1920, The checks ranged in amounts from $100 to $1222, all aggregating about $5300. On April 30, 1920, the Hugo bank wrote saying--

> "You may discontinue sending the checks drawn on our bank to be cashed over the counter as we have decided to pay at par all checks you may send here for collection. You may send them through the mails and we will remit by draft. Yours very truly".

Collection over the counter was thereupon discontinued and remittance at par was thenceforth made until October 1, 1924 without complaint or objection of any sort. On September 25, 1924 the Hugo bank wrote:

> "On October 1st we intend to charge some exchange on your daily remittance to us to defray our exchange expense. Hope this will be agreeable to you. Yours very truly".

Remittance at par continued to October 1 and then ceased and by next bulletin of par list there was noted as taken off the par list "Hugo, Minnesota".

During the four years and five months when remittance was made at par there was some correspondence between the banks relating to belated returns, in one instance for a period of 12 days, for which the Hugo bank apologized

As witness for his bank, the cashier of the Hugo bank said, among other things, that the reason why the Hugo bank remitted without charging exchange was that "they did not think they were allowed to" and that the reason they sent that letter of September 25 to cease remitting at par October 1 was seeing in the newspapers "about a decision of the Supreme Court of California reading that a certain

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bank had received a judgment for a certain amount of money for being forced by the Federal Reserve Bank to remit their checks at par". Plaintiff's officers said more or less about writing the letter of April 30 and remitting thereafter at par because they were afraid that a continuation over the counter would ruin their bank, etc., but the real thing in that respect, as I look upon it, and as shown by the evidence, was simply this: The Merchants National Bank of St. Paul was the correspondent in which was part of the reserve under the State law and on which were drawn remittance drafts for checks received otherwise than over the counter, deducting exchange at the rate of 10 cents per $100. The Hugo bank received interest on daily balances of from 1-1/2% to 2%. The officers of plaintiff said their bank could get along in that way with $3000 in its vault, whereas with checks presented over the counter by the Federal Reserve Bank they would have to have up to $10,000. As the Bank would of course have to be prepared to pay all checks upon it from time to time (deposits running about $150,000) the situation presented at most the loss of interest on daily balances with the correspondent.

The verdict thus rests upon two propositions:

(1) Was it wrongful to place the Hugo bank on the par list, as stated, under the designation "All banking institutions in Minnesota" in connection with the assurance that checks would not be accumulated, and to collect them over the counter day by day as stated, assuming(as I think the jury might be justified in finding) the purpose was to get the Hugo Bank to remit at par?

(2) Was the jury justified in finding, upon the facts stated, that the remittances at par during the four years and five

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months were made under "coercion", that is to say, under duress (coercion being one species of duress)? 108

If either of these propositions should be answered in the negative, the verdict cannot stand.

In my opinion, neither can be answered in the affirmative, especially not the second.

On that point I think it is worth noting that from plaintiff's point of view defendant could have been restrained at any time by injunction and that one cannot say he is under duress in doing what the law would protect him against doing.

I have relied much upon the decisions in that long litigation between the American Bank and Trust Company et al. v. Federal Reserve Bank of Atlanta, more especially upon the opinion of Judge Evans when the case was tried on its merits (280 Fed. 940) and the opinions of affirmance by the Circuit Court of Appeals (284 Fed. 424) and of the Supreme Court of the United States (262 U.S. 643).

I have decided to have a record settled on which to make a motion for judgment notwithstanding the verdict or a new trial (an alternative motion permitted under our statutes), and if the motion should be denied to appeal to our Supreme Court. I have decided to do so after conference with Governor Young, not only because I think the verdict has no legal basis but also, as suggested, because the verdict may otherwise stir up litigation of the same vexatious character.

I am told that this bank has made no collection over the counter since April 25, 1921, so as to that our statute of limitations has run, but there may be a number of banks able to claim having remitted at par under duress within the past six years which is the limitation in this state on that class of actions.

Yours with sincere high regards

(S) A. UELAND,
Counsel

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Law Offices
UELAND & UELAND
401 New York Life Building
MINNEAPOLIS

January 11, 1928.

Hon. Newton D. Baker,
1924 Union Trust Building,
Cleveland, Ohio.

My dear Mr. Baker:

The printing of the record in the Bank of Hugo case has taken an unusually long time and has only just been completed. Working on the brief between the time of your return from California and January 1, as suggested in your letter of November 28, was therefore not possible.

The time for serving and filing our printed record and brief would have expired under the rules next January 25, and as you said in the letter referred to that you would be out of the country from the first to the third week in January I applied to the Supreme Court and obtained an extension of the time so that we have until March 1 to serve and file the printed record and brief.

I forward you under another cover a copy of that printed record and a copy of what I think may serve as a proper statement of facts and of assignment of errors for the brief. I shall mail like copies to Mr. Wyatt together with a copy of this letter.

In looking over my draft of assignment of errors please have in mind that, under our practice, it is not necessary to take exceptions at the trial but rulings may be reviewed by assigning them as errors in the motion for judgment notwithstanding the verdict or a new trial. That will explain to you why, in some instances, I refer in the proposed assignment of errors to the rulings on the trial to which exceptions were taken at the time, and in other instances to rulings which were assigned as errors in the notice of motion.

In drawing the proposed assignment of errors I have ignored several rulings to which exceptions were taken at the trial upon admission and exclusion of evidence, as I do not think them very material, going, as they did, generally speaking, to the proof of damage, for the verdict is by no means too large if plaintiff/entitled to any verdict, and I don't think we would care to have a new trial but present the case with a view to obtaining a decision that there should have been a directed verdict for the defendant. If we get the Supreme Court to hold that, it will direct the lower court to enter a judgment for defendant.

Now as to the preparation of the brief, I make the following suggestions, leaving you to decide which one to adopt:

1. With the printed record and your own and my brief on the motion for judgment notwithstanding the verdict you prepare the manuscript for the brief on the appeal and send it to me and I will have it printed and served.

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2. If you wish to have me colaborate with you in the preparation of the brief, you decide whether you wish to come here for that purpose, or to have me come to Cleveland, or for us both to meet at Washington and do the work there.

Any of these arrangements would be perfectly satisfactory to me unless something should absolutely disable me to meet you at the appointed time at Cleveland or Washington, which is not likely.

If convenient for you, I wish we could get the brief out as soon as possible and not avail ourselves of the entire extension, for respondent has thirty days for brief after our brief is served and filed and I would like to have the case argued before the court takes its usual recess the latter part of next June.

Yours very truly,

A.UELAND.

AU mg

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STATE OF MINNESOTA

SUPREME COURT

1927.

The First State Bank of
Hugo, Minnesota,

Respondent,

-vs-

The Federal Reserve Bank
of Minneapolis,

Appellant.

APPELLANT'S BRIEF.

(By leave of court the Record is printed in conformity with rules of the Supreme Court of the United States and references are to pages.)

STATEMENT.

Section 13 of the Federal Reserve Act provides that -

"Any Federal reserve bank may receive from any of its member banks, and from the United States, * * * checks and drafts, payable upon presentation and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks * * * checks and drafts payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company * * * checks and drafts payable upon presentation, or maturing notes and bills.

"Provided, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank;

"Provided, further, That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable

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charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks."

Section 16 provides that -

"Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, * * *.

"The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks."

The Act provides in Section 11 (i) that the Federal Reserve Board is to have power -

"To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and 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."

And under Section 11 (j) the power -

"To exercise general supervision over said Federal reserve banks."

Under the provisions quoted from Section 16 the Board in 1916 required defendant to act as a clearing house for its member banks and prescribed regulations for the clearing. The regulations, called Regulation J, is in evidence as Defendant's Exhibit 7. We call attention to the following parts:

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"Regulation J.
Series of 1917.

(Superseding Regulation J of 1916)
Check Clearing and Collection.

"Section 16 of the Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve Bank to exercise the function of a clearing house for its member banks. * * *

"Each Federal Reserve Bank shall exercise the functions of a clearing house under the following general terms and conditions: * * *

"(2) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks and will receive at par from all member and clearing member banks, regardless of their location, for the credit of their accounts with their respective Federal Reserve Banks, checks drawn upon all member and clearing member banks of its district, and upon all other nonmember banks of its district whose checks can be collected at par by the Federal Reserve Bank. The Federal Reserve Banks will prepare a par list of all nonmember banks, to be revised from time to time, which will be furnished to member and clearing member banks.

"(3) Immediate credit entry upon receipt subject to final payment will be made for all such items upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as part of the minimum reserve nor become available to meet checks drawn until actually collected, in accordance with the best practice now prevailing. * * *

"(6) Under this plan each Federal Reserve Bank will receive at par from its member and clearing member banks checks on all member and clearing member banks and on all other nonmember banks whose checks can be collected at par by any Federal Reserve Bank." (216-17, 323-24)

The Plaintiff is a state bank located at the Village of Hugo, about twenty-five miles from Minneapolis, and is the only bank in the Village. On July 31, 1919, defendant sent to plaintiff and other banks a circular soliciting their consent to go on defendant's so-called par list, meaning that for checks upon them forwarded by defendant they would remit without deduction for exchange (257-8). To this there was apparently no response from plaintiff.

On December 11, 1919, the Federal Reserve Board made an

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addition to Regulation J, Defendant's Exhibit 1. From this we quote as follows:

> "There is a proviso in Section 13 which allows member and non-member banks to make reasonable charges 'to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks'. This has been construed by the Attorney General of the United States as meaning that a Federal Reserve Bank cannot legally pay any fee to a member or non-member bank for the collection and remittance of a check. It follows, therefore, that if the Federal Reserve Banks are to give the service required of them under the provisions of Section 13 they must in cases where banks refuse to remit for their checks at par use some other means of collection no matter how expensive.
>
> "The action of the various Federal Reserve Banks in extending their par lists has met with the cordial approval of the Federal Reserve Board which holds the view that under the terms of existing law, the Federal Reserve Banks must use every effort to collect all bank checks received from member banks at par. Several of the Federal Reserve Banks are now able to collect on all points in their respective districts at par and new additions to the other par lists are being made every day. The Board sees no objection to one bank charging another bank or a firm or individual the full amount provided in Section 13 of the Federal Reserve Act (10 cents per $100) and has not undertaken to modify these charges, but the Act expressly provides that no such charge shall be made against the Federal Reserve Banks.
>
> "It is the Board's duty to see that the law is administered fairly and without discrimination and that it applies to all banks alike, and it is making an earnest endeavor to carry out the laws as construed by the highest legal authority of the administrative branch of the Government." (Italics ours).

This last mentioned regulation was pleaded in defendant's answer (11-13) and was offered by defendant in evidence but excluded (32-33, 222-224).

As shown above, Regulation J provided that -

> "The Federal reserve banks will prepare a par list of all nonmember banks to be revised from time to time, which will be furnished member and clearing member banks."

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Accordingly defendant furnished the Federal Reserve Board information from which the Board printed a par list dated April 1, 1920 (Plaintiff's Exhibit I). On this list were designated as on the par list in Minnesota "All banking institutions" (43-45, 50, 262). This par list was received by defendant about April 10, and was mailed out to member banks from Washington or Minneapolis about April 15, 1920 (51).

Before that, on March 10, defendant wrote plaintiff a letter about going on the par list, which is not in evidence, and on March 30, 1920 another letter reading as follows:

"March 30, 1920.

First State Bank,
Hugo, Minn.
Gentlemen:

Referring to our letter of March 10th regarding the matter of your bank agreeing to remit to us at par after April 1st. As we have not received a reply from you stating your wishes we are assuming that you will remit at par. About April 15th we will commence sending you regular remittances with the understanding that you will remit in payment without deduction for exchange or collection charges.

If this is not your wish, please advise us by return mail.

Yours very truly,
Gray Warren,
Assistant Cashier"

This letter came back from plaintiff with the following notation:

"Beg to advise you that it is not our wish to be on your par list, and we will charge for remittances and collections the same as heretofore.

Yours very truly,
F.E.Carpenter,
Asst.Cashier"

(Plaintiff's Exhibit B, 255-6).

On April 12, 1920, defendant wrote plaintiff again. From this letter we quote as follows:

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"Minneapolis, Minn.
April 12, 1920

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First State Bank,
Hugo, Minn.
Gentlemen:

We are in receipt of your letter and regret to learn that you are unwilling to remit at par for such checks as we might send you.

The Federal Reserve Act permits Federal Reserve Banks to receive on deposit checks upon all banks member or nonmember. Moreover, the Federal Reserve Banks are prohibited from paying exchange or collection charges to any bank upon which the checks are drawn. Under the circumstances it becomes necessary for us to procure, if possible, the agreement of all non-member banks to remit us at par and if a nonmember bank refuses to do so, we are forced to seek some other method of collecting checks, which of course means that through some agency we shall be obliged to present checks and drafts at the bank's counter for payment in cash. This method is inconvenient and expensive both for us and for the bank upon which the items are drawn and we resort thereto only in case of necessity.

At the present writing there are less than 3,000 banks out of 30,000 in the United States which continue to charge exchange and that number is rapidly diminishing. Considering the fact that non-member, as well as member banks, are receiving either directly or indirectly the benefits of this par list, it seems no more than fair that all banks should co-operate. The fact should not be overlooked, however, that because of the indirect service rendered non-member banks by the Federal Reserve Banks, during the war and since, a great many non-member banks have been able to transact business on a much more profitable basis than otherwise would have been possible, and if in covering checks upon themselves at par, which we may forward, the non-member banks experience a small loss in revenues, we believe that the loss has already been offset and will continue to be offset by other benefits received.

* * *

It has been said that it was our practice to hold back items until they had amounted to a considerable sum and then present them on one day for the express purpose of embarrassing the bank upon which they were drawn. Please be assured that this is not the case as we have no desire to create any unnecessary inconvenience. It is possible, however, that should we receive on one day items amounting to less than $100, we might hold them for a day or two in order to save unnecessary expense. (Italics ours.)

Should you care to reconsider the matter, and will promptly advise us, we shall be glad to cancel any arrangements with an agent we may have already made.

Yours very truly,

Assistant Cashier"

(Plaintiff's Exhibit G, 260-61).

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By April 17, 1920, checks on the plaintiff came to defendant from member banks (220-222), and as they were received (there being no answer from plaintiff to defendant's letter of April 12) they were presented for payment over plaintiff's counter by agents employed by defendant, first the American Railway Express Company, and next the postmaster of Hugo. The complaint says that those handled by the postmaster were presented "Each and every day" (4) and those handled by the Express Company "Each day", and it was admitted on the trial that the checks as to amount and time of presentation were as stated in the answer (173-4). That shows presentation each day, except Sundays and Monday April 19, from April 17th to April 30th inclusive, and shows that the amounts ranged each time from $100.21 to $1222.25 (11), and a total during the thirteen days of $5,402.27.

The plaintiff then wrote defendant the following letter:

"Hugo, Minnesota, April 30, 1920.

Federal Reserve Bank,
Minneapolis, Minn.
Gentlemen:

You may discontinue sending the checks drawn on our bank to be cashed over the counter as we have decided to pay at par all checks you may send here for collection. You may send them through the mails and we will remit by draft.

Yours very truly,
F. E. Carpenter,
Asst. Cashier."

(Plaintiff's Exhibit D, 256-7).

Upon receipt of this letter sending checks for payment over the counter was discontinued, and checks were thereafter sent by mail and remitted for without deducting exchange. How this was carried on from May 4, 1920 to September 25, 1924, is seen in the Record, pp. 272 to 316.

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On the last mentioned date plaintiff wrote defendant the following letter:

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"Hugo, Minn. Sept.25th,1924.

Federal Reserve Bank,
Minneapolis, Minn.
Gentlemen:

On October 1st, 1924, we intend to charge some exchange on your daily remittance to us to defray our exchange expenses. Hope this will be agreeable to you.

Yours very truly,
First State Bank of Hugo,
P. J. Houle,
Cashier"

(Plaintiff's Exhibit 1, also called A, 255).

Plaintiff continued thereafter to remit at par, on September 25th $387.91, on the 26th $1178.43, on the 27th $798.58, on the 29th $785.22, and on the 30th $175.08 (316).

Defendant did not resume sending checks for collection over the counter after October 1st, 1924, for reasons stated as follows by defendant's cashier, Warren:

"There were a number of banks in this district where we were in a position where we didn't want to handle their checks due to the difficulty in collecting them and getting satisfactory returns; we wanted to remove them from our par list. We felt that if we removed one bank from our par list we should give the same opportunity to other banks to come off if they wanted to." (230)

Nothing appeared at the trial indicating that plaintiff felt aggrieved in the course of the four years and five months during which it remitted about 1260 times at par; on the contrary the evidence shows that when in one instance plaintiff was remiss from September 11th to September 22nd, 1920, in remitting for an unusually large amount it apologized by writing:

"We are very sorry if we have inconvenienced you in this matter"

(Plaintiff's Exhibits L, L-1, L-2, L-3, L-4, L-5, and C, 256, 268-

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271). And when defendant wrote June 12, 1924, finding fault with other delinquent remittances (Plaintiff's Exhibit L-6, 271), it brought out no expression of resentment or grievance on plaintiff's part.

The absence of grievance is strikingly seen from the fact that no record or memorandum was kept by plaintiff of the checks collected over the counter from April 17 to April 30, 1920 (69, 174), and that all the correspondence and documents in evidence for plaintiff (except the ledger entries in Exhibit M) were thrown away by plaintiff, leaving nothing on which to prove plaintiff's case except what defendant furnished on the trial (65, 66, 78, 79, 94).

It was expressly admitted that no complaint was made (147).

The following is all the evidence to show why plaintiff by the letter of September 25, 1924, concluded to discontinue remitting at par:

Plaintiff's witness Letourneau:

"Q. Do you know how it was that you came to send them notice that you were going to charge exchange after the 1st of October? A. Yes, sir.

Q. How was it? A. Through an article that I seen, a decision of the Supreme Court of the State of California.

Q. Some court decision that you saw somewhere? A. Yes, sir.

Q. What information did you get in that way? A. Well, the decision read that a certain bank had secured a judgment for a certain amount of money for being forced by the Federal Reserve Bank to remit their checks at par.

Q. That was the occasion for your sending in that notice? A. Yes, sir, it was." (152)

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The Merchants National Bank of St. Paul was the correspondent on which plaintiff drew remittances. That bank paid plaintiff 2% on balances. Witnesses for plaintiff claimed that with checks from defendant collected over the counter plaintiff had to have more cash on hand than when remitting by draft on its correspondent. Houle said when they remitted by draft, two or three thousand on hand would be enough on hand (75), and that with checks cashed over the counter as from April 17th to April 30th, 1920, five or six thousand dollars on hand would have been enough (178). Carpenter said that prior to remitting to defendant at par plaintiff usually carried on hand from three to five thousand dollars (130).

While plaintiff was remitting to defendant without charging exchange it did the same to other banks from which checks were received (165-167, 189-191).

The suit was commenced October 30, 1925, on the theory that the collection of checks over the counter was wrongful, and that all the remittances thereafter at par were under duress, and that plaintiff was damaged by loss of exchange. On evidence that the remittances at par from May 4th, 1921 to October 1st, 1924, amounted in the aggregate to $1,229,995.53 (150) and that exchange charges of 10 cents per $100 were usual, a verdict was returned for plaintiff for $1,229.99 (225).

The propositions of law upon which the verdict rests, namely, that the collection over the counter was wrongful, and that the remittances at par were under duress, were challenged on the trial. The questions were for instance raised by defendant's motion to strike out evidence when plaintiff rested (212-213), by

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defendant's motion for a directed verdict at the close of the evidence (238), by defendant's first request for instruction to the jury (240), and after the trial by defendant's motion for judgment notwithstanding the verdict or a new trial (325-329).

The appeal is from the order denying that motion. (330).

ASSIGNMENT OF ERRORS.

The court erred -

1. In denying defendant's motion when plaintiff rested to strike out as immaterial the evidence from Plaintiff's Exhibit M (212-13, 272-316).

2. In denying defendant's motion at the close of the evidence to direct the jury to return a verdict for defendant (238).

3. In sustaining plaintiff's objection to Defendant's Exhibit 1 (32-33, 222-224).

4. In giving plaintiff's first request (238, 326).

5. In refusing to give defendant's first request (240, 326).

6. In refusing to give defendant's third request (240-326).

7. In charging the jury that

> "Any strategy or action which has for its ulterior purpose the coercion of such non-member banks to yield its legal right in this respect (to charge exchange) is unlawful." (243, 326)

8. In charging the jury that the defendant had only the right to present checks for payment over defendant's counter if it was done

> "Without any purpose on its part to thereby coerce or compel the drawee bank to yield its legal right to charge a reasonable exchange for remittances." (243-326)

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9. In charging the jury as follows:

> "But if the action of the defendant bank in sending out the bulletin, Plaintiff's Exhibit I, through the Federal Reserve Board * * * was for the purpose of seeking out for collection checks drawn on the plaintiff and presenting them in a body, as accumulated from day to day, for payment without exchange over the counter of the plaintiff bank, and if the presentation of such checks so accumulated for payment over the counter from day to day was for the purpose of coercing and compelling the plaintiff bank to accede to and adopt the policy of the defendant bank to have such remittances made at par and for the purpose of breaking down plaintiff's method of doing business in so far as it was then being conducted with reference to the payment of such checks by remittances without deductions for exchange, it was an unlawful purpose." (245-6, 326-7)

This last mentioned error was especially prejudicial to defendant because it assumed that the evidence showed accumulation of checks by defendant and because under this part of the charge the jury was permitted to find, without evidence warranting such finding, that defendant had sought to accumulate, and had accumulated, checks on plaintiff; and because the court thereby disregarded defendant's right, regardless of purpose or motive, to take checks on plaintiff for collection and to collect them over plaintiff's counter, as was done, this being done by defendant in discharge of its functions as a clearing house for its member banks, and in furtherance of the interests of its member banks, and of the public interest generally; and because the evidence did not warrant finding that defendant's purpose or motive was solely, or at all, to injure the plaintiff (245-6, 326-7).

10. In charging the jury as follows:

> "Now whether the actions and conduct of the defendant bank as shown by the evidence and the admissions in this case was unlawful * * * are questions for the jury to determine in this action." (247, 327-9)

11. In denying defendant's motion for judgment in its favor not-

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withstanding the verdict (325-330).

12. In denying the alternative part of said motion for a new trial (325-330).

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State Bank of Hugo
-vs-
The Federal Reserve Bank of Minneapolis

DEFENDANT'S BRIEF
IN SUPPORT OF ITS MOTION FOR JUDGMENT
NOTWITHSTANDING THE VERDICT OR A NEW
TRIAL

The verdict is predicated on two propositions:

(1) In writing the letter of April 12, 1920 (Plaintiff's Ex. G), and in placing on the par list of April 1, 1920, (Plaintiff's Ex.I) "All banking institutions in Minnesota", and by thereupon collecting checks over plaintiff's counter from April 17 to April 30, 1920, defendant was guilty of a tort, violating plaintiff's legal rights.

(2) Plaintiff's remittances at par from May 3, 1920, to October 1, 1924 were all under duress.

Unless both propositions are tenable the verdict cannot stand.

I

In the rulings and charge the Court recognized that defendant, like anybody else, had the right to take checks on plaintiff for collection, to inform its member banks it would do so, and to collect the checks received over the counter. That right we shall therefore not discuss. But the Court ruled and charged that if it were done for the purpose of coercing defendant to remit at par, it was wrongful and unlawful.

This presents for inquiry whether acts done by one which in and by themselves are lawful may constitute a wrong if done with a motive thereby to inflict loss on another.

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Both English and American courts have held that motive is immaterial when the acts themselves are lawful. They have so held for reasons stated by Judge Mitchell in Bohn Manufacturing Company v. Hollis, 54 Minn. 223, 233:

> "The mere fact that the proposed acts of the defendants would have resulted in plaintiff's loss of gains and profits does not, of itself, render those acts unlawful or actionable. That depends on whether the acts are, in and of themselves, unlawful. 'Injury', in its legal sense, means damage resulting from an unlawful act. Associations may be entered into, the object of which is to adopt measures that may tend to diminish the gains and profits of another, and yet, so far from being unlawful, they may be highly meritorious. Commonwealth v. Hunt, 4 Met. (Mass.) 111; Mogul Steamship Co. v. McGregor, 21 Q. B. Div. 544.
>
> If an act be lawful,--one that the party has a legal right to do,--the fact that he may be actuated by an improper motive does not render it unlawful. As said in one case 'the exercise by one may of a legal right cannot be legal wrong to another,' or, as expressed in another case, 'malicious motives make a bad case worse, but they cannot make that wrong which, in its own essence, is lawful'."

Our Supreme Court has however held the rule not applicable under all circumstances. This may be seen from Ertz v. Produce Exchange, 79 Minn. 104 and Tuttle v. Buck, 107 Minn. 145. In the latter case the English and American authorities are cited and reviewed at great length. Many authorities may also be found in the briefs and opinion in Aikins v. Wisconsin, 195 U.S.194. An article by Mr. Justice Holmes in 8 Harvard Law Review, p. 1, and in the Notes in 18 Harvard Law Review, p. 410, and in 26 Harvard Law Review, p. 740, and 27 Harvard Law Review, p. 153, are instructive. When the texts and cases there are examined the distinction between acts unlawful and acts in and by themselves lawful must not be overlooked. As to the latter class of acts we do not find that the courts have departed from the rule stated in Bohn Manufacturing Company v. Hollis, except when they are done for the sole purpose of inflicting injury upon the complain-

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ing party and without subserving any legitimate interest of the party complained of or of the public. Mr. Justice Holmes points out in an interesting way that when injury is caused by an act not of itself unlawful it becomes a question of policy of the law whether the act is or is not justified regardless of motive, and that the act is justified when it is more important that there should be freedom to act, whether in self-interest or in the interest of others or the public, than that no loss should be suffered by the individual complainant. According to this principle no one is entitled to redress for a loss incident to competition. That is the situation here. Member banks to the number of 9336 have to remit at par and forego exchange. Of 18,001 non-member banks 14,066 are remitting at par (See An Adventure in Constructive Finance by Carter Glass, 1927, p. 302). The comparatively few state banks which, like plaintiff, refuse to remit at par have the right to do so, but when checks on them are collected over their counters they are simply placed on the same competitive basis with respect to exchange as are the other 23,402 commercial banks in this country. Senator Glass says that --

> "the banks which are clearing checks at par without charge to their customers represent about 97 per cent of the total banking resources of the United States as against about 3 per cent for the banks which persist in exacting these fees (exchange) from the business men of their communities" (p. 302).

He says --

> "The aggregate amount of checks handled by the system during 1919 when the system had attained its growth, amounted to 136 billions of dollars"

and that

> "during 1925 the number of checks handled was 778,686,000 representing an aggregate amount of $258,611,267,000" (p.299).

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Speaking of the burden on the business of the country which the par clearing relieved he says "it has been estimated variously at from $75,000,000 to $150,000,000 per annum" (p.300).

The figures in 1920 were not so large because the system has steadily grown since that time. The report of the Federal Reserve Board to Congress for 1920 (of which the courts take judicial notice) shows that the 12 Federal reserve banks handled that year 446,671,185 checks aggregating $157,499,605,000 (p. 69). As to the savings thereby effected to the country's business, the report says "A charge of 10 cents per $100, if generally imposed, would have involved an expense to the Treasury and the commerce of the country of $92,625,000" (p. 71).

We think the above demonstrates that this case does not fall within the rule that acts in and of themselves legal may constitute a wrong even if done with the motive of coercing plaintiff to remit at par. Plaintiff has no cause to complain of having to forego charging exchange when its numerous competitors in the banking business had to do the same. Congress had power to clothe the national banks with rights to do anything needed to put them upon equality of competition with state banks (First National Bank v. Fellows, 244 U.S.416; State of Missouri ex rel Burns National Bank v. Duncan, 265 U.S. 17). That in effect was all that was done when under the Federal Reserve Act and the Regulations of the Federal Reserve Board checks were collected over the counters of certain state banks. The Act did not justify the resort to special, extraordinary contrivances to compel remittances at par (American Bank and Trust Company v. Federal Reserve Bank of Atlanta, 256 U.S. 350), but to do what was done in the present case--taking and

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handling checks the same as any person or other bank could lawfully do and holding no check back as it came in from the float in the usual and ordinary way was not a wrong, assuming for the sake of the argument that the motive was in part or altogether to get plaintiff to remit at par, and with respect to exchange to be in no better position than national banks and the par clearing state banks.

This view is sustained by the decision in its various stages of the case of American Trust Company v. Federal Reserve Bank of Atlanta, more especially in the opinion of Judge Evans when the case was decided on its merits (280 Fed. 940) and in the opinions of affirmance by the Circuit Court of Appeals (284 Fed. 224) and by the Supreme Court of the United States (262 U.S.643).

II.

According to plaintiff's cashier, Houle, his bank used to keep in vault "two or three thousand dollars (Case p. 65) with which to meet checks. The complaint says it was $5000 (See p. 6). With checks collected by defendant over the counter from April 17 to April 30, 1920, Houle said to have on hand "five or six thousand dollars would be enough" (p. 173). In answer to other questions he said there would have to be on hand from seven to ten thousand dollars. These figures mean that with checks collected by defendant over the counter plaintiff would have to keep about $5000 more in vault than when it was remitting by drafts on the Merchants National Bank of St. Paul, drawn against a deposit account on which Houle said plaintiff was receiving 2% interest on daily balances. Collection over the counter thus confronted plaintiff with a loss of 2% on say $5000 or $100 a year. Proposition II means that when

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plaintiff's officers were confronted with a prospective loss of this magnitude they thereby ceased to be free agents.

If loss of $100 a year can deprive officers of a bank of their free will one may wonder whether officers of any bank in the Northwest have not been constantly under duress during the past six years.

On April 12, 1920, before commencing to present checks over the counter, defendant wrote and assured plaintiff it would not accumulate checks. "We have no desire" (it was said) "to create any unnecessary inconvenience" (Plaintiff's Ex. G). "That part", says Houle, "didn't scare us" (p. 184). Nor did the collections over the counter day by day of $5,402,127 in the course of ten or eleven days scare him. He said--"Not the amount collected, but the future amounts we figured, we were afraid of the future amounts" (p. 176).

In that situation plaintiff's assistant cashier, Carpenter, wrote to defendant April 30, 1920:

> "Gentlemen: You may discontinue sending checks drawn on our bank to be cashed over the counter as we have decided to pay at par all checks you may send here for collection. You may send them through the mail and we will remit by draft. Yours very truly"
> (Plaintiff's Ex.D)

The proposition that this letter was not decided upon by plaintiff's officers and written by one of them as free agents seems utterly preposterous. They admit they didn't fear anything which had taken place up to that time. What they say they feared was something they thought might happen thereafter, namely, that their bank might find it necessary to keep on hand as much as $10,000. But acts taken in contemplation of something which may happen but are not certain to happen are in their very nature taken by the exercise of the actor's own will and judgment and

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therefore not by duress.

Not only the absence of protest or other suggestion of grievance in the letter of April 30, but everything that happened later is inconsistent with Proposition II. Plaintiff kept no account of the checks collected over the counter (pp.168-9); all correspondence with defendant leading to the writing of the letter of April 30 were thrown away (pp.54 and 56); plaintiff's Exhibits C, L, L 1, L 2, L 3, L 4, and L 5 show that plaintiff was remiss in remitting and when this was traced so it could no longer be concealed plaintiff's cashier wrote --

"We are very sorry if we have inconvenienced you in this matter. Yours very truly".

Keeping the checks in question without remitting for eleven or twelve days and then apologizing does not indicate a condition of duress. Defendant's letter of June 12, 1924 (Plffs. Ex.L 6) also contains charges of other delinquencies on plaintiff's part which plaintiff's officers would surely have resented if they had been under duress. And it is significant that no complaint was made of any sort from May 4, 1920, to September 25, 1924. Then came plaintiff's letter of that date, Plaintiff's Ex. A:

"Gentlemen:

On October 1st, 1924, we intend to charge some exchange on your daily remittance to us, to defray our exchange charge expenses. Hope this will be agreeable to you.

Yours very truly
First State Bank of Hugo
P. J. Houle, Cashier".

According to Proposition II this letter might have read:

"Gentlemen:

We shall not consider ourselves under duress after October 1st and shall therefore then discontinue to remit at par.

Yours very truly"

We may perhaps assume that the letter of September 25 was

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not written under duress, but we are asked to believe (and to sustain Proposition II must believe) that five remittances for an aggregate amount of $3225.20 from the date of the letter to October 1, were also actually made under duress! (See page 29 of Plffs. Ex.M) 1131

It is interesting to note how plaintiff's officers describe their mental attitude during the four years and five months. We quote in narrative form:

Latourneau, assistant cashier since August,1923, says:

> "From August 1923 until September 25, 1924, the bank at Hugo did not charge the Federal Reserve Bank exchange on these items because they didn't think they were allowed to" (p.145).
>
> "It was through an article that I seen, a decision of the Supreme Court of California, which read that a certain bank had received a judgment for a certain amount of money for being forced by the Federal Reserve Bank to remit their checks at par that I came to send them notice that we were going to charge exchange after the 1st of October. *** that was the occasion for my sending in that notice" (pp.145-6).

Houle, the cashier ***:

This witness understanding counsel to ask why the letter of September 25, 1924 (Plaintiff's Ex. A) was sent, said:

> "We seen on the paper I think about a case" (p. 166).
>
> "Why we continued to do business with the Federal Reserve Bank without charging exchange until we wrote that letter of September 25, 1924? Well, I thought if we discontinued it they would start the same thing again of putting checks over the counter for cash. That was the reason why we continued paying their checks at par. I guess it was the only reason" (pp.170-1).

The absurdity of the claim of duress is heightened when it is remembered that from plaintiff's own point of view it could have stopped defendant by injunction at any time from collecting checks over the counter for the law seems well settled, as said by our Supreme Court in Cable v. Timothy, 45 Minn. 422, that

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"The mere threat to withhold from a party a legal right, which he has an adequate remedy to enforce, is not, in the eye of the law, duress"* * * Hackley v. Headley 45 Mich. 569 (8 N.W. Rep. 511;) Miller v. Miller, 68 Pa. St. 486".

The rule and the exceptions to it are stated as follows in Graff v. County of Ramsey, 46 Minn. 319:

"It may be stated as a general rule that where an unfounded or illegal demand is made upon a person, and the law furnishes him adequate protection against it, or gives him an adequate remedy in the premises, if he pay what is demanded, instead of taking the protection the law gives him or the remedy it furnishes, he is to be deemed to have made the payment voluntarily, and he must abide by it. There is a class of cases where, although there is a legal remedy, his situation or the situation of his property is such that the legal remedy would not be adequate to protect him from irreparable prejudice,--where the circumstances and the necessity to protect himself or his property otherwise than by resort to the legal remedy may operate as a stress or coercion upon him to comply with the illegal demand. In such cases his act will be deemed to have been done under duress, and not of his free will. Such cases were Fargusson v. Winslow, 34 Minn. 384, (25 N.W. Rep. 942;) State v. Nelson, 41 Minn. 25, (42 N.W. Rep. 548:) Mearkle v. County of Hennepin, 44 Minn. 546, (47 N.W.Rep. 165,) and the other cases cited by the respondent. In the Mearkle Case, which is more nearly like this than any other cited, the circumstances and condition of the estate were such that the court could see great and irreparable injury would accrue to it while the executor was seeking his legal remedy, and the payment was made under protest, so that not only the payor, but the payee also, understood that the former claimed the payment to be involuntary. We do not mean to say that in a clear case of coercion or duress a protest is necessary, or that it would be sufficient without circumstances of coercion; but if there be doubt, under the circumstances, that the payment is voluntary, it may be taken into account in determining the question that the payor declared as a part of his act that he paid involuntarily."

It is interesting to reflect what would have been the situation if plaintiff's officers had not in September, 1924 happened to see that newspaper squib about a case against the Federal Reserve Bank of San Francisco. It would seem that plaintiff might still be remitting at par under duress. It apparently

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took plaintiff 14 months more to find out that it had been under duress because no complaint was heard until the suit was brought. How suprised plaintiff's officers must have been when they were told by their attorneys, as the statute of limitations was looming in sight, that theyhad been under duress nearly four and a half years!

The case of Joannin v. Ogilvie, 49 Minn. 564 gives an interesting review of the law relating to duress. It shows that duress of person was the only kind known to the common law but that courts have come to recognize also what is called duress of goods. Now, duress of goods (as shown in Joannin v. Ogilvie) arises where payments or property is exacted upon an unlawful demand --exacted because the owner is under such necessity that he cannot resist or await protection by recourse to law. In its very nature duress of goods is confined to the transaction in which the owner is forced to yield. On the principle governing duress of goods, there is not duress in the present case, even though the remittance at par on May 4, 1920 was under duress (as it obviously was not), for that remittance was but one out of 335 (Plaintiff's Ex.M). Each of the remaining 334 gave plaintiff's officers time and freedom to exercise their will and judgment, and ample time to stop by injunction the collection over the counter if that was unlawful.

As appellate federal jurisdiction can be invoked in this case we should sincerely regret to have a Minnesota court stultified to call duress what is only a plain case of acquiescence.

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On the trial there was cited for plaintiff Brookings State Bank v. Federal Reserve Bank of San Francisco (D.C.Or 1921) 277 Fed. 430; S.C. (D.C. Or 1922) 281 Fed. 222, and Farmers & Merchants Bank v. Federal Reserve Bank of Cleveland (D.C.Ky. 1922) 286 Fed. 610. The Brookings case was for injunction. The defendant there undertook to make plaintiff agent for the collection of the checks by endorsing them: "Pay to Brookings State Bank for collection only and remittance in full without deduction for exchange or collection charges". After reviewing the Federal Reserve Act Judge Wolverton said:

> "The defendant, therefore, was acting within its authority in maintaining an agent at Brookings, for making collections over the counter of plaintiff's bank and paying the expenses entailed thereby.
>
> While, under the prevailing custom, the defendant bank could rightfully remit checks and drafts drawn against the plaintiff bank direct to the latter for collection, and could thereby exact payment of them, it could not impose conditions upon which such payment should be made; much less could it make the plaintiff bank its agent for causing protest. * * * I am persuaded, therefore, that the defendant was at fault in two particulars: First, in attempting" (upon sending the checks by mail) "to impose the condition that the plaintiff bank pay without its charge of exchange; and, second, in attempting to hold the plaintiff bank responsible for not having its own paper protested for non payment.
>
> In view of the fact that the defendant bank demanded payment of the Brookings bank on condition that it remit at par, the refusal so to remit was not an act of dishonor as affecting the paper. Nor was the defendant authorized to advise its clients that they must look to the plaintiff bank for their protection through failure to protest. * * *
>
> A preliminary injunction will issue, restraining defendant from sending letters to its clients, advising them that they must look to the plaintiff bank for their protection through failure to protest such paper, as demand for payment of may be made upon it on condition that it remit at par" (277 Fed. 432).

The injunction was made permanent in 281 Fed. 222 on the same ground as the preliminary injunction. The case obviously has no application to the case at bar, except, perhaps, as to some

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obiter remarks on the subject of coercion.

The Farmers & Merchants Bank Case was also for injunction and a preliminary injunction was also there granted. What thereafter became of the case we don't know, aside from a telegram from the defendant saying that "The case was dismissed on motion by plaintiff in May 1925". After reciting many alleged vexations acts Judge Cochran said:

> "It remains to determine the law of this case. As to this there can be no question as it has been settled by the decision of the Supreme Court in the Atlanta case".

This refers to the opinion of Mr Justice Holmes in 256 U.S. 350, holding that a bill stated a cause of action for injunction by alleging that

> "To accomplish the defendant's wish (remittance at par) they intend to accumulate checks upon the country banks until they reach a large amount and then to cause them to be presented for payment over the counter or by other devices detailed to require payment in cash in such wise as to compel the plaintiff to maintain so much cash in their vaults as to drive them out of business or force them, if able, to submit to the defendant 's scheme".

There is a striking contrast between this and defendant's letter of April 12, 1920:

> * * * "Considering the fact that non-member, as well as member banks, are receiving either directly or indirectly the benefits of this par list, it seems no more than fair that all banks should co-operate. The fact should not be overlooked, however, that because of the indirect service rendered non-member banks by the Federal Reserve Banks during the war and since a great many non-member banks have been able to transact business on a much more profitable basis than otherwise would have been possible, and if in covering checks upon themselves at par, which we may forward, the non-member banks experience a small loss in revenues, we believe that the loss has already been offset and will continue to be offset by other benefits received.
>
> It has been said that it was our practice to hold back items until they had amounted to a considerable sum and then present them on one day for the express purpose of embarrassing the bank upon which they were drawn. Please be assured that this is not the case,

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> as we have no desire to create any unnecessary inconvenience. It is possible, however, that should we receive on one day items amounting to less than $100, we might hold them for a day or two in order to save unnecessary expense".

In the Cleveland Bank Case Judge Cochran makes no distinction between holding back checks until they aggregate a large sum, and presenting them promptly as received from day to day. The latter method like the former he calls an "accumulation" of checks. But that is not accumulation. Checks sent out of the town in which the bank is located are said to be in float and they come in from the float for payment as regularly as they are issued. It is inaccurate and misleading to say they are accumulated, and we think that in the charge the court should not have treated the checks in this case as accumulated. Had those received on April 24 amounted to less than $100, they might perhaps have been held over a day, as suggested in the letter of April 12, but they amounted to $100.21, and so they were presented the same day.

Another interesting part of Judge Cochran's decision is where he says that --

> "The only thing that has given me any concern in this case is plaintiff's delay in asserting its right".

That was about a year and a half. What would he have said of four years and a half?

He says:

> "The decision of Judge Evans in the Atlanta Case after its return consists of certain findings in that case, based upon particular facts. In so far as such findings may conflict with what I have held herein, I am unable to follow it".

The interesting part of this is that the Circuit Court of Appeals and the Supreme Court followed Judge Evans' decision. We think the several opinions are conclusive in defendant's favor on Proposition I, so we quote the first in full and the other two

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at considerable length: 137

Judge Evans:

"1. Under sections 13 and 16 of the Federal Reserve Act (Comp. St. ##9796, 9799), the federal reserve banks are empowered to accept any and all checks payable on presentation, when deposited with them for collection.

2. Checks thus received must be collected at par. The federal reserve banks are not permitted to accept in payment of checks deposited with them for collection an amount less than the full face value of the checks.

3. In the discharge of its duties with respect to the collection of checks deposited with them, and with respect to performing the functions of a clearing house, the several federal reserve banks are empowered to adopt any reasonable measure designed to accomplish these purposes. To that end a federal reserve bank may send checks to the drawee bank directly, for remittance through the mails of collections without cost of exchange. If the drawee bank refuses to remit without deduction of the cost of exchange, it is in the power of the several federal reserve banks to employ any proper instrumentality or agency to collect the checks from the drawee bank, and it may legitimately pay the necessary cost of the service.

4. The process of this daily collection of checks, in the exercise of the clearing house functions, is not rendered unlawful because of the fact that of the checks handled two or more of them may be drawn on the same bank.

5. It is a legitimate feature of the clearing house function of a federal reserve bank to publish a par clearance list; that is, a list of banks on which checks are drawn that will be collected at par by the federal reserve banks. But, inasmuch as a conclusion may be drawn from the appearance of a bank's name on the par list that it agrees to remit at par, or has agreed to enter the par clearance system, I do not think such list should include the name of any nonmember bank, unless such nonmember bank consents. I see no objection to including in the par clearance list the names of towns or cities, with a representation that the federal reserve bank will undertake to collect at par checks drawn on any bank (member or nonmember) in such town or city.

6. In the inauguration of its par clearance system, I find that the Federal Reserve Bank of the Atlanta District was not inspired by any ulterior purpose to coerce or injure any nonmember bank which refused to remit at par. Specifically, I find the charge that the Federal Reserve Bank at Atlanta would accumulate checks upon country or nonmember banks until they reach a large amount, and then cause them to be presented for payment over the counter, so as to compel the plaintiffs to maintain so much cash in their vaults as to drive them out of business, as an alternative to agreeing to remit at par, is not sustained by the evidence:

7. I find the evidence insufficient to sustain any charge in the bill that the Federal Reserve Bank was acting illegally, or exercising any right it had so as to oppress or injure the

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plaintiff banks. With regard to the publication of the names of nonmember banks on the Federal Reserve Bank's par list, while I do not think the evidence justifies a finding that such publication was done to injure or oppress plaintiff banks, nevertheless I do not think the names of plaintiff banks, or any of them should be included in the list without their consent. 108

The general result of my findings is that the plaintiffs are entitled to the writ of injunction against the inclusion of their names on the par list without their consent, but are not entitled to an injunction for any other matter complained against the respondents.

Let an appropriate decree be submitted, giving effect to the foregoing findings."

The Court of Appeals:

"Except as to a feature of the bill mentioned below, nothing has occurred to require a revision of or departure from the conclusions stated in the opinion delivered by this court in this case when it was here on a former appeal. American Bank & Trust Co. v. Federal Reserve Bank of Atlanta, 269 Fed. 4. What was held by the Supreme Court to show the existence of a right to relief under the general prayer for relief was the part of the bill containing allegations to the effect that, in pursuance of the alleged policy of the Federal Reserve Board to bring about the collectibility by banks of bank checks at par, the appellee Reserve Bank and its officers intended to accumulate, until they reach a large amount, checks upon banks of the class to which the appellant banks belong, and then to cause them to be presented for payment in cash over the counter, or by other devices detailed to require payment in cash in such wise as to drive the drawees out of business, or force them, if able, to submit to the scheme of making bank checks collectible at par. American Bank & Trust Co. v. Federal Reserve Bank, 256 U.S. 350, 41 Sup. Ct. 499, 65 L. Ed. 983.

(1) The conduct which the Supreme Court decided to be wrongful and subject to be enjoined was the alleged threatened accumulation of checks for the purpose of using them in the manner alleged. It was not decided or intimated that the appellee bank would be guilty of any actionable wrong by merely presenting or causing to be presented bank checks held by it to the drawees for payment in cash over the counter. The alleged accumulation of checks for the purpose charged was an essential feature of the alleged conduct which was decided to be wrongful. We are not of opinion that a bank, in receipt for collection of checks on other banks, is guilty of an abuse of its right as such holder when, in due course, with reasonable promptness, without designed delay or accumulation, and in proper manner, it presents, or causes to be presented, those checks to the drawees for payment in cash. In so doing the collecting bank would be exercising its right as the holder of checks received by it for collection, and would not be guilty of an abuse of that right for an unlawful purpose. If the holder of the checks is guilty of no wrong, the fact that the payer is inconvenienced by having to pay in cash would not give the latter a valid ground of complaint.

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Inconvenience resulting to one party from another's exercise of a right in a lawful way does not give the former a right of action."

The Supreme Court:

"Wherever collection can be made by the federal reserve bank, without paying exchange, neither the common law, or the Federal Reserve Act precludes their undertaking it; if it can be done consistently with the rights of the country banks already determined in this case. 256 U.S. 350.

Federal reserve banks are, thus, authorized by Congress to collect for other reserve banks, for members, and for affiliated non-members, checks on any bank within their respective districts, if the check is payable on presentation and can in fact be collected consistently with the legal rights of the drawee without paying an exchange charge. Within these limits federal reserve banks have ordinarily the same right to present a check to the drawee bank for payment over the counter, as any other bank, state or national, would have. * * *

The findings of fact negative the charges of wrongful intent and of coercion. The Federal Reserve Bank has formally declared that it is willing, when presenting checks, to accept in payment a draft of the drawee bank upon its Atlanta correspondent or a draft upon any other solvent bank --if collectible at par. Country banks are not entitled to protection against legitimate competition. Their loss here shown is of the kind to which business concerns are commonly subjected when improved facilities are introduced by others, or a more efficient competitor enters the field. It is damnum absque injuria."

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STATE OF MINNESOTA

COUNTY OF HENNEPIN

DISTRICT COURT

FOURTH JUDICIAL DISTRICT

First State Bank of Hugo, Minnesota,
Plaintiff,

-vs-

The Federal Reserve Bank of Minneapolis,
Defendant.

MOTION FOR JUDGMENT NOTWITHSTANDING THE VERDICT OR A NEW TRIAL

TO MESSRS. SULLIVAN & NEUMEIER, Plaintiff's Attorneys:

TAKE NOTICE that before the Honorable E. A. Montgomery, the judge who tried said cause, at his chambers in the Court House, in the City of Minneapolis, in said County and State, on the 22nd day of July, 1927, at 10 o'clock in the forenoon, or as soon thereafter as counsel can be heard, and upon the settled case and all records and files in said action, the defendant will move to have judgment in said action entered in its favor notwithstanding the verdict therein, and if this motion be denied to have said verdict vacated and a new trial of said action granted. Said alternative motion will be made on the following grounds:

That the verdict is not justified by the evidence;

That the verdict is contrary to law;

That errors of law occurred at the trial which were excepted to at the time by the defendant, and that other errors of law occurred at the trial, to-wit:

(1) The giving of plaintiff's first request (Case p. 238):

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(2) The refusal to give defendant's first request (also excepted to but in the conjunctive) (Case p. 240);

(3) The refusal to give defendant's third request (also excepted to but in the conjunctive) (Case p. 240);

(4) The following part of the charge to the jury:

> "Any strategy or action which has for its ulterior purpose the coercion of such nonmember banks to yield its legal right in this respect (to charge exchange) is unlawful" (Case p. 244).

(5) Charging the jury that the defendant had only the right to present checks for payment over plaintiff's counter if it was done.

> "without any purpose of its part to thereby coerce or compel the drawee bank to yield its legal right to charge a reasonable exchange on remittances" (Case p. 244)

(6) Charging the jury as follows:

> "But if the action of the defendant bank in sending out the bulletin, Plaintiff's Exhibit I, through the Federal Reserve Board * * * was for the purpose of seeking out for collection checks drawn on the plaintiff and presenting them in a body, as accumulated from day to day, for payment without exchange over the counter of the plaintiff bank, and if the presentation of such checks so accumulated for payment over the counter from day to day was for the purpose of coercing and compelling the plaintiff bank to accede to and adopt the policy of the defendant bank to have such remittances made at par and for the purpose of breaking down plaintiff's method of doing business in so far as it was then being conducted with reference to the payment of such checks by remittances without deductions for exchange, it was an unlawful purpose" (Case pp. 246-7).

This last mentioned error was especially prejudicial to defendant because it assumed that the evidence showed accumulation of checks by defendant and because under this part of the charge the jury was permitted to find,

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without evidence warranting such finding, that defendant had sought to accumulate, and had accumulated, checks on plaintiff; and because the Court thereby disregarded defendant's right, regardless of purpose or motive, to take checks on plaintiff for collection and to collect them over plaintiff's counter, as was done, this being done by defendant in discharge of its functions as a clearing house for its member banks, and in furtherance of the interests of its member banks, and of the public interest generally; and because the evidence did not warrant finding that defendant's purpose or motive was solely, or at all, to injure the plaintiff.

(7) The following part of the charge to the jury:

> "Now, whether the actions and conduct of the defendant bank, as shown by the evidence and the admissions in this case, was unlawful * * * are questions (is a question) for the jury to determine in this action" (Case p. 248).

(8) The following part of the charge of the jury:

> "Now, whether the actions and conduct of the defendant bank, as shown by the evidence and the admissions in this case, * * * if unlawful, the plaintiff was in fact coerced into acceding to the request of the defendant and was damaged thereby, are questions (is a question) for the jury to determine in this action" (Case p. 248).

(9) Charging the jury that

> "if you find * * * that the defendant bank requested and attempted to persuade the plaintiff to change its customary course of doing business as to charging exchange on checks sent to it for collection and remittance, so as to remit to the defendant bank at par for all checks sent by mail to plaintiff by defendant, * * * and failing to procure plaintiff's consent or acquiescence to such a method and plaintiff's consent to go upon the par list issued by the Federal Reserve Board, for the purpose of coercing and compelling plaintiff to accede to defendant's request that plaintiff go upon such par list

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> and make remittances for collection and payment of checks sent to it by defendant without deducting a reasonable exchange charge, the bulletin Exhibit I was issued for the purpose of seeking out and obtaining collections on checks drawn upon the plaintiff bank and by means of this bulletin checks drawn upon the plaintiff bank were sent to the defendant for collection and clearance purposes from other banks having clearing privileges with defendant, and were by this means accumulated with the defendant and from day to day presented in bulk by the defendant at the counter of the plaintiff bank for payment in cash, for the purpose of coercing and compelling the plaintiff to make remittance on such checks at par, then such conduct and action of the defendant was wrongful and unlawful" (Case pp. 252-3).

This error was especially prejudicial to defendant because it assumed that the evidence showed accumulation of checks by defendant and because under this part of the charge the jury was permitted to find, without evidence warranting such finding, that defendant had sought to accumulate and had accumulated checks on plaintiff; and because the Court thereby disregarded defendant's right, regardless of purpose or motive, to take checks on plaintiff for collection and collect the same over plaintiff's counter, as was done, this being done by defendant in discharge of its functions as a clearing house for its member banks, and in furtherance of the interests of its member banks, and of the public generally; and because the evidence did not warrant finding that defendant's purpose or motive was solely, or at all, to injure plaintiff.

Dated June 29, 1927.

UELAND & UELAND
Defendant's Attorneys,
401 New York Life Bldg.,
Minneapolis, Minnesota.

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STATE BANK OF HUGO 144

-vs-

FEDERAL RESERVE BANK
OF MINNEAPOLIS.

DEFENDANT'S TRIAL BRIEF

AMERICAN BANK & TRUST CO., ET AL. V. FEDERAL RESERVE BANK OF ATLANTA. (Reported in the Corporation Trust Co. Service, Vol.V, p.150).

Petition in equity to restrain defendant from the adoption of any method of collecting checks drawn against plaintiff except through the usual channel of collecting checks through correspondent banks or clearing houses, that is to say, not over plaintiff's counter alleging defendant was

> "without power to do so, (or, if it had power, it should be restrained from exercising it) to collect checks on banks of deposit received by it in the course of business by presenting them for payment through agents over the counter of the drawee banks".

The case was dismissed by Beverly D. Evans, district judge. The case was then appealed to the Circuit Court of Appeals for the Fifth Circuit.

AMERICAN BANK & TRUST CO.,ET AL. v. FEDERAL RESERVE BANK OF ATLANTA, ET AL. 269 Fed. 4.

The court held that collecting such checks, or expending money to collect them over the counter, was not ultra vires; that plaintiffs could not complain even if ultra vires.

> "Another contention of appellants" says the court, "is that though the Federal Reserve Bank has the lawful right to handle such checks, it was making or intending to make an oppressive use of its right by so exercising it as to the amount of coercion or duress and with a wrongful and malicious motive."

As to this the court said:

> "Nor does the adoption of the method of presenting checks over the counters of the drawee banks imply an attempt to coerce them into becoming member or depositing banks. The

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Federal Reserve Bank was interested to supply a universal clearance at par for its member and depositing banks. It could accomplish this only by accepting from its member and depositing banks all checks tendered it by them upon whatever bank drawn. If drawn upon a nonmember bank and nondepositing bank, which refused to remit at par, it was disabled under the statute from handling such checks through the method of transmission of the checks and remittance of the proceeds through the mails. It could only collect such checks by presentation in person to the drawee bank. It is therefore reasonable to suppose that its declared policy of furnishing complete clearing facilities to its member banks, was not for the purpose of coercing them into becoming member or depositing banks with it. It constituted an essential step, without which universal clearance was not possible of accomplishment."

The lower court had dismissed the bill without answer to it by defendant. The court of appeals said

"We conclude * * * that its decree dismissing the bill for want of equity was without error, and it is therefore affirmed."

The case came on appeal before the United States Supreme Court in

American Bank & Trust Co. et al. vs. Federal Reserve Bank of Atlanta, et. al. in 256 U. S. 350.

The Circuit Court of Appeals was reversed, the Supreme Court holding that the bill stated a cause of action for an injunction. The scope of the decision will be seen from the following quotation from the opinion.

"It is alleged (in the bill) that in pursuance of a policy accepted by the Federal Reserve Board the defendant bank has determined to use its power to compel the plaintiffs and others in like situation to become members of the defendant, or at least to open a non-member clearing account with defendant, and thereby, under the defendant's requirements, to make it necessary for the plaintiffs to maintain a much larger reserve than in their present condition they need. * * * To accomplish the defendants' wish they intend to accumulate checks upon the country banks until they reach a larger amount and then to cause them to be presented for payment over the counter or by other devise detailed to require payment in cash in such wise as to compel the plaintiffs to maintain so much cash in their vaults as to drive them out of business, or force them, if able, to submit to the defendants' scheme. It is alleged that the proposed

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conduct will deprive the plaintiffs of their property without due process of law, contrary to the constitution of Georgia and that it is ultra vires. * * *

On the merits we are of opinion that the Courts below went too far. The question at this stage is not what the plaintiffs may be able to prove, or what may be the reasonable interpretation of defendants' acts, but whether the plaintiffs have shown a ground for relief if they can prove what they allege. We lay on one side as not necessary to our decision the question of defendants' powers, and assuming that they act within them consider only whether the use of that according to the bill they intend to make of them will infringe the plaintiffs' rights * * * *

A bank that receives deposits to be drawn upon by check of course authorizes its depositors to draw checks against their accounts and holders of such checks to present them for payment. When we think of the ordinary case the right of the holder is so unimpeded that it seems to us absolute. But looked at from either side it cannot be so. The interests of business also are recognized as rights, protected against injury to a greater or less extent, and in case of conflict between the claims of business on the one side and of third persons on the other lines have to be drawn that limit both. A man had a right to give advice, but advice given for the sole purpose of injuring another's business and effective on a large scale, might create a cause of action. Banks as we know them could not exist if they could not rely upon averages and lend a large part of the money that they receive from their depositors on the assumption that not more than a certain fraction of it will be demanded on any one day. If without a word of falsehood but acting from what we have called disinterested malevolence a man by persuasion should organize and carry into effect a run upon a bank and ruin it, we cannot doubt that an action would lie. A similar result even if less complete in its effect is to be expected from the course that the defendants are alleged to intend, and to determine whether they are authorized to follow that course it is not enough to refer to the general right of a holder of checks to present them but it is necessary to consider whether the collection of checks and presenting them in a body for the purpose of breaking down the plaintiffs' business as now conducted is justified by the ulterior purpose in view.

If this were a case of competition in private business it would be hard to admit the justification of self-interest considering the now current opinion as to public policy expressed in statutes and decisions. But this is not private business. The policy of the Federal Reserve Banks is governed by the policy of the United States with regard to them and to these relatively feeble competitors. We do not need aid from the debates upon the statute under which the Reserve Banks exist to assume that the United States did not intend by that statute to sanction this sort of warfare upon legitimate creations of the States."

After the decision the case came back to the District Court for trial upon the issue raised by defendants' answer.

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American Bank & Trust Co. et al. v. Federal Reserve

Bank of Atlanta et al., 280 Fed. 940.

Judge Evans after taking the evidence decided against granting the injunction prayed for. We quote from the opinion:

"1. Under sections 13 and 16 of the Federal Reserve Act (Comp. St. ##9796, 9799), the federal reserve banks are empowered to accept any and all checks payable on presentation, when deposited with them for collection.

2. Checks thus received must be collected at par. The federal reserve banks are not permitted to accept in payment of checks deposited with them for collection an amount less than the full face value of the checks.

3. In the discharge of its duties with respect to the collection of checks deposited with them, and with respect to performing the functions of a clearing house, the several federal reserve banks are empowered to adopt any reasonable measure designed to accomplish these purposes. To that end a federal reserve bank may send checks to the drawee bank directly, for remittance through the mails of collections without cost of exchange. If the drawee bank refuses to remit without deduction of the cost of exchange, it is in the power of the several federal reserve banks to employ any proper instrumentality or agency to collect the checks from the drawee bank, and it may legitimately pay the necessary cost of this service.

4. The process of the daily collection of checks, in the exercise of the clearing house functions, is not rendered unlawful because of the fact that of the checks handled two or more of them may be drawn on the same bank.

5. It is a legitimate feature of the clearing house function of a federal reserve bank to publish a par clearance list; that is, a list of banks on which checks are drawn that will be collected at par by the federal reserve banks. But, inasmuch as a conclusion may be drawn from the appearance of a bank's name on the par list that it agrees to remit at par, or has agreed to enter the par clearance system, I do not think such list should include the name of any nonmember bank, unless such nonmember bank consents. I see no objection to including in the par clearance list the names of towns or cities, with a represnetation that the federal reserve bank will undertake to collect at par checks drawn on any bank (member or nonmember) in such town or city.

6. In the inauguration of its par clearance system, I find that the Federal Reserve Bank of the Atlanta District was not inspired by any ulterior purpose to coerce or injure any nonmember bank which refused to remit at par. Specifically, I find the charge that the Federal Reserve Bank at Atlanta would accumulate checks upon country or nonmember banks until they reach a large amount, and then cause them to be presented for payment over the counter, so as to compel the plaintiffs to maintain so much cash in their vaults as to drive them out of business, as an alternative to agreeing to remit at par, is not sustained by the evidence.

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7. I find the evidence insufficient to sustain any charge in the bill that the Federal Reserve Bank was acting illegally, or exercising any right it had so as to oppress or injure the plaintiff banks. With regard to the publication of the names of nonmember banks on the Federal Reserve Bank's par list, while I do not think the evidence justifies a finding that such publication was done to injure or oppress plaintiff banks, nevertheless I do not think the names of plaintiff banks, or any of them should be included in the list without their consent. 148

The general result of my findings is that the plaintiffs are entitled to the writ of injunction against the inclusion of their names on the par list without their consent, but are not entitled to an injunction for any other matter complained against the respondents.

Let an appropriate decree be submitted, giving effect to the foregoing findings."

This decision was affirmed by the Court of Appeals for Fifth Circuit in

American Bank & Trust Co. et al. v. Federal Reserve Bank of Atlanta, 284. Fed. 424.

On this appeal the decree under Judge Evans' decision was affirmed. The court said:

"Except as to a feature of the bill mentioned below, nothing has occurred to require a revision of or departure from the conclusions stated in the opinion delivered by this court in this case when it was here on a former appeal. American Bank & Trust Co. v. Federal Reserve Bank of Atlanta, 269 Fed. 4. What was held by the Supreme Court to show the existence of a right to relief under the general prayer for relief was the part of the bill containing allegations to the effect that, in pursuance of the alleged policy of the Federal Reserve Board to bring about the collectibility by banks of bank checks at par, the appellee Reserve Bank and its officers intended to accumulate, until they reach a large amount, checks upon banks of the class to which the appellant banks belong, and then to cause them to be presented for payment in cash over the counter, or by other devices detailed to require payments in cash in such wise as to drive the drawees out of business, or force them, if able, to submit to the scheme of making bank checks collectible at par. American Bank & Trust Co. v. Federal Reserve Bank, 256 U.S. 350, 41 Sup. Ct. 499, 65 L. Ed. 983.

(1) The conduct which the Supreme Court decided to be wrongful and subject to be enjoined was the alleged threatened accumulation of checks for the purpose of using them in the manner alleged. It was not decided or intimated that the appellee bank would be guilty of any actionable wrong by merely presenting or causing to be presented bank checks held by it to the drawees for payment in cash over the counter. The alleged accumulation of checks for the purpose charged was an essential feature of the alleged conduct which was de-

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cided to be wrongful. We are not of opinion that a bank, in receipt for collection of checks on other banks, is guilty of an abuse of its rights as such holder when, in due course, with reasonable promptness, without designed delay or accumulation, and in proper manner, it presents, or causes to be presented, those checks to the drawees for payment in cash. In so doing the collecting bank would be exercising its rights as the holder of checks received by it for collection, and would not be guilty of an abuse of that right for an unlawful purpose. If the holder of the checks is guilty of no wrong, the fact that the payer is inconvenienced by having to pay in cash would not give the latter a valid ground of complaint. Inconvenience resulting to one party from another's exercise of a right in a lawful way does not give the former a right of action."

Again there was an appeal to the Supreme Court of the United States in

American Bank & Trust Co. v. Federal Reserve Bank of Atlanta et al. 262.U. S. 643.

Here the litigation came finally to an end by a decision affirming the court below. The scope of this decision may best be seen from the opinion of the District Judge in 280 Fed. 940 on which the decree of that court was entered--the decree which was thus affirmed both by the Circuit Court of Appeals and by the Supreme Court. We quote, however, the following from the opinion of Justice Brandies:

"The contention is that the injunction should issue, because it is ultra vires the federal reserve banks to collect checks on banks which are not members of the system or affiliated with it, through establishing an exchange balance, and which have definitely refused to assent to clearance at par. It is true that Congress has created in the reserve banks institutions special in character, with limited functions and with duties and powers carefully prescribed. Those in respect to the collection of checks are clearly defined. The original act (Act of December 23, 1913, c. 6. #13, 38 Stat. 251, 263) authorized the reserve banks to 'receive from any of its member banks, and from the United States, deposits of * * * checks upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of * * * checks * * * upon solvent member or other Federal reserve banks, payable upon presentation'.

By the amendment to #13 of September 7, 1916, c. 461, 39 Stat. 752, the class of checks receivable was extended to 'checks payable upon presentation within the district'. By the amendment to #13 of June 31, 1917, c. 32, # 4, 40 Stat.

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232, 235, the class of banks from which checks might be received 'solely for collection' was extended. By the latter amendment the facilities offered by the federal reserve banks were made available also to such non-members as became affiliated with the federal reserve system by establishing the required balance 'to offset the items in transit.' It is true, also, that in practice this amendment might result in excluding checks on particular banks from the class collectible through the federal reserve banks. For it enacted the clause which prohibits payment of exchange charges by federal reserve banks. And as this prohibition would prevent reserve banks from using the usual channels in making collection of checks drawn on those country banks which insist upon exchange charges, the reserve bank might find it impossible or unwise, as a matter of banking practice, to collect such checks at all. But the class of checks to which the reserve bank's collection service might legally be applied, was left by the amendment as those 'Payable upon presentation within its district.' Wherever collection can be made by the federal reserve bank, without paying exchange, neither the common law, or the Federal Reserve Act precludes their undertaking it; if it can be done consistently with the rights of the country banks already determined in this case. 256 U.S. 350.

Federal reserve banks are, thus, authorized by Congress to collect for other reserve banks, for members, and for affiliated non-members, checks on any bank within their respective districts, if the check is payable on presentation and can in fact be collected consistently with the legal rights of the drawee without paying an exchange charge. Within these limits federal reserve banks have ordinarily the same right to present a check to the drawee bank for payment over the counter, as any other bank, state or national, would have. For # 4, (38 Stat. 251, 254) provides that the federal reserve banks shall have power:

> 'Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.'

The findings of fact negative the charges of wrongful intent and of coercion. The Federal Reserve Bank has formally declared that it is willing, when presenting checks, to accept in payment a draft of the drawee bank upon its Atlanta correspondent or a draft upon any other solvent bank --if collectible at par. Country banks are not entitled to protection against legitimate competition. Their loss here shown is of the kind to which business concerns are commonly subjected when improved facilities are introduced by others, or a more efficient competitor enters the field. It is damnum absque injuria. As the course of action contemplated by the Federal Reserve Bank is not ultra vires, we need not consider whether lack of power, if it had existed, would have entitled plaintiffs to relief. Compare National Bank v. Matthews, 98 U.S. 621; Blair v. Chicago, 201 U.S. 400, 450."

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We have reviewed from first to last the litigation between the American Bank & Trust Company and the Federal Reserve Bank of Atlanta because it shows how the Federal courts have passed upon the questions involved in the case at bar, and because it goes without saying that State courts must follow the Federal courts in their construction of Federal legislation and in determining what a Federal reserve bank, a corporation under an Act of Congress may rightfully do under such legislation.

The up-shot of those Federal decisions is (a) that defendant properly took for collection as a clearing house for its member banks the check on plaintiff referred to in the complaint; (b) that plaintiff refusing to remit for the checks at par, upon defendant sending them direct to plaintiff by mail, defendant properly had employed agents to collect the checks over plaintiff's counter, as alleged in the complaint; (c) that in so doing defendant properly expended its own money for the expense of collection; and (d) that the only thing defendant would not have the right to do would be to accumulate a large number of checks on plaintiff, and have them all presented at once in such aggregate large amounts as thereby to embarrass plaintiff in its banking business to such an extent as to coerce plaintiff against its will to remit by draft in the usual way, but without deducting for exchange.

From this point of view of the Federal court in the cases cited (and they are all the cases having any application to the case at bar) plaintiff's complaint states no cause of action. It is not alleged that defendant accumulated any checks on plaintiff. What is alleged is that checks on plaintiff were received by other banks "from day to day"; that defendant employed one Litendresse to collect them; that

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"Each day and every day thereafter defendant received a large number of such checks and each day forwarded to said Letandresse * * * and instructed said Letandressee to present all the said checks each day for payment at the counter of defendant * * * and to demand payment thereof in cash * * * and that pursuant to * * * such instructions of said defendant, said defendant, through said Letandresse, each day, from the 11 day of April, 1920, to the 23 day of April, 1920, presented all such checks to plaintiff, at its bank in Hugo, and demanded payment thereof in cash".

As to checks collected by the American Express Company as agent for defendant, the allegations are to the same effect. It is alleged that defendant instructed the Express Company

"each day to present all of such checks so forwarded * * * and "

to demand payment of the total amount of such checks each day in cash" and that pursuant to this instruction the Express Company "received all such checks so forwarded by defendant each day and presented all of the same together at one time at the counter of plaintiff".

All this defendant had a perfect right to do according to the decisions of the Federal court cited.

It is alleged in the complaint that presentation of the checks for payment was

"for the purpose of compelling and coercing plaintiff to agree"

to remit at par and that

"defendant advised all said banks which received checks so drawn upon plaintiff's bank that defendant would present all such checks to plaintiff bank, collect the same and then remit the full amount of each such check to all such banks at par and without deduction of or charge for exchange or charge for remittance either on the part of plaintiff or said defendant and without any charge whatever and defendant solicited all such banks to forward all such checks drawn on plaintiff bank coming into the hands of such banks to the defendant for the purpose of enabling defendant to make such collectionof all such checks and to remit the same to each and all such banks at par and without and charge for such remittance on the part of the plaintiff or said defendant or otherwise. Thereupon all such banks, upon receipt of any

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checks upon plaintiff bank, by reason of such request and solicitations of the defendant aforesaid, duly forwarded all such checks to defendant from day to day as the same were received by such individual banks in the usual course of business." 153

If these allegations were true there would nevertheless be no ground for complaining of defendants' "purpose" of doing what it had a right to do, for telling banks that it would do what it had a right to do, nor, of course, can plaintiff be heard to say that he was unlawfully compelled or coerced by anything which defendant had a right to do.

II.

The complaint alleges that -

"by reason of the losses (in exchange) sustained by plaintiff * * * and which cause of conduct defendant threatened to continue * * * indefinitely * * * on or about the 4 day of May, 1920, plaintiff was compelled to and did yield and submit and accede to the said demands of defendant and thereupon did clear its said checks through defendant and defendant continued to solicit and receive such checks drawn upon plaintiff from individual banks and send the same to plaintiff and plaintiff did remit to defendant therefor at par * * * all by reason of the aforesaid conduct of defendant and by reason of said coercion and compulsion of the said defendant so exercised and not otherwise and plaintiff so continued to submit to the demands of defendant * * * until on or about the 1 day of October, 1924, at which time plaintiff was advised that said defendant's conduct aforesaid was unlawful and that plaintiff might be relieved from such course of conduct if again attempted by defendant by injunction against defendant, and thereupon plaintiff assumed its former method of doing business and refused longer to clear such checks through defendant or to remit therefore to defendant or individual banks without charge.

"That by reason of the aforesaid unlawful course of conduct of the defendant, plaintiff has been damaged by reason of losing the sum of $3,975.00 and interest which plaintiff could and would have charged and received for exchange for remittance upon all said checks so collected by defendant as aforesaid during the period from May 4, 1920, to the 1 day of October, 1924."

The complaint evidently has reference to plaintiff's letters of April 30, 1920, and Sept, 25, 1924.

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Letter of April 30th:

"You may discontinue sending the checks drawn on our bank to be cashed over the counter as we have decided to pay at par all checks you may send here for collection. You may send them through the mails and we will remit by draft.

Yours very truly,
F. E. Carpenter,
Asst. Cashier"

Letter of September 25th:

"On October 1st we intend to charge some exchange on your daily remittance to us to defray our exchange expense. Hope this will be agreeable to you.

Yours very truly,
First State Bank of Hugo,
P. J. Houle, Cashier"

This part of the complaint raises the question whether from plaintiff's point of view that collecting over the counter at par from April 11 to April 26 (in fact from April 17 to April 30) plaintiff was under duress to remit at par the succeeding four years and five months.

Defendant's letters of April 30th shows on their faces that plaintiff remitted at par voluntarily during that period. No protest can be spelled into the letter of April 30th. No fault is found for having remitted at par in the letter of September 27th. One who wants to retain his rights for doing what another wrongfully requires must at least do it under protest as in Furgusson v. Winslow, 34 Minn. Sec. 84; State v. Nelson, 41 Minn. 25 Markle v. County of Hennepin, 44 Minn. 540, and Joannin v. Ogilvie, 49 Minn. 564. In Graff v. County of Ramsey, 46 Minn. 319, suit to recover back illegal taxes paid, the same as in the Fergusson and Mearkle cases, payment was not made under protest and the court held the payment voluntary. Says Judge Gilfillan:

"We do not mean to say that in a clear case of coercion or duress a protest is necessary or that it would be sufficient without circumstances of coercion; but if there be doubt under the circumstances, that the payment is voluntary it

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may be taken into account in determining the question that the payor declared as a part of his act that he paid involuntarily."

The complaint uses the word "coercion" which is the same as duress.

"Implied coercion exists where a person is legally under subjection to another, and is induced, in consequence of such subjection to do an act contrary to his will."

Bouviers Law Dictionary, Rawles Revision:

"Duress is such pressure or constraint as compels a man to go against his will, and virtually takes away his free agency, and destroys the power of refusing to comply with the unlawful demand of another.

Snyder v. Samuelson, 140 Minn. 57, 59; Cox
Cox v. Edwards, 120 Minn. 512, 517;
Joannin v. Ogilvie, 49 Minn. 564.

The proposition that plaintiff at Hugo, Minnesota was so coerced and under such duress by defendant at Minneapolis, Minnesota, so that for four years and five months plaintiff day by day sent defendant remittance drafts by mail for the checks it received by mail from defendant against its, plaintiff's will, and without acting as a free agent, its power of refusing so to do being destroyed by defendant, is perfectly ridiculous.

An indispensible element of duress is that the person asserting it has no adequate remedy at law to present what he complains of; for if he has he cannot say that he has acted contrary to his will.

"The mere threat to withhold from a party a legal right which he has an adequate remedy to enforce, is not, in the eye of the law, duress."

Cable v. Timothy, 45 Minn. 421, 422;

"It may be stated as a general rule that where an unfounded or illegal demand is made upon a person, and the law furnishes him adequate protection against it, or given him an adequate remedy in the premises, if he pays what is demanded instead of taking the protection the law gives him or the remedy it furnishes he is to be deemed to have made the payment voluntarily and he must abide by it.

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Graff v. County of Ramsey, 46 Minn. 319. 156

> "The rule is that money paid voluntarily, with full knowledge of the facts, cannot be recovered back. If a man chooses to give away his money or to take his chances whether he is giving it away or not, he cannot afterwards change his mind; but it is open to him to show that he supposed the facts to be otherwise, or that he really had no choice."

Joannin v. Ogilvie, 49 Minn. 564.

This case contains an interesting review of cases as to what constitutes or does not constitute duress. In Cox v. Edwards, 120 Minn. 512, the court reviewed the refusal of the lower court to give the following request of defendant:

> "In order to find duress in this case, you must find that there was such pressure or constraint as compelled the plaintiff to go against her will and such as took away her free agency and destroyed her power to refuse to sign the release."

The lower court was reversed because it should have given this request as a correct statement of what constitutes duress.

The same definition of duress is given in Snyder v. Samuelson, 140 Minn. 57, 59.

It is under this rule that illegal taxes paid even under protest cannot be recovered back, the law furnishing opportunity to contest their validity by answer.

The complaint says that -

> "On or about the 1 day of October, 1924, at which time plaintiff was advised that said defendant's conduct was unlawful and that plaintiff might be relieved from such course of conduct if again attempted by defendant by injunction against defendant, and thereupon plaintiff resumed its former method of doing business and refused longer to clear such checks through defendant or to remit therefor to defendant or individual banks without charge.

But the facts were known to plaintiff all the time; whether before October 1, 1924, plaintiff knew what it was advised to be the law would make no difference. Plaintiff was bound to know the law, and if what it was advised October 1st, 1924 to be the law was the law,

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plaintiff must be held to have known it. Plaintiff does not say it didn't know it all the time.

And from plaintiff's point of view that that was the law, plaintiff had opportunity to stop what it complains of from the very outset of that four year and five months period. It had from plaintiff's point of view that adequate remedy against what it complains of, which prevents it from saying that what it did was not voluntary.

And this, of course, applies to the period between April 11 and April 26, 1926 (should be between April 17 and April 30). For as to that period, also, plaintiff's theory of coercion and duress is just as preposterous as during the subsequent period. How the words coercion and duress are treated as analagous terms, see

7 Cyc. 270 and cases cited;
14 Cyc. 1123 and cases cited.

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STATE OF MINNESOTA DISTRICT COURT

COUNTY OF WASHINGTON NINETEENTH JUDICIAL DISTRICT

.....

First State Bank of Hugo, Minnesota,
a corporation,

Plaintiff,

vs COMPLAINT

Federal Reserve Bank of Minneapolis,

Defendant

.....

Plaintiff, for its complaintherein against the defendant, respectfully shows to the Court and alleges:

I.

That plaintiff is a banking corporation duly organized, acting and existing under and by virtue of the laws of the State of Minnesota and has been so organized and has transacted a general banking business by virtue of the laws of the State of Minnesota, at the Village of Hugo, in the County of Washington, Minnesota, continuously since November 15, 1910, and is now transacting such business.

II.

That the defendant is a federal reserve bank duly organized, acting and existing under and by virtue ofthe laws of the United States of America and under the Act of Congress known as "Federal Reserve Act" and acts of Congress amendatory thereto.

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III.

That during the entire period since the organization of plaintiff as a state bank and since November 15, 1910, until the unlawful acts of the defendant herinafter set forth, checks drawn by depositors in plaintiff bank and in the usual course of business coming into the hands of banks in the cities of Saint Paul, Minneapolis and other cities and villages in the States of Minnesota and Wisconsin and elsewhere were collected from the plaintiff bank by forwarding such checks to plaintiff through the mails; there being no other bank in said Village of Hugo and defendant paid and remitted the proceeds of a each such check to the bank so mailing the same to plaintiff, and for plaintiff's services in so remitting the proceeds of each such check plaintiff made a socalled exchange or remittance charge of a minimum of five cents where the check was less than Ten Dollars ($10.00), of ten cents where the check was over Ten Dollars ($10.00), of fifteen cents where the check was over One Hundred Dollars ($100.00), and at the rate of ten cents per hundred in excess of One Hundred Dollars ($100.00) and that such remittances or exchange charges upon such checks produced plaintiff an income of about Nine Hundred Dollars ($900.00) per year immediately preceding the unlawful acts of the defendant as hereinafter set forth.

IV.

That on or about the first of April, 1920, said defendant requested and demanded that plaintiff should cease transacting its banking business in reference to charging for remittances on checks mailed to it in the manner aforesaid and in lieu of such manner of

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transacting plaintiff's business that plaintiff should agree with the defendant to permit the defendant to collect all such checks so drawn on plaintiff for all such banks so receiving such checks and to permit defendant to clear all of such checks so drawn upon plaintiff and thereupon to permit the defendant to mail all of such checks to plaintiff and to agree that upon receipt of such checks from defendant plaintiff would remit to defendant the face amount or par of each and every of such checks without any charge or deduction by plaintiff for plaintiff's services in so making such remittances for such checks to defendant in the City of Minneapolis. That plaintiff refused to comply with said request and demand of said defendant. Thereupon said defendant for the purpose of compelling and coercing plaintiff to agree to said defendant's said request and demand so made by defendant upon plaintiff, defendant advised all said banks which received any checks so drawn upon plaintiff's bank that defendant would present all such checks to plaintiff bank, collect the same and then remit the face amount of each such check to all such banks at par and without deduction of or charge for exchange or charge for remittance either on the part of plaintiff or said defendant and without any charge whatsoever and defendant solicited all such banks to forward all such checks drawn on plaintiff bank coming into the hands of such banks to the defendant for the purpose of enabling defendant to make such collection of all such checks and to remit the same to each and all of such banks at par and without any charge for such remittance on the part of the plaintiff

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or said defendant or otherwise. Thereupon all such banks, upon receipt of any checks drawn upon plaintiff bank, by reason of such request and solicitation of the defendant aforesaid, duly forwarded all such checks to defendant from day to day as the same were received by such individual banks in the usual course of business and thereupon defendant, for the purpose of so compelling and coercing this plaintiff to accede to the aforesaid request and demand of defendant that plaintiff clear its said checks through defendant at par and remit for same to defendant without charging for such remittance or otherwise, about April 1, 1920, employed one Frank Letandresse, who was then the United States Postmaster at said Village of Hugo, to present and demand payment in cash for all such checks drawn upon plaintiff as were received by defendant from said individual banks at the counter of plaintiff's bank at the Village of Hugo. Each day and every day thereafter defendant received a large number of such checks and each day forwarded to said Letandresse all such checks so drawn upon plaintiff and received by defendant from individual banks in the manner aforesaid and instructed said Letandresse to present all the said checks each day for payment at the counter of defendant bank at Hugo and to demand payment thereof in cash and to remit the proceeds of all such checks to defendant. Pursuant to said employment and such instructions of said defendant said defendant, through said Letandresse, each day, from the 11 day of April, 1920, to the 26 day of April, 1920, presented all such checks to plaintiff, at its bank in Hugo, and demanded payment thereof in cash and plaintiff was compelled to and did pay

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all such checks so accumulated, received, forwarded and presented as aforesaid, in cash. That defendant necessarily paid out a much larger sum to collect said checks so drawn upon plaintiff and so received by defendant and paid in the manner aforesaid, through its said agent Letandresse, than the amounts defendant and said individual banks would have been required to pay for plaintiff's charges for the remittance of the amount or proceeds of said checks in the manner plaintiff had formerly transacted its said business as hereinbefore alleged. But the defendant so employed said Letandresse to collect said checks and solicited said checks, and the collection and clearing thereof, from said individual banks, in the manner aforesaid solely for the purpose of compelling and coercing plaintiff to accede to the requests and demands of defendant so made upon plaintiff as aforesaid and by inflicting upon plaintiff the loss occasioned to plaintiff by being unable to charge such amounts for the remittance of said checks and the further expense to plaintiff occasioned by the payment of such checks in cash. That by reason of the said unlawful conduct of the defendant in soliciting, accumulating and collecting said checks in the manner aforesaid, plaintiff lost the amount of the remittance charges thereon which amounted to the sum of Two Dollars ($2.00) per day for and during the period said checks were so collected by the defendant and said Letandresse in the manner aforesaid, to-wit: Fifteen (15) days which amounted to the sum of Thirty Dollars ($30.00) and also the expense of providing additional cash reserve as hereinafter set forth.

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Notwithstanding the said unlawful conduct of the defendant the plaintiff refused to yield to the demand of defendant that plaintiff change its manner of doing business so as to clear checks so drawn upon plaintiff through the defendant and remit the proceeds to defendant at par and cease collecting remittance charges on said checks and thereupon the defendant, solely for the purpose of compelling plaintiff to yield and agree to the said demands of the defendant, on or about the 26 day of April, 1920, employed American Express Company then doing business at Hugo, Minnesota, and having as its local agent at Hugo one A. W. Brandt, to collect all checks drawn upon plaintiff and received by defendant pursuant to defendant's solicitation of individual banks as hereinbefore alleged and forwarded all such checks drawn upon plaintiff to said American Express Company at Hugo and instructed said American Express Company and said Brandt each day to present all of such checks so forwarded to said Express Company together at one time each day at the counter of plaintiff bank and to demand payment of the total amount of such checks each day in cash from plaintiff. Pursuant to such employment and said instructions of said defendant said Express Company, through its said local agent Brandt, received all such checks so forwarded by defendant each day and presented all of the same together at one time at the counter of plaintiff bank at Hugo, Minnesota, and demanded payment thereof and of the total thereof in cash and refused to receive or accept any draft, check or otherwise therefor except cash and by reason of said course of conduct of defendant plaintiff was compelled to and did each day pay the total amount of such

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checks so accumulated and presented by defendant in the manner aforesaid in cash. The total amount of the checks so presented and paid in cash to said Letandresse and said Express Company was from Three Hundred Dollars ($300.00) to Eight Thousand Dollars ($8000.00) per day. At all times prior to the course of conduct of defendant in causing all said checks to be presented to plaintiff and payment to be made by plaintiff therefor in cash in the manner aforesaid it was only necessary for the plaintiff to keep on hand at its banking house at Hugo a cash reserve of Five Thousand Dollars ($5000.00) but in order to pay said checks so accumulated, received, presented and collected in cash by defendant in the manner aforesaid, through said Letandresse and said Express Company and its agent Brandt, it was necessary for plaintiff to ship in currency each day from Saint Paul or other points so as to keep the cash reserve of plaintiff at from Ten Thousand Dollars($10,000.00) to Fifteen Thousand Dollars ($15,000.00). That in order to so ship in said currency for the purpose of so increasing its cash reserve plaintiff was compelled to pay the expense of such shipments thereof which amounted to the sum of Two Dollars ($2.00) per day more than it would have cost plaintiff to have maintained the cash reserve required by plaintiff prior to the unlawful course of conduct of defendant as hereinbefore set forth. In addition thereto plaintiff lost the amount of remittance charges which it would otherwise have been able to charge and collect which amounted to the sum of Three Dollars ($3.00) per day for a period of twenty (20) days amounting to One Hundred Dollars ($100.00).

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V.

In order to carry out defendants course of conduct in presenting and collecting said checks from this plaintiff, through said Express Company and its agent, in cash as aforesaid, defendant was required to and did expend many times the amount which defendant or such individual banks receiving checks drawn upon plaintiff would have been required to pay for exchange or for remittance charges if said checks were mailed to plaintiff and remitted for by plaintiff according to plaintiff's custom of doing business but defendant so employed said Express Company and its said local agent to collect said checks in the manner aforesaid at its own expense and at a loss to defendant solely for the purpose of compelling and coercing plaintiff to agree to the aforesaid demands so made upon plaintiff by defendant that plaintiff conduct plaintiff's business in the manner of remitting payment for such checks so drawn upon plaintiff without charge either to the individual banks or to the plaintiff and of clearing plaintiff's checks through defendant and for the purpose of causing said loss to plaintiff of said remittance charges and expense of maintaining additional cash reserve to induce, coerce and force plaintiff to yield and submit to the said demands of defendant.

VI.

That by reason of the losses sustained by plaintiff and the additional expense to plaintiff incurred by reason of aforesaid unlawful conduct of defendant and which course of conduct defendant threatened to continue with reference to plaintiff indefinitely and until plaintiff should yield to the unlawful demands of denfendant,

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on or about the 4 day of May, 1920, plaintiff was compelled to and did yield, submit and accede to the said demands of defendant and thereupon and thereafter did clear its said checks through defendant and defendant continued to solicit and receive such checks drawn upon plaintiff from individual banks and send the same to plaintiff and plaintiff did remit to the defendant therefor at par and without making any charge on account of remitting the same, all by reason of the aforesaid conduct of defendant and by reason of the said coercion and compulsion of the said defendant so exercised by defendant upon plaintiff and not otherwise and plaintiff so continued to submit to the demands of defendant and transact its business as so requested and demanded by defendant until on or about the 1 day of October, 1924, at which time plaintiff was advised that said defendant's conduct aforesaid was unlawful and that plaintiff might be relieved from such course of conduct if again attempted by defendant by injunction against defendant, and thereupon plaintiff resumed its former method of doing business and refused longer to clear such checks through defendant or to remit therefor to defendant or individual banks without charge.

VII.

That during the period when the said checks so drawn upon plaintiff were so accumulated and collected by defendant through the said Letandresse and the said Express Company and its local agent Brandt the manner and methods of defendant in so accumulating said checks and presenting them all together over the counter of plaintiff at Hugo became a matter of public notoriety and scandal

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in the Village of Hugo and vicinity thereof and became the subject of public comment and gossip and thereby the credit and standing of plaintiff bank was greatly injured.

VIII.

That by reason of the aforesaid unlawful course of conduct of the defendant, plaintiff has been damaged by reason of losing the sum of Three Thousand Nine Hundred Seventy-five Dollars ($3,975.00) and interest which plaintiff could and would have charged and received for exchange and as charges for remittances upon all said checks so collected by defendant as aforesaid during the period from May 4, 1920, until the 1 day of October, 1924.

IX

That by reason of the unlawful acts of defendant herein above set forth plaintiff has suffered other and additonal damages and defendant should be required to pay damages by way of compensation and as punitive damages the sum of Fifteen Thousand Dollars ($15,000.00).

WHEREFORE, plaintiff prays judgment against defendant in the sum of Nineteen Thousand One Hundred Five Dollars ($19,105.00) besides its costs and disbursements herein.

SULLIVAN & NEUMEIER
Attorneys for Plaintiff,
104 North Main Street,
Stillwater, Minnesota.

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X-5045-1
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STATE OF MINNESOTA — DISTRICT COURT

COUNTY OF HENNEPIN — FOURTH JUDICIAL DISTRICT

FIRST STATE BANK OF HUGO, Plaintiff,

-vs-

ANSWER

FEDERAL RESERVE BANK OF MINNEAPOLIS, Defendant.

Answering plaintiff's complaint herein--

1. Defendant admits the allegations contained in paragraphs I and II of the complaint.

2. Defendant admits that plaintiff was the only bank in the Village of Hugo, but as to each and every other allegation contained in paragraph III of the complaint defendant alleges that it has not any knowledge or information thereof sufficient to form a belief.

3. Defendant admits that by the American Express Company and F. J. Latendresse as its agents (said Express Company acting by one A. W. Brandt) defendant presented to plaintiff for payment over plaintiff's counter at plaintiff's bank in the Village of Hugo certain checks drawn on plaintiff, and that plaintiff paid such checks. But defendant alleges that of the checks so presented by said American Express Company one or more thereof to the amount hereafter stated were presented and paid on each of the following days in the month of April , 1920, to-wit:

On	April	17,	check	or	checks	for $ 464.24
"	"	20,	"	"	"	" 212.99
"	"	21,	"	"	"	" 1222.25
"	"	22,	"	"	"	" 929.90
"	"	23,	"	"	"	" 373.23
"	"	24,	"	"	"	" 100.21
"	"	26,	"	"	"	" 206.02
"	"	27,	"	"	"	" 1007.43

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Defendant further alleges that of the checks so presented by said F. J. Latendresse, one or more thereof to the amount hereafter stated were presented and paid on each of the following days in said month of April, 1920, to-wit:

On April 29, check or checks for $ 357.00
" " 30, " " " " 529.00

4. Defendant alleges that the Federal Reserve Board organized and established under the Act of Congress approved December 23, 1913, known as the Federal Reserve Act, did in the year 1916, by virtue of Section 16 of said Act, designate defendant as a clearing house for its member banks, and did in said year, by virtue of said Act, adopt rules and regulations prescribing and directing the manner in which defendant was to function as such clearing house. That the rules and regulations so adopted by said Board and in force and effect during the year 1920, and known as Regulation J, were in part in the following words, to-wit:

> "Each Federal Reserve Bank will receive at par from its member and clearing member banks checks on all member and clearing member banks and on all other nonmember banks whose checks can be collected at par by any Federal Reserve Bank".

5. Defendant further alleges that by virtue of said Act and the amendments thereof said Federal Reserve Board on the 11th of December, 1919, adopted and promulgated a regulation supplemental to said Regulation J in the following words, to-wit:

> "If the Federal Reserve Banks are to give the service required of them under the provisions of Section 13 (meaning Section 13 of said Federal Reserve Act) they must in cases where banks refuse to remit for their checks at par use some other means of collection no matter how expensive".

6. Defendant admits that on or about the 12th of April, 1920, plaintiff informed defendant that plaintiff did not wish to remit

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to defendant at par for checks on plaintiff which defendant might send to plaintiff by mail for payment, but would charge defendant a sum of money as for collecting such checks and for remitting to defendant for the same, and would in remitting to defendant for such checks deduct such charges from the amount of such checks.

7. Defendant alleges that at all times since the year 1914 plaintiff has been a nonmember bank of defendant in defendant's district, the Ninth Federal Reserve District, established under the provisions of said Federal Reserve Act.

8. Defendant alleges that being forbidden by Section 13 of said Federal Reserve Act, as amended by an Act of Congress approved June 21, 1917, to pay any charge for collecting checks received from any of its member banks for collection, or to permit any charge or deduction to be made by the drawee bank in remitting to defendant for such checks, and defendant being in duty bound to function as a clearing house for its member banks by said Federal Reserve Act and by said Regulation J and said Supplemental Regulation of the Federal Reserve Board, it did by virtue of said Act, and said Regulation J, and said Supplemental Regulation, receive from its member banks the checks mentioned in paragraph 3 of this answer for clearing and collection and as a clearing house for its member banks under said Federal Reserve Act and under said Regulation J and said Supplemental Regulation of said Federal Reserve Board; that by virtue of and pursuant to the provisions of said Federal Reserve Act, and said Regulation J, and said Supplemental Regulation of the Federal Reserve Board, it presented said checks at plaintiff's bank for payment, as stated in said paragraph 3 of this answer, and re-

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ceived payment of the same from plaintiff. That all said checks when received by defendant were duly endorsed by the respective payees therein named, and by the member banks of defendant from whom they were received, and all said checks were payable at plaintiff's bank on presentation, and were presented to plaintiff for payment from day to day as the same were received by defendant from its member banks. That no other check was ever presented for payment over the counter at plaintiff's bank by defendant, or by any one for or on behalf of defendant.

9. Save and except as hereinbefore admitted or specifically denied, defendant denies each and every allegation in plaintiff's complaint contained.

10. Defendant further says that in defense of this action it invokes the provisions of said Federal Reserve Act as amended and the above mentioned Regulation and Supplemental Regulation adopted by the Federal Reserve Board by virtue of said Act.

WHEREFORE defendant prays that plaintiff take nothing by this action, but that the same be dismissed, and that defendant have judgment for its costs and disbursements.

A. UELAND
Defendant's Attorney
401 New York Life Building,
Minneapolis, Minnesota.

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X-5046

FEDERAL RESERVE BANK
OF NEW YORK

October 28, 1927.

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

Dear Mr. Wyatt:

I was very glad to receive your letter of October 27, in regard to the recent decision of the Supreme Court of Kansas in the case of Colorado and Southern Railway Company v. Docking, Receiver.

I note your views about the advisability of reserve banks seeking to establish preferences in favor of sending banks in the matter of items on failed banks. I take a different view on the question of policy. After all, we are agents to collect and I think an agent to collect owes a duty to his principal, at least to cooperate with him in attempting to secure any rights that he may have. I think the FederalReserve Bank of Kansas City could properly suggest to member banks in its district the advisability of legislation along the lines of the Utah statute, and I think it might with propriety, also, attempt to assert on behalf of one of its member banks, or suggest to the member bank the assertion of, a preference.

In this matter and in two or three others, upon which I have been asked to comment by the officers of this bank in connection with the forthcoming Governors Conference, I find that there are differences of view among counsel of the reserve banks. I should think it would be a good thing if some organized means could be adopted to iron out these differences. If we could get together and talk these matters over we might all learn something by the experience, and I believe itwould promote smoother working of the system.

With kind regards and best wishes,

Sincerely yours,

(signed) L. R. Mason

L. R. Mason,
General Counsel.

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X-5046-a

October 27, 1927.

Mr. L.Randolph Mason, Counsel,
Federal Reserve Bank of New York,
New York City.

My dear Mason:

I have received and read with much interest your letter of October 24th regarding the recent decision of theSupreme Court of Kansas in the case of Colorado & Southern Railway Company v. Docking.

I agree with you that the elimination from Federal Reserve Banks' cash and collection letters of the direction to the drawee bank to remit by draft would not establish a preference, especially in view of the fact that Regulation J specifically authorizes Federal Reserve Banks to accept remittance drafts, and the Federal Reserve Banks certainly cannot afford to dispense with the protection afforded by the specific authority to take remittance drafts. To do so would subject them to the dangers of the doctrine of the Malloy Case. If it is known to all concerned that the Federal Reserve Banks have authority to accept remittance drafts, it seems to me that the mere fact that the Federal Reserve Bank does not instruct the drawee bank to remit by means of a draft would not alter the situation. Every one would still know that such a remittance is authorized and expected; and the situation would remain the same.

While, of course, I believe that the doctrine in the Peters case is sound and would like to see it established in all jurisdictions, I do not feel that the Federal Reserve Banks should take any chances of incurring liability themselves through any efforts to establish a preference on behalf of the banks for which they are collecting checks. I agree with Stroud's view that the Federal Reserve Banks should take the position that their function is merely to forward checks for collection in accordance with the provisions of Regulation J, and they do not undertake or guarantee to effect collection. If a Federal Reserve Bank forwards a check promptly for collection and is guilty of no negligence, I see no reason why it should feel worried because it is unable to collect such check or because the sending bank suffers a loss. Nor do I see why the Federal Reserve Bank should make such a strenuous effort to establish a preference in behalf of the sending bank. That is a matter which the sending banks should work out themselves and I think it is up to them to obtain the enactment of legislation similar to that recently enacted in Utah and Ohio. It is doubtful whether it would be good policy for the Federal Reserve Banks openly to seek such legislation.

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Please treat this as a mere informal expression of my views. In writing it I have merely been "thinking out loud" and I am not attempting to express any formal opinion or to write a letter suitable for quotation.

I was very sorry not to be able to see you again before I left New York last week and hope that I shall have better luck next time.

With kindest personal regards, I am,

Very truly yours,

Walter Wyatt,
General Counsel.

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FEDERAL RESERVE BANK
OF NEW YORK

October 24, 1927.

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

Dear Mr. Wyatt:

Thank you for your letter of October 20, enclosing copy of an opinion rendered recently by the Supreme Court of Kansas in the case of Colorado and Southern Railway Company v. Docking, Receiver of the American State Bank, and copy of letter, dated October 8, addressed to you by Mr. Leedy, Counsel of the Federal Reserve Bank of Kansas City.

I had already read a copy of this decision in connection with Topic I - (i) for the Governors Conference, proposed by the Federal Reserve Bank of Kansas City, on which I have prepared a memorandum for the officers of this bank. The decision is in accordance with a minority view, which has some little support in authority and none, I think, in reason. In several other jurisdictions Federal Reserve Banks, as you know, have established preferences in like cases, and I think that even in Kansas if the paying bank remitted in cash there would be a preference. However, as a practical matter this does not help very much. In discussing the topic for the Governors Conference I suggested that the best means to correct the situation in Kansas is to get legislation similar to that enacted in Utah. I do not think that the mere elimination from its cash and collection letters by the Federal Reserve Bank of Kansas City of the direction to the paying bank to remit by draft will establish the right to a preference as a matter of law. Section 4 of Regulation J of the Federal Reserve Board provides that checks received by Federal Reserve Banks on their 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 charge their reserve accounts or clearing accounts * * *". Regulation J is, I believe, a part of the collection circular of all reserve banks, as it is of this one, and it seems to me this provision of Regulation J is quite enough to defeat preference under the Kansas decision, regardless of the terms of the cash and collection letters of the Federal Reserve Bank of Kansas City. Moreover, instructions as to the manner of remittance are essential as a practical matter to the collection system as it now stands. I think the only satisfactory measures of relief are (1) to get the courts of Kansas to take a different view of the matter (and Mr. Leedy appears to think this is not impossible); (2) to procure the enactment of legislation.

Very truly yours,
(signed) L. R. Mason
L. R. Mason,
General Counsel.

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FEDERAL RESERVE BANK
OF ATLANTA

X-5047

June 11, 1927.

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

Dear Walter:

In Re: National Bank stamping on its cashier's checks "Not payable through Federal Reserve Bank."

I am advised by the Federal Reserve Bank that none of the banks which have heretofore placed the above mentioned legend on their checks are refusing to pay the same whenever they are presented through the Federal Reserve Bank. Of course, it may be that they issue a substantial number of such checks which, because of the notation, do not get into the hands of the Reserve Bank. Some few of the checks still pass through our Transit Department. As to whether or not the banks propose to abandon the practice I have no information, since no one of the three to whom letters have been sent has ever replied to any communication. It would appear to be true, however, that they do not propose to make any contest with the Reserve Bank.

This letter is merely sent for your information.

With best personal regards, I am

Cordially yours,

(signed) Rbt. S. Parker

Robert S. Parker.

Hon. Newton D. Baker,
Union Trust Building,
Cleveland, Ohio.

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FEDERAL RESERVE BANK
OF ATLANTA

May 25, 1927.

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

Dear Walter:

In Re: National Bank stamping on its cashier's checks "Not payable through Federal Reserve Bank."

I am advised by the Federal Reserve Bank of Atlanta that the only banks which have, so far as is known by the Federal Reserve Bank, issued cashier's checks containing a restriction against payment through Federal Reserve Banks are the First National Bank of Hartford, Alabama, the First National Bank of Samson, Alabama, and the Farmers National Bank, Geneva, Alabama.

It is possible that other banks have issued such checks, but no record of the same can be found in the Transit Department.

Mr. Bell told you in Cleveland, according to my recollection, that six or eight banks in Alabama had in the past placed on their cashier's checks a legend reading in effect, "Payable in New York exchange at current rates." Checks bearing this last mentioned notation and drawn on nine banks in Alabama hereinafter named have passed through the Transit Department of the Reserve Bank. The banks referred to are as follows:

First National Banks,	Coffee Springs, Ala.
First National Bank,	Elba, "
First National Bank,	Enterprise, "
Farmers & Mer. Nat'l. Bank,	Enterprise, "
First National Bank,	Florala, "
Farmers National Bank,	Geneva, "
Farmers & Merchants Bank,	Samson, "
First National Bank,	Samson, "
Slocomb National Bank,	Slocomb, "

Mr. Bell advises me, however, that all but the last two mentioned of said nine banks now pay at par and without question cashier's checks bearing this notation. The First National Bank of Samson and the Slocomb National Bank, however, have advised that they would not pay checks bearing this restrictive clause. You will doubtless recall that Mr. Bell mentioned the fact in Cleveland that for a period of a year or so the Reserve Bank did not handle checks reciting that they were payable in New York exchange at current rates. Finally, however, they resumed handling such checks as an experiment, with the result that payment has not been declined except by the two banks named.

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Mr. Bell advises that the Atlanta Clearing House has not passed any formal resolution as to the handling of checks containing restrictive clauses. It is true, however, that a committee of theClearing House, known as the Collection Committee, made certain recommendations to the Clearing House Association and that these recommendations have been adopted. These recommendations are fully summarized in a letter which was addressed by the Cashier or Manager of the Country Collection Department of the Clearing House to each of the five Atlanta banks which are members of the Association. A copy of one of these letters is herewith enclosed for your information. You will note in the third paragraph of the letter written by the Cashier of the Clearing House a reference to the fact that all checks drawn with restrictions on banks on the par list of the Federal Reserve Bank will be forwarded to the Reserve Bank, "to be tagged by them:" It was not the purpose of the letter to outline a course of procedure which the Federal Reserve Bank would follow with respect to such checks, but merely to state that the same would be sent to the Federal Reserve Bank for disposition. The Federal Reserve Bank, of course, was not a party to any Clearing House conference at which the decision of the Clearing House in the above mentioned regard was reached.

I am today advised by the Reserve Bank that there have been no additional developments of any kind. None of the three banks to whom letters were sent has replied to those letters, nor has the First National Bank of Hartford protested against the charge to its account of the two small checks referred to in recent correspondence.

With personal regards, I am

Cordially yours,

(signed) Rbt. S. Parker

Robert S. Parker

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FEDERAL RESERVE BANK
OF ATLANTA

179

October 15, 1927.

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

Dear Walter:

I have your letter of October 12th in which you state that Mr. Baker has requested you to obtain for him any additional information that may be available regarding the practice of certain member banks in the Sixth District of stamping their checks "Payable in New York exchange." I note that Mr. Baker especially desires to know if there seems to be any tendency for this practice to spread.

The Federal Reserve Bank of Atlanta advises me that there seems to be no tendency toward a spread of this practice. It is still confined to a small number of country banks in Alabama. Three or four of the banks in question have requested the Reserve Bank to desist from handling such checks. The remainder of the relatively few banks upon whom checks bearing this notation are sometimes drawn pay the same when presented through the Reserve Bank despite the notation.

The one time practice of some of these banks to stamp on checks "Not payable through Federal Reserve Bank" has, apparently, almost ceased. It is only occasionally that the Reserve Bank sees a check bearing this last mentioned notation.

Several days since it came to the attention of the Reserve Bank that a customer of a bank in Greenville, Alabama, is issuing "checks" in the form of a draft, drawn by the customer on himself and payable at the Greenville bank. When interrogated as to why this was being done, the Greenville bank stated frankly that the object was to obtain exchange. There would seemto be no likelihood, however, that drafts will take the place of bank checks.

Trusting that the above gives the information which you desire, and with best personal regards, I am,

Cordially yours,

(signed) Rbt. S. Parker

Robt. S. Parker

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August 26, 1927.

Federal Reserve Board

Mr. Vest - Assistant Counsel.

Collection of checks bearing notation "Payable in New York exchange at current rates".

It will be recalled that a few months ago checks drawn on some banks in the Atlanta district bore the notation "Not payable through the Federal Reserve Bank of Atlanta". According to the latest information, however, the banks which were formerly using such checks have discontinued this practice, or are paying such checks when presented by the Federal Reserve Bank. I wish to call attention to a different phase of this matter which is mentioned in the attached letter from Mr. Parker, Counsel for the Federal Reserve Bank of Atlanta, to Mr. Wyatt. This involves checks upon which there is a notation "Payable in New York exchange at current rates".

It appears from information submitted to this office that for a period of a year or two it was not the practice of the Federal Reserve Bank of Atlanta to handle checks bearing a notation of this kind. Finally, however, the practice of handling such checks was resumed. In May of this year there were nine banks in the Atlanta district using checks bearing the notation "Payable in New York exchange at current rates". All these banks except the First National Bank of Samson, Alabama, and the Slocomb National Bank of Slocomb, Alabama, have been paying such checks at par and without question. Recently, however, the Farmers & Merchants Bank of Samson, Alabama, a State member bank, has refused to pay at par all checks bearing this restrictive notation. Some of these checks were returned by the Farmers & Merchants Bank with a memorandum written in pen and ink on the checks reading substantially as follows: "Drawn with restrictions. Return through channels other than Federal Reserve Bank and same will be paid immediately". The Federal Reserve Bank of Atlanta, in accordance with the opinion of its counsel, Mr. Parker, has adopted the practice of returning to its indorsers checks drawn on the said Farmers & Merchants Bank and restricted to payment in New York exchange. This is the same procedure which has been followed in the case of checks drawn on the two national banks mentioned above which for some time have been refusing to pay checks bearing this notation. Not all of the checks drawn on the Farmers & Merchants Bank contain a restrictive statement; those which are unrestricted the Federal Reserve Bank handles in the usual way.

Checks bearing the notation "Payable in New York exchange at current rates" are believed to be non-negotiable and have been so held in a ruling of the Federal Reserve Board. 1916 Bulletin, page 459. This fact in itself should tend to discourage a general or widespread adoption of the use of such checks. At present there are only three banks in the Atlanta district which are refusing to pay checks of this kind. The Federal Reserve Bank is declining to handle such checks and is returning them to their indorsers, just as it has done in previous cases of this kind. Under these circumstances it is my opinion that the course of action which is now

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Federal Reserve Bank of St. Louis

being allowed by the Federal Reserve Bank of Atlanta in this matter and which is approved by its Counsel, is the wise and proper one at this time.

Information as to this development in the Atlanta situation has been submitted to Mr. Newton D. Baker and he has addressed a letter to Mr. Wyatt stating that for the time being and until there is some evidence of a tendency in this practice to spread he considers the course now followed by the Federal Reserve Bank of Atlanta to be the wise one. A copy of Mr. Baker s letter on this subject is attached hereto.

This matter is submitted to the Board for its information. No action appears to be necessary in this connection, at least for the present.

Respectfully,

George B. Vest,
Assistant Counsel.

Letters attached.

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X-5049

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

3:00 O'clock p.m.
January 24, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective January 25, 1928.

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X-5050

January 4, 1928.

Mr.Robert S. Parker,
Healey Building,
Atlanta, Georgia.

My dear Bob :

Please accept my most sincere apology for not replying more promptly to your letters of November 23, 26, 29 and December 13 with regard to the complaint of the Smith Dry Goods Company about the presentation of a draft drawn on the form used by the Smith Dry Goods Company in lieu of ordinary bank checks. Pressure of other business, including the final promulgation of the Board's Regulations, have prevented me from replying more promptly to these and a number of other letters which have been on my desk for some time.

I thank you very much for sending me a copy of the letter which you sent to the Smith Dry Goods Company and also for keeping me advised as to the developments - or, rather lack of developments, since it appears from your letter of December 13th that the Smith Dry Goods Company had never replied to your letter. I believe that they were simply endeavoring to get us to admit that we could not handle such items as cash items, and I rather expect to seean attempt made to broaden the use of such items. If such a tendency should develop, it may become necessary for us to find some way to stop it.

In your letter of November 23rd you say that it has been your thought that a draft drawn by an individual on himself to the order of a named person, even though "through a bank" is essentially so different from a check drawn against deposits in a member bank that the prohibition in the "caudel appendage" of the Hardwick Amendment could hardly be taken as applicable thereto. I never have seriously considered any effort to classify these items as "checks", but I believe that they could be classified as "drafts" and I think it is very important for us to bear in mind the fact that the Hardwick Amendment applies to drafts as well as to checks. The only difficulty about the matter is that the term "drafts" has been held by the courts to be synonymous with "bills of exchange", and if we construe it as applying to drafts of this kind there is no telling where such a construction will lead us. We might even be asked to handle bill of lading drafts at par, which would be quite unfortunate.

In your letter of November 29th, you discuss the question whether these items could be brought within the terms of the Hardwick Amendment as being included in the term "checks and drafts" but raise some objections based upon the lack of uniformity in the so-called "Uniform Negotiable Instruments Law and the fact that Section 87 thereof has not been enacted in all the States. In my opinion, however, these items could clearly be called "drafts", irrespective of the existence or non-existence of Section 87 of the Negotiable Instruments Act, since the courts have held that the term "draft" is synonymous with "bill of exchange"

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and these items clearly are bills of exchange. I do not think it makes much difference whether they are payable at a bank or through a bank or whether the customer has instructed his bank to pay them. The difficult question is: How can we rule that these drafts come within the terms of the Hardwick Amendment and other bills of exchange do not? The only solution that occurs to me is to take the position that the term "drafts" as used in the Hardwick Amendment was intended to apply to drafts which are intended to serve the purpose of a check and not to ordinary bills of exchange. In other words, a draft drawn upon a customer's own bank might be construed as a remittance of funds as distinguished from a draft drawn upon any other debtor, which is in the nature of a piece of commercial paper or a means of effecting the collection of a debt. It seems to me that the former might properly be classed as cash items since they constitute a means of effecting payment or making a remittance; whereas, the other items might be treated as collection items since their purpose is either to effect a collection or to be used as a means of borrowing money through the discount of such items. The distinction I have in mind is a practical rather than a legal distinction and it is difficult for me to express it clearly. It would be even more difficult to draft a regulation clearly distinguishing between these two classes of items. For these reasons, I hope that it will never be necessary for us to classify such items as drafts in order to prevent the banks from circumventing the Hardwick Amendment.

For the present, I think the question is academic; since I do not believe that the practice is very likely to spread to such an extent in the near future as to make it necessary for us to take some restrictive action.

Your letter of November 26th raises a practical question as to what the Federal reserve banks should do when items of this kind come to them in cash letters - i.e., whether they should detach them from the cash letters and handle them as collection items, whether they should request further instructions, or whether they should be returned. This is essentially a practical question which I am not prepared to solve; but, off-hand, I would be inclined to think that such items should be returned unless the Federal reserve bank has specific instructions to handle them as collection items; because I believe that in this way we could best discourage the practice of using these items in lieu of checks. The question is a rather important one, however, and probably one on which a system policy should be adopted.

Please let me know whether your bank has adopted a definite policy as to the method of handling these items or whether you think this question should be discussed with a view of evolving a system policy with reference thereto.

With kindest personal regards, I am,

Cordially yours,

Walter Wyatt,
General Counsel.

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FEDERAL RESERVE BANK
OF ATLANTA

X-5050-a

December 13, 1927.

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

Dear Walter:

You will recall that some time since the Federal Reserve Bank sent a letter to the Smith Dry Goods Company of Greenville, Alabama, which letter had reference to the return without presentation of a draft drawn in the form used by the Smith Dry Goods Company in lieu of ordinary bank checks. The Reserve Bank has never received a reply to that letter. I am merely passing this information on to you so that your files may be complete.

It seems to be the custom in Alabama not to reply to letters that are sent out on the subject of irregular, anomalous or restricted checks. You will recall that none of the banks, which formerly restricted their cashiers checks against payment through the Federal Reserve Bank, acknowledged receipt of the letter addressed by the Reserve Bank to them on the subject.

Very truly yours,

(SIGNED) Robt. S. Parker

Robt. S. Parker.

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FEDERAL RESERVE BANK
OF ATLANTA

X-5050-b

November 29, 1927.

Mr. Walter Wyatt,
c/o Federal Reserve Board,
Washington, D. C.

Dear Walter:

This letter is written with further reference to yours of November 21st, in which you discuss the question of whether or not the Federal Reserve Board might, by regulation, require the payment at par by member banks of drafts drawn on third persons but payable "through" such banks.

You have given considerable study to the question, as is evident from the very excellent memorandum enclosed with your letter. I have given very little study to the matter, as will probably be made equally evident by this matter. I am, however, venturing to advance certain ideas which may have a bearing on the matter.

I am inclined to the opinion that it would not be practicable - if indeed legal - to undertake to bring drafts, drawn in the form used by the Smith Dry Goods Company, within the category of cash items, to be handled as such. I recognize the fact that the Federal Reserve Act prohibits member banks from exacting exchange charges both on "checks and drafts" forwarded to them for payment by the Reserve Banks, and that, under the Negotiable Instruments Law as it has been enacted in most of the States, an instrument made payable at a bank is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon.

Assuming for the moment that a draft payable through a bank is the same in legal effect as one payable at a bank, there are certain practical difficulties in the way, to which I refer.

In Georgia, and in at least one other State, Section 87 of the Negotiable Instruments Act reads, in effect, that an instrument made payable at a bank "shall not be" equivalent to an order to the bank, etc. The statutes of Illinois, Nebraska, South Dakota and North Dakota contain no such provisions as are ordinarily embodied in Section 87. The statutes of Missouri, New Jersey and Arkansas differ from the "uniform" Act, although the differences in the Acts of the last mentioned States are doubtless not material. In the States where Section 87 is not of force, and in the States where Section 87 as enacted is directly contrary to the tenor of the uniform Act I do not believe that a draft drawn on a third person, whether or not expressly made payable at a bank, could be regarded as being the legal equivalent of a check.

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Furthermore, certain of the States still allow days of grace for the payment of sight drafts. In Massachusetts all drafts and bills of exchange made payable within the State at sight are allowed three days of grace unless there is an express stipulation to the contrary. In New Hampshire there is the same provision. In Rhode Island there is a provision of the same tenor, although the language used is different from the language in the Massachusetts and New Hampshire Acts. There is a provision for days of grace upon sight drafts payable in North Carolina under certain conditions pointed out in the Act.

I am not certain, furthermore, whether an instrument payable through a bank would have the same legal effect as an instrument payable at a bank. I have not looked into this phase of the question at all, but it strikes me offhand that the phrase "payable through" a bank might be taken as merely indicating a channel through which presentation is desired, whereas an instrument payable at a bank is, of course, payable where designated. In my own practice I have frequently drawn drafts on individuals or firms "in care" of a designated bank, and I believe that a notation that a draft is payable through a bank might be taken as meaning little more than the furnishing of an address at which the drawee could be reached.

It seems to me, also, that the Hardwick Amendment was framed with reference to checks and drafts drawn on a bank itself rather than to bills of exchange drawn on individuals, whether or not made payable at a bank.

On the practical side there would seem to be difficulties also. Bankers are reluctant to treat drafts drawn on persons other than bankers as they treat cash items. For example, many bankers allow good customers, who maintain satisfactory balances, to draw against balances created by deposits of checks payable at a distance before the same are collected, whereas very few bankers allow their customers to draw against uncollected drafts that are not drawn upon banks or bankers.

I do not wish you to think that I am undertaking to give any matured opinion, or to express to you the views of the Federal Reserve Bank of Atlanta. What is said in this letter is purely a personal opinion and the same is written to you informally because I am very much interested in the question even though I have not given it the study which you have.

With best personal regards, I am,

Cordially yours,

(signed) Rbt. S.Parker

Robert S. Parker.

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X-5050-c

FEDERAL RESERVE BANK
OF ATLANTA

November 26, 1927.

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

Dear Walter:

Reference is made to our prior correspondence concerning the Smith Dry Goods Company drafts. As I previously advised you, the custom of the Birmingham Branch of the Atlanta Bank seems to have been to treat such paper as non-cash items, returning the same in the absence of specific instructions to handle as collection items.

Although the matter has not been put up to me for decision, I have been wondering whether it would be better for the Bank to handle such items as at present or, in cases where they are sent enclosed with cash letters, merely to detach the same and send them forward as collection items. Another course of procedure might be to notify endorsers by wire, in such cases, that the drafts could not be handled as cash items but would be handled for collection upon the receipt of telegraphic instructions.

I am clearly of the opinion that, under the present Regulations of the Board, the Bank can not handle such paper as cashitems. I am further of the opinion that the Bank would be strictly within its rights, in cases where such items come to it enclosed with cash letters, in returning the items to endorsers. I am also of the opinion (although there may be some doubt about the matter) that, even though the drafts reach us in cash letters, the Bank could handle the same for collection even without waiting for specific instructions to do so. Were, however, this latter method of handling to be adopted, it would mean "playing" into the hands of the local banks, since the drafts would, in such cases, receive prompt handling and exchange charges would be exacted for remittance.

On the other hand, the Federal Reserve Bank wishes to give prompt and satisfactory service, and the return of paper which could be handled as collection items might, in some cases, entail loss to the holders of the drafts, and in any event collections would be delayed thereby.

After thinking the matter over, I have about reached the conclusion that perhaps the best method of handling would be to remove

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such items from cash letters, advising endorsers that the same can not be handled as cash items and requesting instructions by wire. I have not wished, however, to form any definite opinion without corresponding informally with you about the matter. I shall appreciate your consideration of this matter and any suggestions which you may care to give.

With best personal regards, I am,

Very truly yours,

(signed) Rbt. S. Parker

Robt. S. Parker

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FEDERAL RESERVE BANK
OF ATLANTA

November 23, 1927. 190

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

Dear Walter:

Herewith enclosed you will find two copies of the form of letter which I have prepared to be sent by the Federal Reserve Bank to the Smith Dry Goods Company of Greenville in reply to its letter of November 14th.

The form of letter prepared is in the form of my original draft as revised in accordance with the very helpful suggestions which you made.

I read with great interest your letter to me of November 21st, as well as the memorandum enclosed therewith.

Off hand, I am very much inclined to agree with your conclusion that the Federal Reserve Board would have the right under the Act to require the payment at par of sight drafts if the same could be construed as orders drawn on member or clearing member banks.

Despite, however, the sections of the Negotiable Instruments Act to which Mr. Baker refers and your very excellent memorandum, it has been my thought that a draft drawn by an individual on himself to the order of a named person, even though payable "through a bank" is essentially so different from a check drawn against deposits in a member bank that the prohibition in the "caudal appendage" of the Hardwick Amendment could hardly be taken as applicable thereto. Of course, if the drawer of the draft had given the bank standing instructions to pay all paper upon presentation, the legal relationship between the bank and its customer might, in such event, be closely analogized to the ordinary relationship which exists with respect to the payment of depositor's checks.

The whole matter is somewhat novel to me and I have not given it sufficient thought to make my observations of any value.

I am also rather hurried this morning since I am leaving for Birmingham this afternoon, where I hope to see the University of Georgia at last defeat Alabama.

I want to write you more about the matter within the next few days.

With best personal regards, I am,

Cordially yours,
(signed) Rbt. S. Parker
Robt. S. Parker.

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FEDERAL RESERVE BANK
OF ATLANTA

November 23, 1927.

Smith Dry Goods Company,
Greenville, Alabama.

Gentlemen:

We received on November 18th a letter from you bearing date of November 14th, in which you stated that on October 31st you mailed a check to S. Goldberg & Company, 1359 Broadway, New York, for $27.37, using a form of check which you enclosed with your letter. You further stated that said check had been returned to you after the same had been returned by the Federal Reserve Bank to the bank of original deposit and by the latter bank to the payee, S. Goldberg and Company. You asked in your letter why this paper was not sent on to your bank, where the same would have been paid and charged to your account, instead of being returned without presentation to the First National Bank of Greenville.

We find, on inquiry of the Birmingham Branch of this bank, that the item in question was received by said Branch in a cash letter, dated November 5th, and sent to it direct by the First National Bank of Jersey City for the account of the Federal Reserve Bank of New York; that the same was returned for the reason that it was not a check drawn on a bank, and the Branch had no instructions to handle it as a collection item. In fact, our standing instructions from the Federal Reserve Bank of New York were to return all items which could not be collected at par.

In order that the above may be clear to you, we add the following explanation:

This bank, and all other Federal Reserve Banks, handle checks pursuant to a Regulation of the Federal Reserve Board known as Regulation J, which Regulation defines checks as follows:

> "A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand."

All other items are handled as "non-cash collection items" when requested by the sending bank.

The form of instrument submitted with your letter is not a check. The same is a draft, drawn by your Company on itself and payable to the order of a named person. You will, of course, note the

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distinction. If the instrument were a check it would be drawn by you on the bank, not by you on yourselves and payable through a bank. 192

Under banking usage the term "cash items" ordinarily means checks drawn upon banks or bankers against purported deposits and payable on demand. As above stated, the item to which you refer was sent to our Birmingham Branch as a cash item, to be handled as such. We had no instructions to handle the same as a draft or collection item. This difference is important. The Federal Reserve Act prohibits the making of exchange charges against the Federal Reserve Banks and, therefore, makes it illegal for the Federal Reserve Banks to pay such charges. Your bank at Greenville is a member bank and remits at par to the Federal Reserve Bank for all checks drawn upon it and presented by the Reserve Bank for payment and remission of proceeds. Had the item to which you refer been drawn upon the bank it would have been sent forward in the usual way and would have been paid at par upon presentation through the mails. The item, however, was drawn upon you and, although payable by you "through the First National Bank of Greenville", was not a check as defined in the Regulations of the Federal Reserve Board, and could not be handled as a cash item under the Board's existing Regulations. We repeat that our instructions from the Federal Reserve Bank of New York were to return any item which could not be collected at par.

We have gone into the above in considerable detail since, in your letter, you complain of having been embarrassed by the return of the "check". Whether you desire to pay your obligations by ordinary bank checks or by drafts drawn in the form submitted with your letter is, of course, your own business, and we do not wish you to think that we are trying to make suggestions as to the conduct of your affairs. Inasmuch, however, as you have asked us to give you an explanation of our handling of the draft, we deem it not amiss to add that if you use checks drawn in the usual form on your bank they will be handled as cash items, whereas drafts drawn on yourself cannot, under the Regulations of the Board, be so handled.

In your letter you state, in effect, that this Bank only "occasionally selects" one of your checks to return "while hundreds of them come through in the regular way" and are paid by your bank. The Birmingham Branch advises that it is its custom to handle any paper, drawn in the form submitted with your letter, in the manner indicated above. While we have no definite information on the subject, it is probable that some of your paper has reached the Branch with instructions to handle for collection, and that the same has been handled in accordance with such instructions, as would have been done in the instant case had the item reached us with instructions to handle as a collection item instead of as a cash item.

We are glad that you wrote us about the matter and shall be pleased to supplement this letter if it is not entirely clear to you.

Very truly yours,
M. B. Wellborn,
Governor.

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November 21, 1927.

Honorable Newton D. Baker,
Union Trust Building,
Cleveland, Ohio.

My dear Mr. Baker:

I have received your wire of November 21st with reference to Mr. Parker's letter addressed to me under date of November 19th, and I regret to say that I disagree with the suggestion contained therein.

The election of the holder to treat these instruments as bills of exchange pursuant to the terms of section 130 of the Negotiable Instruments Act would have no effect except to classify them as bills of exchange rather than notes; and the making of them payable at a bank would not, in my opinion, make them technically "checks", even though, under the terms of section 87 of the Negotiable Instruments Act, they would be "equivalent" to orders on the bank to pay the same for the account of the principal debtor thereon.

On the other hand, I am inclined to the view that these items in their present form may properly be considered "drafts" within the meaning of the Hardwick Amendment, for reasons which are explained in detail in memorandum which I addressed to the Board under date of November 11th, a copy of which is enclosed herewith for your information.

As stated in that memorandum, I think it would be best for the Federal reserve bank to continue at present to handle these items as non-cash items; but I think that we should be very careful not to take the position that they cannot be handled as cash items under the terms of the Hardwick Amendment. This is especially important, because it appears that the E. H. Smith who addressed the letter to the Federal Reserve Bank on behalf of the Smith Dry Goods Company is a director of the First National Bank of Greenville, Alabama, and that a certain Park Smith is Vice President of that bank, all of which leads me to believe that this letter is an attempt to trap the Federal reserve bank into an admission that these items cannot be handled as cash items under the terms of the law.

I think it would be much better for the Federal reserve bank to take the position that they are not technically "checks" within the meaning of the Board's existing Regulation J and say nothing about the question whether they may be considered drafts within the meaning of the Hardwick Amendment. This would leave us free to amend Regulation J so as to include these items if this practice should spread to such an extent as to make it necessary to do so. I, therefore, suggested to Mr. Parker certain changes in the phraseology of his letter in accordance with these views, and I enclose for your information a copy of a telegram and letter which I have sent to Mr. Parker.

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The Board has not yet taken any action on my memorandum of November 11th and, therefore, everything said in that memorandum as well as everything contained in this letter should be considered merely an expression of my own personal views and not as representing in any way the views of the Federal Reserve Board.

Hastily, but with kind personal regards, I am,

Sincerely yours,

(signed)

Walter Wyatt,
General Counsel.

Enclosures.

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TELEGRAM X-5050-g

FEDERAL RESERVE SYSTEM

Cleveland Nov 21 Received at Washington, D.C.
Nov 21 1927

Water Wyatt
Washn

Have read Parker's letter to you of November 19 and accompanying papers, Do you not think it would be wise to call Parker's attention to sections 87 and 130 of the negotiable instruments act and suggest his adding to his letter a paragraph as follows:
"We call your attention to sections 87 and 130 of the negotiable instruments act. If you will change the word 'through' to 'at' before first national bank and instruct the payee to endorse thereon his election that the instrument shall be treated as a bill of exchange, the Federal Reserve Bank will, of course, treat the matter as a check and handle it for payment without exchange charges in accordance with the Federal Law on that subject.

Baker

1144am

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X-5050-h

November 21, 1927.

Mr. Robert S. Parker,
Healey Building,
Atlanta, Georgia.

My dear Bob:

This is in further reply to your letter of November 19th enclosing a copy of a letter addressed to the Federal Reserve Bank of Atlanta by the Smith Dry Goods Company of Greenville, Alabama, and a copy of the proposed reply which you had prepared.

Your proposed reply is a very excellent letter; and I would have no suggestions to offer if I were prepared to admit that these items could not properly be handled as cash items under the terms of the Federal Reserve Act and that the Federal Reserve Board could not properly require them to be paid at par. The Hardwick Amendment, however, applies to "checks and drafts"; and I am of the opinion that items such as these can be construed to be "drafts" within themeaning of the prohibition against exchange charges, especially where they are intended to circulate as checks. For the present, I believe it will be best to continue to handle such items as non-cash items, on the theory that Regulation J applies only to checks as defined therein; but, if this practice should spread to such an extent as to endanger seriously the success of the par clearance system, it might become necessary sometime in the future to amend Regulation J so as to include these items. In view of this possibility, I think it would be extremely unfortunate to take the position that these items "could not be regarded as the legal equivalent of a check drawn on the bank"; and I believe that it would be better to change your letter so as to base your refusal to handle these items as cash items on the terms of the Board's present Regulation J rather than on the terms of the law. This is especially important in view of the fact that it appears from the Bankers' Directory that the E. H. Smith, who dictated the letter addressed to the Federal Reserve Bank of Atlanta by the Smith Drygoods Company, is a director of the First National Bank of Greenville, Alabama, and that a certain Park Smith is Vice President of the same bank, all of which leads me to believe that the letter is an effort to trap the Federal Reserve Bank into an admission that these items cannot be handled as cash items under the terms of the Federal Reserve Act.

I enclose a copy of a telegram which I received from Mr. Baker containing suggestions regarding your letter; but I do not agree entirely with Mr. Baker's views. I do not think that the changes which he

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suggests would make these items "checks" within the meaning of Regulation J, nor do I think it safe to take the position that in their present form they are not "drafts" within the meaning of the Hardwick Amendment.

I also enclose for your information a copy of a memorandum which I have addressed to the Board on this subject which contains a more complete expression of my views as to the proper method of handling this situation and as to the legal phases thereof. The Board has not yet acted on this memorandum; and every statement contained therein as well as every statement contained in this letter should be considered merely an expression of my own personal views and not as indicating the views of the Board in any way.

Hastily, but with all best regards, I am,

Cordially yours,

Walter Wyatt,
General Counsel.

Enclosures.

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X-5050-i

LEASED WIRE SERVICE

November 21, 1927.

Parker - Atlanta

Your letter November 19. Consider your letter an excellent one, but would suggest following modifications. Insert after third paragraph a new paragraph as follows: "This bank handles checks pursuant to a regulation of the Federal Reserve Board known as Regulation J, which defines checks as follows: (quote definition). All other items are handled as 'non-cash collection items' when requested by the sending bank". Omit second sentence, fourth paragraph. Change next to last sentence, fifth paragraph, to read: "The item, however, was drawn upon you and, although payable by you at the bank, was not a check as defined in the regulations of the Federal Reserve Board and could not be handled as a cash item under the Board's existing regulations". Make any other changes necessary to harmonize letter with these suggestions. If it is true that you have handled hundreds of these items during the past three years think that you should explain such action. Letter follows.

WYATT

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X-5050-j

FEDERAL RESERVE BANK
OF ATLANTA

November 19, 1927.

Mr. Walter Wyatt, General Counsel,
Federal ReserveBoard,
Washington, D. C.

Dear Walter:

On yesterday the Federal Reserve Bank of Atlanta received a letter from Smith Dry Goods Company of Greenville, Alabama, written under date of November 14th, a copy of which I hand you herewith, also a copy of the form of draft which was enclosed with the Smith Dry Goods Company's letter. When the matter was called to my attention I decided that it would be best to have any reply to the letter approved by you and Mr. Baker since it is possible that the letter may have a significance not now apparent. At any rate, it would seem to furnish a good opportunity to "educate" at least one person who is lending himself to the plan of the Greenville, Alabama, bank to evade the par collection provisions of the Federal Reserve Act.

I have prepared, and enclose herewith, a tentative reply to the above letter. I would be glad if you would criticize the same and, if possible, let me have your suggestions or criticisms by wire on Monday. A copy of this letter is being sent to Mr. Baker with the same request for suggestions or criticisms.

I have, as you know, been of the opinion that a draft drawn by an individual on himself to the order of a third person is not a "check or draft" with respect to which the Reserve Bank can require a par remittance. I believe that the bank would have the right to handle the same as a collection item. Whether or not such items, when received, should be detached from the cash letter and sent forward as collection items, or whether they should be returned, is a matter which should have consideration in the near future.

If Mr. Baker should happen to be away from his office on Monday please wire me your views and instructions, since I would like to answer the Smith Company's letter as soon as possible. So far, the Federal Reserve Bank has merely acknowledged receipt of the letter, stating that it would communicate with the Birmingham Branch of the Bank as to the details of the handling, and then advise further.

With best personal regards, I am,

(signed) Rbt. S. Parker
Robt. S. Parker,
of General Counsel.

Copy to:
Mr. Newton D. Baker,
Union Trust Building,
Cleveland, Ohio.

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Smith Dry Goods Company,
Greenville, Alabama.

Gentlemen:

We received on November 18th a letter from you bearing date of November 14th, in which you stated that on October 31st you mailed a check to S. Goldberg & Company, 1359 Broadway, New York, for $27.37, using a form of check which you enclosed with your letter. You further stated that said check had been returned to you, after the same had been returned by the Federal Reserve Bank to the bank of original deposit and by the latter bank to the payee, S. Goldberg & Company. You asked in your letter why this paper was not sent on to your bank, where the same would have been paid and charged to your account, instead of being returned without presentation to the First National Bank of Greenville.

We find, on inquiry ofthe Birmingham Branch of this bank, that the item in question was received by said Branch in a cash letter, dated November 5th, and sent to it direct by the First National Bank of Jersey City for the account of the Federal Reserve Bank of New York; that the same was returned for the reason that it was not a check drawn on a bank, and the Branch had no instructions to handle it as a collection item.

In order that the above may be clear to you, we add the following explanation.

The form of instrument submitted with your letter is not a check. A check, as that term is understood in ordinary business parlance as well as in law, is an order upon a bank, purporting to be drawn upon a deposit of funds for the payment, at all events, of a certain sum of money, to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand. The instrument which you use is a draft, drawn by your Company on itself and payable to the order of a named person. You will, of course, note the distinction. If the instrument were a check,it would be drawn by you on the bank, not by you on yourselves and payable through a bank.

Under banking usage the term "cash items" means checks drawn upon banks or bankers against purported deposits and payable on demand. As above stated, the item to which you refer was sent to our Birmingham Branch as a cash item, to be handled as such: We had no instructions to handle the same as a draft or collection item. This difference is important under the Federal Reserve Act. The Federal Reserve Act prohibits the making of exchange charges against the Federal Reserve Banks and, therefore, makes it illegal for the Reserve Banks to pay such charges. Your bank at Greenville is a member bank and remits at par to the Reserve Bank for all checks drawn upon it and presented for payment and remission of proceeds by the Reserve Bank. Had the itemto which you refer been drawn upon the Bank it would have been sent forward in the usual way, and it would have been paid at par upon presentation through the mails. The item, however, was drawn upon you and, although payable by you at the bank, could not be regarded as the legal equivalent of a check drawn on the bank. Our instructions from the Federal Reserve Bank of New York were to return any item which could not be collected at par.

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We have gone into the above in considerable detail since, in your letter, you complain of having been embarrassed by the return of the "check". Whether you desire to pay your obligations by ordinary bank checks or by drafts drawn in the form submitted with your letter is, of course, your own business, and we do not wish you to think that we are trying to make suggestions as to the conduct of your affairs. Inasmuch, however, as you have asked us to give you an explanation of our handling of the draft, we deem it not amiss to add that if you use checks drawn in the usual form on your bank they will be handled as cash items, whereas, drafts drawn on yourself can not be so handled.

We are glad that you wrote us about the matter and shall be pleased to supplement this letter if it is not entirely clear to you.

Very truly yours,

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X-5050-1

SMITH DRY GOODS COMPANY

No. _____

GREENVILLE, ALA. _____192_

Pay to the
Order of _____$_____

_____DOLLARS

TO SMITH DRY GOODS CO.

Through First National Bank 61-121

Greenville, Alabama.

_____

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X-5050-m

SMITH DRY GOODS COMPANY

"The Ladies Store"

EVERYTHING FOR LADIES AND CHILDREN

Greenville, Ala.

Nov. 14, 1927.

The Federal Reserve Bank,
Atlanta, Ga.

Gentlemen:

On Oct. 31 we mailed check to S. Goldberg & Co., 1359 Broadway, New York, N. Y. for $27.37 covering amount due them, using the form of check enclosed herewith, which form we have been using for several years, and same was returned to us after having been returned by The Federal Reserve Bank to their bank and by their bank to them.

Now this check, as are all checks drawn by us, was protected on the day drawn by ample funds in our bank to cover same, was endorsed by S. Goldberg & Co., and deposited in their bank, The First National Bank of Jersey City, and was endorsed by that bank, and we can not understand why this check was not sent on to our bank where same would have been promptly paid and charged to our account instead of being returned without even being presented at our bank.

It seems to us that the endorsements on this check would have been ample protection to you and we feel that you have no right to embarrass us by returning our checks instead of allowing them to come through for payment, nor do we understand why you should just occasionally select one to return while hundreds of them come through in a regular way and our bank has never refused payment on one of them.

Thanking you in advance for prompt reply in explanation of your action in this matter, we are,

Yours very truly,

Sgn.

SMITH DRY GOODS CO.

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X-5050-n

November 11, 1927

Federal Reserve Board

Mr. Wyatt - General Counsel.

New Effort of Certain Alabama Member Banks to Avoid Par Clearance.

The attached letter addressed to the Board by Governor Wellborn calls attention to a new practice adopted by a few small member banks in Alabama for the purpose of avoiding the payment of their checks at par. It appears that in lieu of ordinary bank checks these banks have encouraged their customers to draw drafts on themselves payable through their local banks.

At present, the Federal Reserve Bank of Atlanta is handling these items as non-cash collection items, but invites the Board's suggestions or instructions.

OPINION

While the question is not at all free from doubt, I am of the opinion that these items come within the terms of that provision of Section 13 of the Federal Reserve Act which, in effect, forbids member banks to exact exchange charges on "checks and drafts" forwarded to them for payment by Federal reserve banks.

This practice, however, is confined at present to a few small and relatively unimportant banks, and is not very likely to spread because it is not in accordance with the usual business procedure. I am of the opinion, therefore, that it would not be advisable for the Board to institute any proceedings designed to compel these few small banks to discontinue the practice, unless and until the practice shows a tendency to spread. If the practice spreads sufficiently to threaten the success of the par clearance system, I think the appropriate remedy would be the same as that followed in the case of checks stamped "Not payable through a Federal reserve bank". That practice was successfully checked by having the Federal Reserve Bank advise the member banks which had adopted the practice that it was in violation of the Federal Reserve Act and that if such banks did not remit at par for such checks the Federal Reserve Bank would charge them to their reserve accounts.

DISCUSSION

It appears that the items in question are in the form of bills of exchange drawn by individuals on themselves payable on demand at the banks with which such individuals have accounts. They are not technically checks, because they are not drawn on banks. Section 87 of the Negotiable Instruments Law, however, reads as follows:

> "Where the instrument is made payable at a bank it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon."

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Under this section, the banks are authorized to pay these items and charge them to the accounts of their customers. Thus, in practice, these items serve the same purpose as checks and may be handled by the drawee banks in the same manner as ordinary checks. While they are not technically checks, it would seem that they clearly come within the term "drafts" as used in that provision of Section 13 of the Federal Reserve Act which, in effect, forbids members to exact exchange charges on "checks and drafts" forwarded to them for collection or payment by Federal Reserve Banks.

Section 13 authorizes Federal reserve banks to handle two classes of items: (1) "Checks and drafts payable upon presentation", and (2) "Maturing notes and bills". "Checks and drafts payable upon presentation" may be received on deposit, but "maturing notes and bills" may be received only "for collection". This indicates a clear intent to distinguish between these two classes of items; but the line of demarcation is rather vague, because of the fact that the term "drafts" is a non-technical term with no well defined meaning and has generally been construed by the courts as being synonymous with bills of exchange.

> "A draft is the common term for a bill of exchange. The terms 'draft' and 'bill of exchange' are commonly used synonymously. The term 'drafts' as used in a statute is sometimes held broad enough to cover checks." 8 Corp. Juris 40.

Because of the fact that the term "maturing notes and bills" is broad enough to include bills of exchange, it has generally been assumed that bills of exchange should be received only for collection and handled as non-cash collection items, and that practically the only itemswhich should be handled as cash items are checks and so-called "bank drafts" which are really checks drawn by one bank on another.

It is not entirely clear, however, that this is the proper construction of the law. It could be argued with much force that the term "maturing notes and bills" should be construed to apply only to notes and bills payable on a definite date or a certain number of days after date, and that bills of exchange payable at sight or on demand should be classed as "drafts payable on presentation". Such a construction would be consistent with one of the Board's rulings to the effect that bills of exchange payable at sight or on demand may not be rediscounted by Federal reserve banks because they have no definite maturity, and, therefore, cannot be said to "have a maturity at the time of discount of not more than 90 days, exclusive of days of grace." It would be unfortunate, however, to classify all bills of exchange payable at sight or on demand as "drafts payable on presentation" and require the Federal reserve banks to handle them as cash items, because such a ruling necessarily would apply to bill of lading drafts and numerous other bills of exchange which normally and properly are handled as collection items.

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Nor do I think that it is necessary to go this far in order to rule that the items in question are properly included in the term "checks and drafts payable on presentation". It would seem logical to construe that term as applying only to checks and such bills of exchange as are intended to serve the purpose of checks. Such a construction would seem to conform to the purpose of the Act; would be consistent with usual banking practice; and would prevent devices such as this to evade the par clearance of checks, without at the same time requiring Federal reserve banks to handle as cash items all bills of exchange payable at sight or on demand.

If it should ultimately be necessary to have a test case on this question, I believe that, by proper explanation of the history, purpose and effect of the first paragraph of Section 13, it would be fairly easy to get the court to see this distinction and to rule that items such as those now under consideration come within the term "checks and drafts payable on presentation" without at the same time ruling that this term includes all bills of exchange payable at sight or on demand.

The so-called Hardwick Amendment, of course, does not apply to "maturing notes and bills", but does apply to "checks and drafts". It is therefore clearly intended to apply to that class of items which Federal reserve banks are authorized to receive on deposit; and the prohibition against making exchange charges against Federal reserve banks, which has been construed by the courts as a prohibition against member banks exacting such charges on checks forwarded to them by Federal reserve banks for payment, applies only to "checks and drafts" and not to "maturing notes and bills".

Section 16 of the Federal Reserve Act contains the following provision, which was the original requirement for par clearance:

> "Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank."

Here, again, par clearance is required as to "checks and drafts" and not as to "maturing notes and bills". This provision also would seem broad enough to include bills of exchange intended to circulate as checks and might logically be construed as not applying to bills of exchange not intended to circulate as checks although they are payable at sight or on demand.

I am of the opinion, therefore, that it is a violation of the par clearance provisions of the Federal Reserve Act for a member bank to charge exchange on items of the kind described above when such items are forwarded to them by a Federal reserve bank for payment as cash items.

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Under the Board's existing regulations, however, such items are not classed as cash items, because Regulation J applies only to "checks" and contains a foot-note defining a check as follows:

> "A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand."

If the Board wishes to take the position that these items must be handled as cash items and that member banks must remit for them at par, it would be necessary to amend Regulation J so as to apply to "checks and drafts" or amend the definition of a "check" so as to include bills of exchange payable at a bank, at sight or on demand, and intended to circulate as checks.

Since Regulation J does not now apply to this class of items, it is entirely correct for the Federal Reserve Bank of Atlanta to refuse to handle them except as non-cash items. If the Board, however, should amend Regulation J so as to apply to all bills of exchange payable at banks on sight or on demand and intended to circulate as checks, all Federal reserve banks will be required to handle such items as cash items. There are a number of practical reasons why it would be inadvisable to require this unless it becomes necessary to do so in order to meet a serious attack on the par clearance system.

While the device adopted by these few Alabama banks is a very ingenious device, and, if resorted to by a large number of banks, would constitute a serious attack on the par clearance system, I do not believe that it is of sufficient importance at the present time to warrant such a change in the Board's regulations or to warrant any affirmative action on the part of the Federal Reserve Board or the Federal reserve bank against these few small member banks to compel them to stop the practice.

If, however, the practice should spread to such an extent as to constitute a serious menace to the success of the par clearance system, then I would recommend that the Board amend Regulation J in the manner suggested above and adopt the same procedure with reference to these banks that it adopted with reference to checks stamped "Not payable through a Federal reserve bank". With reference to those checks, the Board addressed a letter to the Federal Reserve Bank of Atlanta advising such bank that the stamping of this device on checks of a member bank was in conflict with the provisions of the Federal Reserve Act and instructed the Federal Reserve Bank to collect such checks at par even if it were necessary to charge them to the account of the drawee banks. The Federal Reserve Bank advised the drawee banks of the instructions which it had received from the Federal Reserve Board, and I am informed that these banks which had adopted the practice of stamping their checks "Not payable through the Federal reserve bank" either discontinued the practice of stamping their checks in this manner or remitted for them at par, so that attack on the par clearance system was successfully met.

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If the banks which had stamped their checks "Not payable through a Federal reserve bank" had refused to remit at par for such checks, it was the plan of Mr. Baker, Mr. Parker, and myself to have the Federal Reserve Bank charge them to the reserve account of the drawee bank until the matter was brought to an issue in one of two ways:

(1) We hoped that if these banks intended to test the question in the courts they would bring a suit to enjoin the Federal reserve bank from charging such items to their accounts, and thus the legality of the practice could be tested out in an ordinary civil suit brought by the offending banks against the Federal Reserve Bank, which would put us in the best tactical position.

(2) If these banks persisted in refusing to remit for such checks at par but failed to bring any suit against the Federal Reserve Bank, we thought it might be necessary, as a last resort, to test the question in a suit brought by the Comptroller of the Currency to forfeit the charter of one of these banks for failure to maintain the reserves required by Section 19 of the Federal Reserve Act. This would have enabled us to test the question in the courts, but would have been undesirable for tactical reasons, and Mr. Baker, Mr. Parker and myself were all agreed that it was a remedy which we should use only as a last resort.

CONCLUSION

If the practice described in Governor Wellborn's letter should spread to such an extent as to constitute a serious menace to the success of the par clearance system, I think we should follow the same procedure as was outlined for the checks stamped "Not payable through a Federal reserve bank"; but, at present, I think it would be advisable to ignore the practice and await further developments.

Respectfully,

Walter Wyatt,
General Counsel.

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X-5050-o

October 27, 1927.

Hon. Newton D. Baker,
Union Trust Building,
Cleveland, Ohio.

My dear Mr. Baker:

I enclose for your information a copy of a letter addressed to Governor Young under date of October 19th by Governor Wellborn of the Federal Reserve Bank of Atlanta, describing a new effort of certain banks in Alabama to avoid paying their checks at par by having their customers draw draftson themselves payable through their local banks.

I have not yet had an opportunity to make any real study of this problem; but shall give you a mere off-hand expression of my views.

In view of the provision of Section 87 of the Negotiable Instruments Law to the effect that, "Where the instrument is made payable at a bank it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon," these drafts certainly have the same practical effect as checks; but it is doubtful whether they are technically checks. The Hardwick Amendment and the par clearance provisions of Section 16 relate to "checks and drafts" but we have generally assumed that the word "drafts" refers to "bank drafts" or checks drawn by one bank on another. I think, however, it might properly be construed to refer to "drafts" of the kind described above.

At any rate, this practice is a plain evasion of the par clearance provisions of the Federal Reserve Act, and I think we can find a way to stop it if it shows a tendency to spread. In this connection a recent decision of the British Courts might be very helpful. I understand that, in order to evade the payment of a tax on checks, the Midland Bank adopted the device of having their customers issue receipts in lieu of checks which receipts, however, passed from hand to hand and served the same purpose as checks. I understand that the Chancellor of the Exchequer ruled that these receipts or "chequelettes" were subject to the tax and that he has been upheld by the courts. The British Revenue Act, however, contains the following provision which is quite broad and could be construed to apply to these documents without the necessity of actually holding that they are checks:

> "For the purposes of this Act the expression 'bills of exchange' includes draft, order, cheque, and letter of credit, and any document or writing (except a bank note) entitling or purporting to entitle any person, whether named therein or not, to payment by any other person of, or to draw upon any other person for, any sum of money."

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I have found discussions of this question in the following British publications which you probably can obtain from the library of the Federal Reserve Bank of Cleveland, "The Banker", July, 1927, page 29; id. August, 1927, page 106: "The Financial News", June 3, 1927, page 5; and the "Statist", July 30, 1927, page 183.

One thing which bothers me is the fact that in our zeal to require all instruments handled by Federal reserve banks to be negotiable and to restrict the par clearance privileges to negotiable checks we have inserted as a foot note to Regulation J the following definition of a check:

> "A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand."

If we are to get around this practice and also the practice of avoiding par collection by making checks payable in New York exchange it might be advisable to consider the elimination or broadening of this definition. The Regulations have not yet been finally approved but probably will be acted on in the near future.

In this connection I might also advise you that Governor Young has some doubts as to the advisability of our proposed amendment to Regulation J requiring member banks and nonmember clearing banks to "cooperate fully in the system of check clearance and collection for which provision is herein made." I sincerely hope that when you are in Washington next week you can find time to talk to me for a few minutes about this.

I was in New York last week and gained the impression that some of the officers of the Federal Reserve Bank expect you to appear before the Governors' Conference to make a report regarding the method of handling checks. I told them it was my understanding that you were very busy with other matters and had not made arrangements to attend the Governors' Conference.

With kindest personal regards, I am

Very truly yours,

Walter Wyatt,
General Counsel.

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X-5051

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Friday, January 27, 1928.

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.

Industrial activity continued in December at a relatively low level and railroad distribution of commodities declined further, while the general level of prices remained unchanged. Holiday trade at retail stores was in somewhat larger volume than in the previous year.

Production.

Production of manufactures remained in practically the same volume in December as in November, while output of minerals, when allowance is made for usual seasonal changes, showed a slight increase. Activity in the textile, shoe, and tobacco industries was reduced in December, while the output of steel, nonferrous metals, and petroleum increased. Production of automobiles continued in small volume during December, but increased considerably in January, and within recent weeks there has been also a further increase in the activity of steel mills.

Building contract awards were slightly larger in December than in November, but smaller than in December of the two preceding years. Total awards for the year 1927 in 37 Eastern States, as reported by the F. W. Dodge Corporation, were valued at about $6,300,000,000, which is slightly less than the 1926 total of $6,380,000,000. December awards for residential and commercial buildings were larger than in December, 1926, while those for industrial buildings and public works were smaller. During the first three weeks of January contract awards were in approximately the same volume as during the corresponding weeks of last year.

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Trade.

Retail trade of department stores and mail order houses increased slightly more than is usual in December and were somewhat larger than a year ago. Inventories of merchandise carried by department stores were reduced in December and at the end of the year were slightly smaller than at the end of 1926. Wholesale trade in nine leading lines continued smaller than in the corresponding month of last year. Stocks of groceries, shoes, hardware and furniture carried by wholesale firms were smaller at the end of December than a year earlier and stocks of dry goods and drugs were slightly larger. Freight car loadings declined further in December and were in smaller volume during that month and the early part of January than at any time in four years. The decrease in loadings occurred in practically all groups of commodities.

Prices.

The Bureau of Labor Statistics index of wholesale commodity prices remained practically unchanged in December and was at the end of the year about 1 per cent lower than a year ago. Prices of grains, hide and leather products, nonferrous metals, and rubber increased in December, while prices of livestock, cotton, and lumber declined. In the first three weeks of January, there were increases in prices of iron and steel, grains, and wool, while prices of cattle, hogs, and cotton declined.

Bank Credit.

At the reserve banks the seasonal demand for currency after reaching its peak on December 24 was followed by a return flow of money from circulation, which amounted to about $440,000,000 between December 24 and January 18. This decline in the demand for currency, which was approximately the same as a year ago, was reflected in a decrease for the same period of about $360,000,000 in bills and securities of the reserve banks.

Loans and investments of member banks in leading cities declined during

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the first half of January, but were still at a higher level than at any time last year. The decline of about $200,000,000 between January 4 and January 18 reflected a decrease of about $280,000,000 in the volume of loans on securities, offset in part by a considerable increase in the banks' investment holdings.

Call loan rates showed the usual seasonal decline at the turn of the year but other money rates were slightly firmer. The rate on bankers' acceptances increased during the second week of January from 3 1/4 to 3 3/8 per cent and there was also a slight advance in rates on time money in the open market.

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BAKER, HOSTETLER & SIDLO
Counsellors at Law
Union Trust Building
Cleveland

August 24, 1927

Mr. Walter Wyatt
Federal Reserve Board
Treasury Building
Washington, D. C.

Dear Mr. Wyatt:-

Under date of August 22 Mr. Vest forwarded to me a copy of Mr. Parker's letter to you of August 19. I have just reread the letter of Mr. Newton of the Federal Reserve Bank of Atlanta to Governor Crissinger of August 3 and also the letter from Mr. Bell to Mr. Newton of August 2. A comparison of these would seem to indicate that while the Samson banks have discontinued the original endorsement "Not payable through Federal Reserve Bank of Atlanta", the same banks have now begun to issue checks marked "Payable in New York exchange at current rates", and that when checks bearing this latter endorsement are presented, they decline to pay at par. The Federal Reserve Bank of Atlanta has adopted the practice of returning these checks to their endorsers without presentation.

It seems to me that Mr. Parker must be right in the view that a check made payable only in exchange is not a check at all, and I should imagine that the inconvenience to bank customers of paper of this sort would be such as to prevent any rapid growth in its use, but history is too full of instances in which people have been persuaded to fight with enthusiasm for their own enslavement to give me any confident feeling that the people in Alabama will not be willing to punish themselves, and particularly their creditors, in order to help these Alabama banks in their effort to collect toll from business, so that we may have to face a growth in this practice. For the time being and until there is some evidence of a tendency in this practice to spread, I think the course now followed by the Federal Reserve Bank of Atlanta, as stated by Mr. Parker, is the wise one. If the practice should grow, I confess I have not thought out any way of combating it but I am keeping the matter in my mind and would be glad to be kept advised of the situation in the Atlanta district if any change occurs by way of other banks adopting this practice.

Cordially yours,

(signed) Newton D. Baker

Newton D, Baker.

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FEDERAL RESERVE BANK
OF ATLANTA

August 23, 1927.

SUBJECT: Member Banks Stamping on Cashier's Checks "Not payable through Federal Reserve Bank of Atlanta".

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

Dear Walter:

Mr. Bell, Cashier of the Reserve Bank, has read the letter which I wrote you last week with reference to the practice of several Alabama banks of placing on certain of their cashier's and customer's checks a restriction against payment in any medium other than New York exchange.

Mr. Bell thinks that perhaps my letter was misleading in that you might imply therefrom that practically all of the checks which are drawn upon the Farmers & Merchants Bank of Samson contain this restriction. Mr. Bell calls my attention to the fact that a great many of the checks on this bank are drawn without any restriction, and that the Reserve Bank handles such unrestricted checks.

I have thought it best to supplement my recent letter, in order that you may not rest under any misapprehension.

Very truly yours,

(signed) Rbt. S. Parker

Robt. S. Parker.

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X-5053-b 316

FEDERAL RESERVE BANK
OF ATLANTA

August 19, 1927.

SUBJECT:-Member Banks Stamping on Cashier's Checks "Not payable through Federal Reserve Bank of Atlanta."

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

Dear Walter:

You may recall that on May 25th of this year I wrote you in the above matter, giving you the names of nine Alabama banks which had placed on their cashier's and customer's checks a legend reading in effect "payable in New York Exchange at current rates." In that letter I stated further that all of the banks mentioned, except the First National Bank of Samson, and Slocomb National Bank, Slocomb, had been paying such checks when presented by the Reserve Bank. I also stated that the said First National Bank of Samson and the said Slocomb National Bank had advised that they would not pay checks bearing this notation, at par.

It has this morning been brought to my attention that the Farmers & Merchants Bank of Samson, a State member, has, for the past few weeks, refused to pay at par all checks bearing this restrictive notation. Therefore, the Reserve Bank has been returning to its endorsers checks drawn on the said Farmers & Merchants Bank and restricted to payment in New York exchange.

Some of the checks drawn on said Farmers & Merchants Bank and returned unpaid to the Reserve Bank, showed at the time of return the addition of another notation, viz: a memorandum written in pen and ink on the checks and reading substantially as follows:

"Drawn with restrictions. Return through channels other than Federal Reserve Bank and same will be paid immediately".

Mr. Creed Taylor, Deputy Governor, has today submitted to me the question of whether or not the memorandum or notation to the effect that the check would be paid if presented to the drawee bank by an agency other than the Federal Reserve Bank, should properly occasion any special handling with the Farmers & Merchants Bank, similar to that which was outlined at Cleveland when we had under advisement restrictions on checks against payment through Federal Reserve Banks.

I have told him that, in my opinion, there is quite a difference between the placing on a check of a notation to the effect that the same is not payable through a Federal Reserve Bank and a mere entry on a check, at

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the time payment is refused, to the effect that payment would be immediately made upon another presentation through a different agency.

I told Mr. Taylor, however, that I would submit the matter to you. We have no information at present that any banks, other than the several Alabama institutions, the names of which have been furnished you, are adopting this practice, but there is a chance, of course, that others may do so.

It seems to me that there is in fact a wide difference between a check which limits the medium of its payment to exchange and a check which is restricted against presentation through a Federal Reserve Bank. A check which is expressly made payable only in exchange is not a negotiable instrument, in my opinion, and there is a sound reason why the practice of issuing such checks should not gain any very considerable headway. It is true, furthermore, that under the letter of the Alabama statute, with which you are familiar, a bank in that State is purporting to exercise a right given to it by statute when it expressly stipulates that it will pay checks drawn on it only in exchange. We have all decided that a stipulation against presentation through a Federal Reserve Bank is violative of the letter and spirit of the Federal Reserve Act, but it does not seem to me that this could be said with regard to checks which are drawn payablein exchange, whatever else might be said in criticism of such checks.

I am of the opinion, furthermore, that the bank upon which a check, payable only in exchange is drawn, would have the right, at the time of refusing to pay at par to the Federal Reserve Bank, to advise the holder of the check, by notation entered thereon, that payment would be made upon presentation through any agent who could legally collect in New York exchange at current rates.

Of course the widespread use of checks drawn payable in exchange, would be equally as damaging to the Reserve Banks' par collection system as would the use of checks restricted against presentation through Federal Reserve Banks. Therefore, I have thought it best to present the situation to you since at Cleveland we gave comparatively little attention to this phase of the general situation.

As a matter of fact, the practice of drawing non-negotiable checks, payable only in exchange, would seem to be so obviously unsound as a business proposition as to discourage, if not practically prevent, any very general acceptation or adoption.

Only three banks in this District are refusing to pay checks so restricted.

I am advised by the Reserve Bank that it is returning all such

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checks drawn on said three banks without presentation, and this would appear to be the logical thing to do, since it is a certainty that payment would be refused upon presentation by the Reserve Bank, and to do so would only result in delay which might occasion loss.

If, however, you feel that a different handling would be advisable, please advise me.

Thinking that you may wish Mr. Baker to take this matter under advisement, I am, for your convenience, writing this letter in duplicate.

With best personal regards, I am,

Cordially yours,

(signed) Rbt. S. Parker

Robt. S. Parker

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X-5054

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

4:30 O'clock p.m.
January 26, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Richmond has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective January 27, 1928.

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FEDERAL RESERVE BANK

OF NEW YORK

November 22, 1927.

Dear Governor Young:

On November 17 I forwarded to you a copy of the Minutes of the recent Conference of Governors and I have today forwarded a letter referring specifically to certain matters acted upon at the Conference which were submitted to the Federal Reserve Board for its advice and approval or upon which the Board has asked for the opinion or recommendation of the Conference.

As indicated in the Minutes as well as in the letter of today's date, the Conference voted (see paragraph 17, Secretary's Minutes) that in its opinion it would be advisable for the Federal Reserve Board to call a conference of the counsel of the several Federal reserve banks in Washington at a reasonably early date to meet with Mr. Wyatt and Mr. Baker to consider the various legal questions pending before the System. While the Conference voted to request the counsel of the several Federal reserve banks to bring to that meeting, if called, any legal questions now pending before them which they think should be submitted to the meeting, nevertheless, I was asked as Secretary of the Conference to submit to the Board a list of those questions pending before the Conference of Governors which it was thought should be considered by the Conference of Counsel. For your information I am glad to list below the topics referred to.

(a) What effect will ruling of Supreme Court of Texas that trade acceptances are non-negotiable which bear the legend - "The obligation of the acceptor

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hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase" -have upon the negotiability of bankers acceptances containing similar language, e. g., "This acceptance arises from the domestic storage of cotton and was secured at time of acceptance by documents securing and conveying title to --- bales and will remain so secured throughout the life of this acceptance."

(b) In view of recent decision of Supreme Court of Kansas (Colorado and So. Railway Co. vs. Docking, Receiver of American State Bank, 124 Kansas, 48), in which it was held that directions contained in cash letters to remit by draft, changed the relationship between the forwarding bank and collecting bank from principal and agent to that of creditor and debtor: What change, if any, should be made in methods of procedure now followed to obtain immediately available remittances for cash letters?

(c) The action of certain member banks in stamping on cashier's checks the phrase "not payable through Federal reserve banks."

(d) The action of member banks in stamping on cashier's checks the phrase "Payable in New York Exchange."

(e) The par clearance case of the State Bank of Hugo, Minn.

(f) The individual reports by each Federal reserve bank outlining the procedure followed by each bank in handling cash and non-cash collections. These reports were prepared as a result of a request made at the Spring Conference of Governors to be submitted to Mr. Baker for his review and recommendations.

(g) The right of a Federal reserve bank to charge to the reserve account of an insolvent member bank checks received by the Federal reserve bank for collection and transmitted to the member bank for payment prior to the insolvency. (See Board letter (X-4976) dated October 1927.

In the opinion of the Governors Conference all of these topics listed above should be submitted to the Conference of Counsel of the Federal

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reserve banks for their consideration if the Federal Reserve Board agrees with the governors that such a conference should be called.

Very truly yours,

GEORGE L. HARRISON,
Secretary, Governors Conference.

Honorable R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

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X-5056 223

January 26, 1928.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel

My dear Mr. Wyatt:

I enclose a confirmation of my wire of today. You are, of course, familiar with the plan under which Federal Reserve exchange drafts are issued. Although in form they are drawn upon a particular Federal Reserve bank, they contain the statement that they are immediately available for credit at any Federal Reserve bank. Occasionally one of these drafts is issued and lost before it is presented to the Federal Reserve bank upon which it is drawn. I would like to have the opinion of the counsel for the other banks as to whether or not the Federal Reserve bank which is the drawee is under any liability to the holder of such a draft; or whether or not, as in the case of ordinary drafts, the holder has no right of action against the drawee.

You will readily see that if the Federal Reserve bank is liable to the holder of such a draft before it is presented then the Federal Reserve bank may not with safety accept and act upon notices to stop payment upon such drafts which are said to be lost.

February 9th will suit me very well for the conference, and I look forward with pleasure to seeing you on that day.

Very truly yours,

(S) M. G. Wallace,
Counsel.

Wyatt January 26, 1928
Federal Reserve Board
Washington, D. C.

Your wire January twenty-sixth Suggest the following topic for discussion at conference Liability of Federal Reserve banks on Federal Reserve Exchange draft before such draft is presented and accepted

Wallace

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PROGRAM FOR CONFERENCE OF COUNSEL OF FEDERAL RESERVE BANKS TO BE HELD AT WASHINGTON, D.C., ON FEBRUARY 9, 1928.

(Note: The first seven topics are those suggested by the Governors' Conference. The remaining topics were suggested by Counsel for various Federal reserve banks.)

1. What effect will ruling of Supreme Court of Texas that trade acceptances are non-negotiable which bear the legend - "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" - have upon the negotiability of bankers' acceptances containing similar language, e.g., "This acceptance arises from the domestic storage of cotton and was secured at time of acceptance by documents securing and conveying title to --- bales and will remain so secured throughout the life of this acceptance."

2. In view of recent decision of Supreme Court of Kansas (Colorado and So.Railway Co. vs. Docking, Receiver of American State Bank, 124 Kansas, 48), in which it was held that directions contained in cash letters to remit by draft, changed the relationship between the forwarding bank and collecting bank from principal and agent to that of creditor and debtor: What change, if any, should be made in methods of procedure now followed to obtain immediately available remittances for cash letters?

3. The action of certain member banks in stamping on cashier's checks the phrase "not payable through Federal reserve banks."

4. The action of member banks in stamping on cashier's checks the phrase "Payable in New York Exchange."

5. The par clearance case of the State Bank of Hugo, Minn.

6. The individual reports by each Federal reserve bank outlining the procedure followed by each bank in handling cash and non-cash collections. These reports were prepared as a result of a request made at the Spring Conference of Governors to be submitted to Mr.Baker for his review and recommendations.

7. The right of a Federal reserve bank to charge to the reserve account of an insolvent member bank checks received by the Federal reserve bank for collection and transmitted to the member bank for payment prior to the insolvency.

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(See Board letter (X-4976) dated October 1927).

8. Liability of Federal reserve banks on Federal reserve exchange draft before such draft is presented and accepted. (Suggested by Mr. Wallace, Richmond.)

9. Terms on which non-cash collections should be handled by Federal reserve banks. (Suggested by Mr. Newell, Cleveland.)

10. Proposed uniform answer for use in check collection suits. (Suggested by Mr. Stroud, Dallas.)

11. Recommendation by American Bankers Association of uniform bank collection code which it is proposed to have enacted in every State of the Union. (Suggested by Mr. Stroud, Dallas.)

12. In determining negotiability of instruments, what should be the attitude of the Federal Reserve Banks where there are no decisions on the question involved in the state under whose laws the instrument must be construed, and there is a conflict in the authorities in other jurisdictions? (Suggested by Mr. Leedy, Kansas City.)

13. Do state statutes providing for preference against failed banks apply to National Banks? (Suggested by Mr. Leedy, Kansas City.)

14. Should an effort be made to obtain a decision of the Supreme Court of the United States on the question as to right of preference against failed banks for checks drawn against such banks which are charged to drawees accounts, but proceeds of which are not finally paid over? (Suggested by Mr. Leedy, Kansas City.)

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CRITICISMS AND SUGGESTIONS RE ORIGINAL DRAFT (X-4878) OF REGULATION ON NON CASH COLLECTIONS.

Federal Reserve Bank of Boston.

"For the present Regulation K, which would become new Regulation G, there would be substituted a new Regulation K, dealing with the collection of maturing notes and bills, that is, so-called non-cash items.

"The draft of the proposed Regulation which was submitted with the Federal Reserve Board's letter of June 21, 1927, in the main follows the structure of Regulation J, dealing with check collection.

"Section II of the proposed Regulation defines the maturing notes and bills which the Federal Reserve Banks may receive. The definition appears to include the bulk of the items which the Federal Reserve Banks are collecting. Paragraph 5 of Section II(a) appears, however, to be somewhat restrictive so far as the present practice of this bank is concerned. Paragraph 5 reads as follows:

> 'All other negotiable instruments payable in the United States, except checks, bank drafts, and other cash items which have not been previously dishonored.'

"It is the practice of this bank at the present time to receive drafts payable in South America, this bank handing the items to a Boston member bank which attends to collection and accounts to this bank for the proceeds. It is also the practice of this bank at the present time to receive for collection checks drawn on Canadian banks, the items being handed by this bank to Boston member banks who account to this bank for the proceeds.

"Section IV, items received for collection, is worded as follows:

> '(a) Each Federal Reserve Bank will receive from its member and non-member clearing banks, for collection on the terms and conditions hereinafter prescribed, all items defined in Section II as "maturing notes and bills".'

If the above section were changed to read as follows, it would more nearly follow a similar section in Regulation J and perhaps more accurately express the real intent:

> '(a) Each Federal Reserve Bank will receive from its member banks and from non-member clearing banks in its district, for collection on the terms and conditions hereinafter prescribed, "maturing notes and bills" as defined in Section II.'

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"Sub-section (b) of Section IV provides that each Federal Reserve Bank will receive from other Federal Reserve Banks and from all member banks and non- member 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'. The writer would suggest that the words 'items such as defined in Section II as "maturing notes and bills" which are payable within its district' be substituted for the words 'all items defined in Section II as "maturing notes and bills."'

"Sub-section (c) of Section IV provides that no Federal Reserve Bank shall receive for collection any item payable outside of the continental United States. This conflicts with the practice of this bank as mentioned above.

"Section V of the proposed Regulation outlines the terms of collection. Inasmuch as the circular letters of the Federal Reserve Banks now contain the uniform clause agreed upon by the Governors' Collection Committee with regard to guaranty of prior indorsements on collection items, would it be desirable to have this requirement reflected in the terms of collection promulgated by the Federal Reserve Board? This condition is embodied in our collection circular (Circular Letter F) as Section III, a copy of which is appended hereto.

"If it is decided to insert in Section V any provision with regard to the guaranty of prior indorsements as above suggested, the question then arises whether in paragraph 1 of Section V, covering the responsibility of the Federal Reserve Banks for due diligence and care in forwarding or presenting collection items, it would be desirable to add 'and its guaranty of prior indorsements'. If this were done, the condition would be similar to that contained in a like provision in Regulation J.

"Section VII of the proposed Regulation applies to charges for collection and paragraph 2 of sub-section (a) specifies that the actual expense of registration, insurance, or transportation of bonds and coupons forwarded to other points for collection, shall be deducted by the Federal Reserve Bank and credit given for the actual net proceeds. Would it not be well to change the proposed paragraph 2 so as to require such deduction 'as far as practicable' or "'when practicable' ? This inquiry is based upon the fact that the Federal Reserve Bank frequently receives the same kinds of items from many different sources, even in very small shipments, and later combines a lot of small items for shipment to some one point of collection. In such cases it is frequently not feasible to deduct the expense of registration, etc., from the proceeds of individual items.

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"Sub-section (b) of Section VII provides that any member bank or non-member bank selected by the Federal Reserve Bank as an agent to collect maturing notes and bills received under the terms of the Regulation may make a reasonable charge for its services in handling such maturing notes and bills. Would it be desirable to specify in this sub-section that this shall not be construed as permitting any bank to make a charge for remitting for any check or draft when such check or draft is drawn on itself regardless of whether such check or draft is drawn on a savings or an ordinary demand account? This would reflect the principle established in the Board's ruling printed on Page 964 of the Federal Reserve Bulletin for October, 1919."

Federal Reserve Bank of New York.

"REGULATION K

SECTION II. DEFINITIONS

"3. Now reads -

'Checks, drafts and other cash items which have previously been dishonored.'

"It is suggested that this be changed to read: 'Checks, drafts and other cash items which have previously been dishonored, and checks, drafts and other cash items on which special advice of payment or dishonor is required.'

"5. Now reads -

'All other negotiable instruments payable in the United States, except checks, bank drafts, and other cash items which have not been previously dishonored.'

"It is suggested that this be changed to read 'All other negotiable instruments payable in the Continental United States.'

SECTION VII. CHARGES FOR COLLECTION

"(a) Charges by Federal Reserve Banks

"(2) Now reads as follows:

'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.'

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"It is suggested that the underlined portion be changed to read as follows: 'shall be charged by deduction from the credit or otherwise.' This change is suggested for the reason that it is the practice with some of the Reserve Banks either to accumulate these charges and bill monthly, or to make separate charge.

"(b) Charges by Collecting Agents.

"It is suggested that the following be added to this paragraph: 'No charge shall, however, be made by any bank for a check drawn on itself or for its own acceptance.'"

Federal Reserve Bank of Philadelphia.

"Draft of proposed Regulation on maturing notes and bills (Regulation K, Section II)

"Section II- 3. If this proposed Regulation is to be incorporated, we would suggest that the words "and cash items on which special advice of payment or dishonor is requested' be added.

"Section II - 5. We would suggest that this be altered to read: 'all other negotiable instruments payable in the United States, except checks, bank drafts, and other cash items not included in Paragraph 3'.

"Section VII (third line). We would suggest the substitution of the words 'payment has been received' for the words 'a remittance'. It is the general practice in this District, and we believe in other Districts, to account for collection items by a notification reading 'Your account has credit today for the following collection', or 'We credit your account with collection', or 'We credit your account with collections paid', or 'You have credit for the following collections'. A notification of this sort is not technically a 'remittance', but is equally satisfactory, and in some cases more so.

"Section VII (b). We would suggest adding to this the words 'except their own acceptances and checks upon themselves'.

"It seems to us that (c) might be omitted. It seems unnecessary to suggest to a bank that it may make a charge against its own customers for services rendered by it to them, and we think it good policy to keep out, as far as possible, of relations between banks and their customers."

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Federal Reserve Bank of Cleveland. [230

The Federal Reserve Bank of Cleveland submitted the following suggestive revision of this regulation together with an explanation of the reason why it felt that changes in the proposed draft should be made:

(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" is, for the purposes of this regulation, hereby defined to include the classes of negotiable instruments listed below, payable within the continental United States:

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 except checks or bank drafts

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drawn on or payable by non-member banks which have not agreed to remit at par therefor in funds acceptable to the collecting Federal reserve bank, provided that any Federal reserve bank may require any depositing member bank to show to such Federal reserve bank's satisfaction that special conditions exist which make it proper for said Federal reserve bank to handle for collection items of the character normally received by the Federal reserve bank as cash items.

(b) NON-MEMBER CLEARING BANK. The term "non-member clearing bank" is defined to mean a non-member 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

(c) CASH ITEMS. The term "cash items" is defined to mean negotiable instruments which are collectible pursuant to the terms of Regulation J.

(d) COLLECTION ITEMS. The term "collection items" is defined to mean those items which are collectible pursuant to the terms of Regulation K.

(The provisions of paragraph 5 of subdivision (a), Section II, have been changed in the following respects:

(a) The definition has been broadened to include checks, bank drafts, and other negotiable instruments normally handled as cash items, but the right is reserved to the Federal reserve banks to require the depositing banks to show that special conditions exist making it proper that what are normally cash items should be handled as collection items. It is, of course, true that it would be unreasonable for depositing member banks to require all items which would normally be handled as cash items to be handled as collection items, but it is also true that in some unusual cases where doubt exists as to the collectibility of a cash item same should be handled by the Federal reserve banks as a collection item. It is felt, therefore,

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that it would be unwise for the regulation to exclude wholly from the category of collection items instruments of the character ordinarily handled as cash items except where such items have been previously dishonored. It is also felt that the provision inserted, reserving to the Federal reserve banks the right to require a showing that special conditions exist justifying the treatment of what is normally a cash item as a collection item, creates a safeguard against abuse of the collection facilities by the member banks.

(b) The definition in paragraph 5 is also narrowed to apply only to cases where the bank by which the item is payable has agreed to remit at par in funds acceptable to the Federal reserve bank undertaking the collection. This change obviates the necessity for the concluding unnumbered paragraph of subdivision (a).

It would seem that the definition as revised is more accurate and consistent with the uniform cash collection circulars of the various Federal reserve banks than is the draft submitted in the original of the proposed regulation.)

Subdivisions (c) and (d) have been added for the purpose of avoiding any question as to what "cash items" and "collection items" are under the terms of the Regulations.)

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.

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SECTION IV. ITEMS RECEIVED FOR COLLECTION

(a) Each Federal reserve bank will receive maturing notes and bills from its member banks and from non-member clearing banks, in its district.

(b) Each Federal reserve bank will receive from other Federal reserve banks maturing notes and bills payable within its own district.

(c) In order to eliminate unnecessary delay and expense and further to increase the efficiency of the collection service herein provided, each Federal reserve bank will authorize all member banks and non-member clearing banks in its district to send maturing notes and bills for collection direct to the Federal reserve bank of the district in which such items are payable, for credit to the account of the Federal reserve bank of the district in which the sending bank is located.

(d) Each Federal reserve bank will receive from member banks and non-member clearing banks in other districts maturing notes and bills payable within its own district.

(e) No Federal reserve bank shall receive for collection any check or bank draft drawn on or payable by a non-member 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, or any item payable outside of the Continental United States.

(The purpose of the changes made in the original draft of Section IV is to make effective a uniform practice with respect to the direct sending operations of collection items. While it may be true that the Federal Reserve Board does not legally have authority to require

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all Federal reserve banks to authorize all member and non-member clearing banks to send collection items direct to other Federal reserve banks, it is believed that if the Board states its policy to have such privilege given to all member and non-member clearing banks by the several Federal reserve banks, the reserve banks will conform to this policy and the Federal Reserve Board will then be in position of being justified in relying upon the presumption that the Federal reserve banks are authorizing all of their member and non-member clearing banks to send collection items to other Federal reserve banks. The risk of loss which may exist with respect to direct sendings of checks does not exist with respect to collection items because the receiving Federal reserve bank does not give advice of payment until it has actually received payment on the particular item.

The provision restricting collections to items payable in the Continental United States may render improper the collection of foreign items by a few of the Federal reserve banks, but it would seem that the provision restricting the non-cash collection function to the territorial limits of the System as it at present exists is sound and that the Board is justified in promulgating a regulation to confine these operations within this territory. This is consistent with the recommendation of the Governors' conference in October, 1922, record Volume 18, Part 1, Page 82.)

SECTION V. TERMS OF COLLECTION

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 non-member 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

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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 direct to the banks on which they are drawn, at which they are payable, or through which they are collectible, for payment in cash, bank draft, or solvent credits; or present them direct to the person, firm or corporation on which they are drawn, for payment in cash or 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 final proceeds of any bank draft or check received in remittance.

SECTION VI. CREDIT FOR PROCEEDS

No Federal reserve bank shall credit the reserve account of any member bank or the account of any non-member clearing bank or any other Federal reserve bank for the amount of any maturing note or bill until payment

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in actually and finally collected funds has been received by the collecting Federal reserve bank. 230

(This paragraph is amended by slight changes in all language and the total elimination of the provision in the original draft that after credit, the collecting Federal reserve bank shall have the right in the event it does not receive payment in finally collected funds, to charge the reserve account or clearing account for the amount of the item. The language is also changed to mention accounts of Federal reserve banks because, in the direct sending operations, the account of the Federal reserve bank in whose district the item originated will be credited with the proceeds.)

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 final 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 final 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

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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 non-member bank selected by a 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 service in handling such maturing notes and bills; except that no such charge shall be made for handling checks and bank drafts.

SECTION VIII. OTHER RULES AND REGULATIONS

All Federal reserve banks shall also promulgate rules and regulations identical in terms, not inconsistent with the provisions of the law or of this regulation, governing the details of the collection of maturing notes and bills by such Federal reserve banks. Such rules and regulations shall be binding upon any member or non-member clearing bank which sends maturing notes and bills to its Federal reserve bank or any other Federal reserve bank for account of its Federal reserve bank.

(The language of this section has been changed to provide for uniform rules and regulations to be promulgated by all Federal reserve banks, consistent with the law and the Board's regulation, with respect to the details of collection of maturing notes and bills. It would seem that inasmuch as the non-cash collection function is to be exercised throughout the System, the details of administration prescribed by the Federal reserve banks should not differ in form or substance because:

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1. In the event any litigation arises in which the rules and regulations prescribed by the banks are in question, a decision favorable to the rules and regulations prescribed by the Federal reserve banks will be beneficial to all banks equally if the provisions of the circulars of the several banks are identical, whereas if there is a difference in language, it may be questionable whether the decision of the Court will be beneficial to all the Federal reserve banks. If the decision is adverse, the change necessitated by it should be made in identical form in all circulars promulgated by the banks so that they will be equally protected against the possibilities of the adverse case;

2. For the purpose of clarity in administration, especially in view of the direct sending privilege, it would seem that the circulars should be identical in form;

3. It would seem that circulars identical in terms on the non-cash collection function are advisable because they would give to all banks the benefit of the combined thought of the officers of the different banks who are familiar with the non-cash collection problem, and should result in the preparation of a better circular than would be the case if each bank, individually, prepared its circular. It is suggested that the preparation of the uniform circular should be entrusted to the Standing Committee on Collection as that committee's members constitute, presumably, the best qualified representatives of the various banks to deal with this problem; and

4. A further reason for a uniform circular is that it would prevent inconsistencies in practice in the different Federal reserve districts which are confusing, not only to the member and non-member clearing banks, but to the officers and operating departments of the several Federal reserve banks as well.)

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Federal Reserve Bank of Richmond.

Referring to the Board's proposed Regulation K, Series of 1927, "Collection of Maturing Notes and Bills," the following changes are suggested:

SECTION II. DEFINITIONS

> Change paragraph 3 to read: "Checks, drafts and other cash items which have previously been dishonored; and checks, drafts and other cash items on which special advice of payment or non-payment is desired."
>
> Change paragraph 5 to read: "All other negotiable instruments payable in the Continental United States, except checks, drafts and other cash items which have not been previously dishonored or upon which no special advice of payment or non-payment is desired."

These changes are suggested because it is understood to be the general custom among reserve banks to handle checks, drafts and other cash items as non-cash items for collection at the request of member banks when special advice of payment or non-payment is desired, regardless of whether or not such items have previously been dishonored.

The collecting banks (agents), however, are not permitted to make a charge for their services in handling checks, drafts and other cash items, whether they have previously been dishonored or not, and therefore it would seem that Section VII (b) - "Charges by Collecting Agents" - should be changed, regardless of whether the above suggestions are adopted by the Board, by adding the following to that section appearing at the bottom of page five. The last clause regarding acceptances of member banks is in accordance with the Board's ruling XIII-B, 302.

> "Provided, however, no such charge shall be made for handling checks, drafts and other cash items received under the terms of this regulation: and provided further, that no such charge shall be made by a member bank for handling its own acceptances."

It is also suggested that the last paragraph under Section II, appearing at the bottom of page one, be changed to read:

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"The term 'maturing notes and bills' does not include checks, bank drafts, or other cash items which cannot be collected at par in funds acceptable to the collecting Federal reserve bank; that is, cash items drawn on or payable by non-member banks which are not on the par list issued by the Federal Reserve Board."

This will avoid the handling of checks on non-member non-par banks as non-cash items and the possibility of such banks' exacting an exchange charge on such items, which is prohibited under Section VII (b), as above revised. It will be noted that "certificates of deposit" have been omitted in revising the above paragraph, and it is also suggested that the words "or certificate of deposit" be omitted from Section IV (c) at the bottom of page two. The omission of "certificates of deposit" from these two paragraphs is suggested because it is understood that the Federal Reserve Board has ruled that a certificate of deposit is in effect a promissory note of the bank issuing it and may be received as a non-cash item for collection, and the issuing bank may therefore make an exchange charge when remitting for it. In view of this ruling certificates of deposit payable by non-member non-par banks are now handled by the Federal reserve banks as non-cash items for collection and should not be excluded in these paragraphs.

SECTION V. 3.

In accordance with the report of the Standing Committee on Collections to the Conference of Governors of November 12, 1923, Federal reserve banks are permitted to route drafts with documents attached, payable at sight or on demand, whether such drafts be purchased, discounted, or received for collection, direct to the point of payment in another district, when specifically requested to do so, and they are also permitted to route any collection item with a definite maturity direct to the point of payment when it is necessary to do so, in order that the item may reach the point of payment by maturity. It would seem that this paragraph should make provision for these exceptions by the addition of the following:

"Provided, however, that items with a definite maturity, payable in another district, may be forwarded direct to the place of payment in such other district when it is necessary to do so in order to reach the place of payment by maturity, and, further, that sight or demand drafts with documents attached, payable in another district, may be forwarded direct to the place of payment when the collecting reserve bank is specifically requested to do so."

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SECTION VI. CREDIT FOR REMITTANCES

It is not the practice of reserve banks to pass credit for collection items until they have received actual and final payment in cash or in the proceeds of any bank draft or check received in remittance, as provided for in Section V. 4. The circular of this bank provides that "when remittance for a collection item is received in the form of a bank draft or check, credit will not be passed to the member bank's reserve account until such draft or check is actually collected." It is understood that this is the general practice among Federal reserve banks, and it would seem that section should be altered to meet the generally accepted practice (which is doubtless a sound one) and should simply read as follows:

> "No Federal reserve bank shall credit the reserve account of any member or non-member clearing bank with the amount of any maturing note or bill until it has received actual payment in cash or in the proceeds of any bank draft or check received in remittance."

SECTION VII. (a) (2)

It is not always practicable to deduct the expenses mentioned in this paragraph in giving credit for the proceeds of such collections, and such costs are usually ascertained later and charged to the banks from which such collections were received. It is also the practice of at least one of the Federal reserve banks to accumulate such charges and make monthly charges to the accounts of member banks, with suitable statements. It is suggested, therefore, that this paragraph read:

> "The actual expenses of registration, insurance, or transportation of bonds and coupons forwarded to other points for collection may be charged to the bank from which such bonds and coupons were received for collection."

The word "shall" in this paragraph has been changed to "may," because it is the practice of Federal reserve banks to absorb such expenses if they amount to less than twenty-five cents.

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REGULATION K, SERIES OF 1927,
COLLECTION OF MATURING NOTES AND BILLS.

* * *

The proposed Regulation K appears to satisfactorily cover the non-cash collections function, with the following exceptions:

Section II, paragraph 5, construes the term "maturing notes and bills" to include "all other negotiable instruments payable in the United States, except checks, bank drafts, and all other items which have not been previously dishonored." Under this interpretation, checks received under special instructions, such as telegraph payment or non-payment, could not be handled as non-cash collection items. This paragraph directly conflicts with the uniform instructions in the check collection circulars of all Federal reserve banks which provide that, if any member bank should desire to have any checks handled by a Federal reserve bank under any instructions contrary to the uniform instructions, it will be necessary for such member bank to forward such checks as individual non-cash items with the instructions noted in the letter of transmittal, for collection and credit when paid, in accordance with the terms of our current Non-Cash Collections Bulletin.

I do not believe it was intended to change the present practice of handling checks under special instructions, and my opinion seems to be confirmed by paragraph (c), Section IV, of the proposed Regulation K which, by implication, provides for their handling, inasmuch as that paragraph excludes the handling of any check drawn on or payable by a non-member bank which cannot be collected at par in funds acceptable to the collecting Federal reserve bank. If, in Section II, paragraph 5, the words, "all other negotiable instruments payable in the United States," were added to the end of paragraph 4 and the remaining words of paragraph 5 were struck out entirely, the condition would be corrected.

In the next to the last line on page 1, the third word, "and," could be omitted with clarifying effect and make more definite the interpretation that "maturing notes and bills" does not include checks drawn on non-member banks which cannot be collected at par, etc.

Section VI provides that, upon receipt of a remittance in payment of a collection item, the Federal reserve bank will give credit in the reserve account of the member bank from which such item was received, subject to payment of such remittance in actually and finally collected funds. It is, at present, a requirement of the non-cash collection regulations that credit and advice of credit should not be given until receipt of payment in immediately available funds, and it is our view that this practice should be continued. We should not carry float on non-cash collection items and advice of payment should be definite and final, as at the present time. Under Section VI as it now stands,

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Federal reserve banks would carry float and advice of credit could not be considered as definite and final.

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Federal Reserve Bank of St. Louis.

July 9th, 1927.

MEMORANDUM TO MR. MARTIN:

I have gone over the proposed new Regulation on non-cash collections, which accompanied Federal Reserve Board letter X-4878, and have the following suggestions to offer:

Section II (a) 3 Should be changed to read: "Checks and drafts and other cash items which have previously been dishonored; and checks, drafts and other cash items on which special advice of payment or dishonor is required."

5 Should be changed to read: "All other negotiable instruments payable in the Continental United States."

The above changes are suggested for the reason that banks quite frequently desire to handle cash items on a non-cash basis, in order to obtain an actual advice of payment before passing credit to their customers.

Section IV (b). I would omit from the third line in this paragraph "are authorized to", for the reason that with one exception, all of the Federal Reserve Banks have given each other Federal Reserve Bank blanket authority to handle non-cash items received from all of their member banks or non-member clearing banks, and there appears to be no necessity for the receiving Reserve Bank checking to see whether the member bank or non-member clearing bank forwarding the item has authority. Such checking would result in unnecessary work, inconvenience and expense.

Section V 3. The Standing Committee on Collections, in its Report to the Conference of Governors, November 12th, 1923, recommended that Federal Reserve Banks be permitted, in their discretion, to route any documentary draft payable at sight or on demand, whether such draft be purchased, discounted or received for collection, direct to the point of payment in another District, but only when specifically requested to do so by the member bank selling, rediscounting or depositing for collection. This recommendation was approved by the Governors Conference. I, therefore, recommend that the paragraph under review be altered so as to provide for items payable in another District being forwarded direct to point of payment, either when the depositing bank requests that they be so forwarded, or it is necessary

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to so forward an item in order that it may reach the point of payment on or before maturity.

Section V 2. As I interpret this paragraph, it would permit a Federal Reserve Bank forwarding non-cash items payable in the City in which it is located to other banks in such city for collection and remittance, which is the plan recently tried out by the Federal Reserve Bank of Minneapolis, and which caused so much disturbance.

Section VI. This paragraph, as drawn, makes credit conditional under certain circumstances. The Federal Reserve Bank of St. Louis never intentionally credits a collection until the proceeds are in actually collected funds. If an item is sent to an out-of-town bank and returns are received in St. Louis exchange, credit is given after the draft on St. Louis is actually collected. If returns are received in the form of exchange payable at some point other than St. Louis, credit is given after such exchange has been converted into actual funds on which there is no possible recourse. This part of the Regulation as drawn is apparently intended to permit credit being passed prior to a Federal Reserve Bank receiving final payment of the remittance received from a collecting agent, without liability on the part of the Federal Reserve Bank.

Section VII (a) 2 provides that expense other than collection charges be deducted when giving credit for the proceeds of a collection. This is rather impractical, and has been discussed at meetings of the Standing Committee on Collections, particularly in respect to telegraphic costs. To illustrate: Suppose the Federal Reserve Bank of St. Louis receives a collection from the Federal Reserve Bank of New York or one of its member banks payable at Evansville, Indiana, which is to be forwarded by registered mail and insured. The expense of registration and insurance would have to be held in suspense, awaiting returns on the collection, and then deducted from the returns received before crediting the net proceeds, whereas, following the usual procedure, the day the expense was incurred, or not later than the following day, a charge would go thru, and the accounting procedure would be ended. When an item is returned unpaid, there is nothing from which to deduct such expense, and the charge must necessarily be put thru in the manner described. Why delay putting it thru until the item has been paid or returned unpaid?

Section VII(b) would appear to permit the making of a reasonable charge for the collecting of checks and drafts drawn on banks which have previously been dishonored, and, if the suggestions I have made in respect to Section II were adopted, would permit a collection charge on any checks and drafts drawn on banks, which, of course, is inconsistent with the Act and Regulation J.

Very truly yours,

(S) O. M. Attebery,
Deputy Governor.

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Federal Reserve Bank of Minneapolis.

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

Dear Governor Crissinger:

With further reference to the Board's letter x4878, dated June 21, 1927, regarding the proposed Regulation K,(Collection of maturing notes and bills), we advise that our Directors are still unanimously opposed to the handling of non cash collections, and have only consented to handle them the same as we did previous to February 1, 1927, for the sake of harmony and uniformity in the System. Our people feel that if we must handle them, we should be given more protection than the proposed regulations afford. For instance, we have before us at the moment a report upon a non member bank, the Pioneer State Bank of Glentana, Montana. This bank has been remitting to us at par willingly, but it does not do so promptly. In fact, at the moment they are eight days behind, and for over a period of a month the returns have been extremely unsatisfactory. We are today removing the bank from our par list.

According to the proposed regulations of the Board, if we should today receive a Bill of Lading draft on a concern in Glentana, Montana, we would be required to send such draft to the Pioneer State Bank of Glentana for collection, because there is no other bank at that point. If the draft was collected and the bank sent us a draft upon their correspondent in payment, which subsequently proved to be no good because the Glentana bank closed during the interim, we certainly would be guilty of gross negligence in handling the item, and could not possibly put up any reasonable defense. This is not an isolated case but a serious problem in our district, and has been for the past eight years. Certainly we should not be required to handle non cash items which we have to collect through a bank to which we will not send transit items.

In our present non cash collection circular, we protect ourselves by the following language:

> "It(the Federal Reserve Bank of Minneapolis)reserves the right on receipt of any collection item payable at a place not on the Federal Reserve intra-district collection system list, to return the same without presentation".

Therefore if the regulation must be issued on non cash collection, we believe that we should be protected by some such clause as the above.

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You will observe that in the proposed regulations of the Board, under (c) of (4) only checks, bank drafts or Certificates of Deposit are exempt, and not other non cash items. 247

If we have interpreted (2) under Section V (Terms of Collection) correctly, it means just this: If a firm in New York City draws a draft upon a firm in Minneapolis with negotiable securities attached, and such draft is received for collection by us from the Federal Reserve Bank of New York or one of its direct sending member banks, we can accept from the payer a bank check in settlement. If later it is discovered that the bank check is no good, we will be relieved of liability and the ultimate loser will be the drawer of the draft. When Mr. Wyatt was here the other day, he told me it was the impression of the Board that the Federal Reserve Bank would be protected under Section 6, because we would not pass credit to our endorser until we had actually collected such bank check. Nevertheless, the negotiable securities are out of our possession and in the hands of an irresponsible party, and the drawer of the draft would be out of luck. I do not believe that this is the kind of service that nine of the Federal reserve banks want to render to their member banks.

Furthermore, if we interpret the regulation correctly, a member bank or non member bank to which we send a draft with securities attached, could accept a bank check upon a competing bank in payment of such draft and deliver the securities. If such bank check subsequently proved to be no good and the member could not recover from the payer of the draft, such member bank would be relieved of liability. I do not believe that we want to give our member banks any such leeway.

The same would be true of drafts which we sent to other Federal reserve banks. We therefore believe that if Federal reserve banks in Federal reserve cities and branch cities want to collect drafts in such cities, they should assume complete responsibility for the collection of such drafts. In making this proposal, I am not unmindful of the great responsibility and the liability that I have mentioned many, many times before the Governors' Conferences. In reference to drafts payable outside of cities in which are located Federal reserve banks or branches, we believe that the Federal Reserve System is entirely justified in protecting itself by agreement, in accepting a draft in payment from our collecting agent, but we do not believe that agreement or regulation should permit our collecting agent to accept anything other than cash or its equivalent and assume complete responsibility and liability for collection.

I have repeatedly maintained that because of conditions which exist in the different districts, it is impracticable to attempt to put the handling of non cash items upon a uniform basis, and we still feel that it is unnecessary to issue a regulation in reference to the handling of non cash collections. We are sending herewith a copy of our Circular No.350, under which we have been operating, and under which we would prefer to continue to operate rather than by uniform regulation.

Yours respectfully,

(S) R. A. Young
Governor

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Federal Reserve Bank of Kansas City. -

"With reference to Regulation K, covering non-cash collections, I have this to say. As the Board well knows, inasmuch as this matter has been under discussion, I have persistently opposed the non-cash collection feature as it is now carried on, and in this opposition I have been unanimously supported by our board and the officers of this bank, and I sincerely believe that a great majority of the member banks of the Tenth District are in accord with our position. We believe it was not the spirit of the original Federal Reserve Act to have Federal reserve banks doing business on the street but to confine their activities to banks only.

"I have been intimately associated with corporations for more than forty years, and it has always been my desire, whenever it could be done consistently, to do the things that pleased our stockholders. That has been and is now the policy of this bank. I am confirmed in the belief that the majority of our stockholders are opposed to non-cash collections, as is evidenced by the questionnaires sent out and the replies received. I have attended the bankers' conventions in every state comprising the Tenth Federal Reserve District, and my reaction is as stated in the foregoing paragraph. Twice the American Bankers' Association has unanimously declared for revision of the non-cash collection system as it is now carried on. The above facts are what have controlled me in my action in this matter.

"Last September we were authorized by the Board that we might handle these non-cash items in such manner as we deemed best.

"If the Federal Reserve Board, in view of all I have recited, still believes that the present system of handling non-cash collections is right, the Federal Reserve Bank of Kansas City will bow to its mandate and carry on, but we wish to go on record as being opposed to the present system and believe that the plan proposed by the Federal Reserve Bank of Kansas City and the Federal Reserve Bank of Atlanta, copy of which was forwarded to the Board under date of December 13, 1926, by Chairman McClure, is a fair compromise and would meet the situation in a fair and just spirit.

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REGULATION K. (New.)

"We recommend that definition 5 under Section II be amended to read as follows:

'All other choses in action whether negotiable or not, payable in the United States, which the Federal Reserve Banks in their respective circulars may set forth.'

"Collection items are of various kinds and are frequently non-negotiable in character. To confine collection items to negotiable instruments would place an enormous burden upon each receiving Federal Reserve Bank in that the first duty would be to determine the negotiability of the instrument offered for collection. Therefore we think it would be utterly impossible to confine collection items to negotiable instruments. In addition the definition as set forth in this section are so limited in character that it would deprive the Federal Reserve Banks of the right to handle as collection items such instruments as bank drafts, checks with documents attached, etc.

"In actual practice we cut out in our Transit Department and handle through our Collection Department member banks' own drafts drawn on their correspondents and sent to us for credit, except those drawn on local banks, for the following reasons: First, we have in the past found several instances where two or more banks were kiting and we have found the handling of their drafts for collection to be an effective means for stopping this practice. Second, we have noted other instances where banks have attempted to create a balance with us by drawing against uncollected funds with their correspondents, hoping to cover them before the drafts are presented. If our cash letter containing these drafts should be delayed in the mail, or the items missent, we could very easily pay out the funds before we had any way of knowing that the drafts would not be paid. It is our opinion that cash letters are intended to include only miscellaneous checks which a bank receives in the regular course of business, and should not include a bank's own draft, or items of this character, and we see no reason why any hardship is being worked upon a member bank by refusing to handle their own drafts as cash items, as they will receive credit immediately upon actual payment, and if they wish to receive more prompt credit the wire transfer facilities are available.

"We also cut out of our Transit Department and handle through our Collection Department, checks with documents attached for the reason that we desire to avoid possible controversies in cases where documents might become detached. Our Collection Department makes a record of all attachments."

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Federal Reserve Bank of St. Louis

Federal Reserve Bank of San Francisco.

July 16, 1927.

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

Dear Mr. Wyatt:

The definition of maturing notes and bills appearing in my letter of July 11, 1927, contains an inhibition which is a little stronger than I had intended.

While it is not our practice to handle as non-cash collections bank drafts or other checks or certificates of deposit drawn on, payable at, payable through or payable by non-member banks which do not remit to the Federal Reserve Bank at par in acceptable funds in settlement of cash items, we do, however, very occasionally handle notes or other evidences of indebtedness which, by reason of their tenor, must be presented to a non-par bank for collection because there is no member or non-member par bank in the same town to which such items might be sent by us.

While it might be desirable for Federal Reserve Banks not to collect this character of items also, it would not seem desirable to change the existing practice without first submitting it for consideration to the Collection Committee and the Governors' Conference. No doubt in many districts the only restriction on dealings with non-par banks is to refuse to handle, either as cash items or as non-cash items, bank drafts or other checks or certificates of deposit which must be presented for payment to non-member banks designated.

I should like, therefore, to modify the recommendation contained in the letter hereinabove mentioned, as follows:

REGULATION K, Section II. The following is suggested:

Section II, Definition A, Maturing Notes and Bills. The term "maturing notes and bills," for the purpose of this Regulation, has been construed and is hereby defined as

> including notes, drafts, bills of exchange, acceptances, bankers acceptances, bonds, warrants, coupons, bank drafts

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or other checks or certificates of deposit and all other evidences of indebtedness payable in the continental United States;

but the term shall not include

bank drafts or other checks or certificates of deposit drawn on, payable at, payable through or payable by banks or trust companies which do not remit to the Federal Reserve Bank at par in acceptable funds in settlement of cash items.

. . . . .

It is also recommended that Section IV (c) be changed to read:

"No Federal Reserve Bank shall receive for collection bank drafts or other checks or certificates of deposit drawn on, payable at, payable through or payable by banks or trust companies which do not remit to the Federal Reserve Bank at par in acceptable funds in settlement of cash items."

Yours very truly,

(S) Ira Clerk
Deputy Governor.

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Federal Reserve Bank of San Francisco,-

"REGULATION K, Section II. The following is suggested:

Section II, Definition A, Maturing Notes and Bills. The term 'maturing notes and bills,' for the purpose of this Regulation, has been construed and is hereby defined as

> including notes, drafts, bills of exchange, acceptances, bankers acceptances, bonds, warrants, coupons, checks, certificates of deposit, and all other evidences of indebtedness payable in continental United States;

but the term shall not include

> notes, drafts, bills of exchange, acceptances, bankers acceptances, bonds, warrants, coupons, checks, certificates of deposit, or other evidences of indebtedness, drawn on, payable at, payable through or payable by, banks or trust companies which do not remit to the Federal Reserve Bank at par in acceptable funds in settlement of cash items.

No purpose can be seen in making specific mention of drafts on savings banks with pass book attached, as these are already covered as drafts hereinabove; nor in making specific mention of checks and drafts and other cash items which have previously been dishonored, particularly when this classification, by inference, eliminates checks which have not previously been presented. It is quite a common custom for banks to forward for collection checks or bank drafts as special items that represent collections for which the collecting bank will not part with funds to their customers until actual final settlement has been received therefor.

The word 'maturing' has been purposely left out in these recommendations because it might imply that the maturity of a bond, note, etc. must be immediately pending, whereas it is quite proper, and indeed common, for a bank to forward such items to their points of payment weeks or even months before maturity.

In paragraph 5, particular mention is made, in the Board's proposal, of negotiable instruments. As a large quantity of promissory notes, etc. which are received for collection are non-negotiable, it does not seem desirable or necessary to refuse to handle such instruments; nor is it practicable for reserve banks to examine collections in order to determine whether or not they are negotiable. So-called 'pay checks', for instance, used by firms to settle

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wages of laborers, are nothing more than receipts when executed for payment. Drafts of many railroads are not negotiable. Nevertheless, these and numerous other classes of credit instruments are collected through banking channels. As an extreme case, might be mentioned meal tickets issued by one of the Departments of the United States Government, and received by this bank for collection.

The last paragraph of Section II, subdivision (a), pertaining to checks, bank drafts or certificates of deposit drawn on or payable by non-member banks, will be eliminated if the foregoing suggestion be accepted. If the suggestion, however, be not accepted, the paragraph should be changed because it carries the inference that the Federal Reserve Banks require non-member banks to remit in settlement of certificates of deposit in available funds at par. As you will recall, the Federal Reserve Board has ruled that certificates of deposit are not acceptable by Federal Reserve Banks as cash items, and, inasmuch as certificates of deposit must necessarily be handled as special collection items, it would not seem desirable to impose upon non-member banks the requirement that they shall remit at par for their own certificates of deposit, when not collectible as a cash item. A special collection needs special service, and, while the act of charging for such collections merely because they must be specially handled, is not condoned, longdrawn-out disputes with member banks on this point have been avoided because of the feeling that the primary interest of this bank is in collecting non-member-bank checks at par.

Section IV(c) provides that no Federal Reserve Bank shall receive for collection any check, bank draft, or certificate of deposit, drawn on or payable at a non-member bank which cannot be collected at par in funds acceptable to the Federal Reserve Bank. If the suggestions hereinabove mentioned are not adopted, it is suggested that the languate be changed to read as follows:

> 'No Federal Reserve Bank shall receive for collection, notes, drafts, bills of exchange, acceptances, bankers acceptances, bonds, warrants, coupons, checks, certificates of deposit, or other evidences of indebtedness, drawn on, payable at, payable through or payable by, banks or trust companies which do not remit to the Federal reserve bank at par in acceptable funds in settlement of cash items. '

"This would be in harmony with the present practice of not having any dealings with non-member banks the items of which cannot be collected at par in funds acceptable to Federal reserve banks.

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"Section V, paragraph (1). The following change is suggested.

"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~~ and effecting collection of such items.

"The slight change in the language is intended to cover the responsibility of a Federal reserve bank for collecting checks or drafts which have been handed or remitted to it in lieu of settlement of collection items. It is not uncommon to forward an item to an out-of-town bank and to receive in settlement a draft drawn on the bank's correspondent at still another point, which draft in turn has to be collected before surrendering the proceeds of the collection to the depositing bank. The term 'presenting and effecting' would seem to be sufficiently inclusive to carry the operation to its completion.

"Section V, paragraph (3). This paragraph provides that Federal Reserve Banks must forward items payable in other districts to the Federal reserve bank of that District. This, of course, is impracticable, particularly if the point at which the item is payable is closer to the Federal reserve bank of the district in which the item originates and the maturity of the instrument is so short as not to permit sending the item first to the Federal reserve bank of the other district. It is suggested that this paragraph be changed to require member and non-member clearing banks to forward items payable in another district direct to the Federal reserve bank or branch of that district, except where the element of time makes this impracticable because of the short maturity of the collection, in which event they may be deposited with the Federal reserve bank of the district for collection through the most expeditious channel. The Regulation should not prohibit a Federal reserve bank sending items for collection direct to banks in other districts. It is a lack of economy for the System to have the same collection handled by two separate Federal reserve banks. Member and non-member clearing banks, therefore, should be required (except in special cases in which the element of time is involved) to forward items payable in another district or zone to the nearest Federal reserve bank or branch. It became necessary for the Federal Reserve Bank of San Francisco to require its banks to direct-route collections in order to avoid what was regarded as an unnecessary expense. In the case of coupons, the expense of handling both by this bank and another Federal Reserve Bank appeared unjust to the System, and by requiring direct-routing the expense was cut in half.

"Section VI. The Regulation provides that, upon receipt of a remittance in settlement of a collection item, the Federal reserve banks will give credit in the account of the bank from which the item was received, subject to final payment. It is not the practice of this bank to give credit for collections until final funds have been received. It is obvious that a bank which forwards an item for collection does not wish

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to receive credit except in such form that it can safely pass the funds to its customer without the possibility of later having to part with them because the collection had been incomplete when settlement was made with its customer. It is recommended that this provision be eliminated from the Regulation.

"Section VII, paragraph (a), subdivision (2). It is suggested that in view of the definition of 'maturing notes and bills,' contained in Section IIA, this paragraph be changed to read:

> "'The actual expense of registration, insurance or transportation on maturing notes and bills forwarded to other points for collection shall be deducted and credit given for the actual net proceeds.'

"Frequently notes and drafts are supported by securities and documents which should be forwarded by registered mail, and sometimes also insured.

"Section VII, paragraph (a), subdivision (3). It is suggested that this subdivision be changed as follows:

> "'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 for which the collection is made; and

"Frequently it becomes necessary for the protection of both the Federal reserve bank and the bank for which the collection is being made, to incur telegraphic expense in connection with collections. If a refund by the Federal reserve bank can only be made when the expense is incurred at the request of the bank for which the collection is being made, it may leave room for argument as to whether or not the expense, in the light of subsequent facts, was justified. The Federal reserve banks should be left free to use their discretion in effecting collections and have the right to recover cost of justified expenses whether or not incurred at the request of the depositing bank.

"Section IX. Guaranty of Endorsement. Inasmuch as it has been pointed out that large quantities of items are received for collection which are not negotiable, it seems important to require that the depositing bank guarantee all prior endorsements of notes, drafts, bills of exchange, acceptances, bankers acceptances, warrants, checks, certificates of deposit, and all other such evidences of indebtedness which require endorsement in order to effect collection.

"You will recall that it was agreed in the conference with the Board in December, 1924, that all Federal reserve banks should require items lodged for collection to bear the endorsers' guarantee of all prior endorsements, and that if the endorsement upon an item did not include a written or printed guaranty of all prior endorsements, the act of sending the item to a Federal reserve bank would be deemed to constitute such guaranty. Inasmuch as the Federal reserve banks have this provision embodied in their operating circular, the Board may not desire to incorporate in its Regulations. It is mentioned, however, for consideration

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X-5060

January 4, 1928.

Mr. H. F. Strater, Cashier,
Federal Reserve Bank,
Cleveland, Ohio.

Dear Mr. Strater:

Pressure of other work has prevented me from replying more promptly to your letter of November 23rd with regard to criticisms of the proposed Regulation K governing non-cash collections submitted by Messrs. Ira Clerk, Deputy Governor of the Federal Reserve Bank of San Francisco, and Mr. A. C. Agnew, their Counsel. I hope you will pardon the delay.

As you know, the Board has decided not to adopt a regulation on non-cash collections, but to leave the matter to be covered by uniform circulars on this subject to be prepared by your Committee, as suggested by the Governors' Conference. This leaves the matter in your very capable hands and I am perfectly content to let it rest there. As you know, the proposal to issue a regulation on non-cash collections was not initiated by me but by the Federal Reserve Board itself and I have never felt that such a regulation was essential. I believe that the subject can be covered equally as well in a uniform circular. If I can be of any assistance to your Committee in preparing such a circular, I shall be very happy to do so, but I hope that you will not feel constrained to consult me on the subject merely out of politeness, unless you think I can be of some real assistance.

With all best wishes for a very happy and prosperous New Year, I am,

Cordially yours,

Walter Wyatt
General Counsel.

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FEDERAL RESERVE BANK

OF CLEVELAND

November 23, 1927.

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

Dear Mr. Wyatt:

I am very sorry that pressure of other work has prevented my replying to your letters of November 10 and 11, enclosing copies of communication received by you from Mr. Ira Clerk, Deputy Governor of the Federal Reserve Bank of San Francisco, and Mr. A. C. Agnew, their counsel, bearing upon the proposed Regulation K governing the handling of non-cash collections.

I have given careful consideration to both of the letters from San Francisco, and in view of the action taken at the last Governors' conference when it was recommended that no regulation on non-cash collections be issued and your conversation and mine with Governor Young on the proposed terms of collection incorporated in the tentative draft of Regulation K, it seems to me that the terms of collection incorporated in the proposed uniform non-cash collection circulars of the twelve reserve banks could very well be modified to fix responsibility for the use of due diligence only on the Federal reserve banks. This would dispose of Mr. Clerk's objection to the use of the phrase "solvent credits" and Mr. Agnew's objection to the same phrase coupled with "bank drafts", and would permit the Standing Committee on Collections to frame a section covering the terms of collection to be uniformly used by all of the Federal reserve banks which would take care of the necessity of establishing the relationship of principal and agent in the handling of these items.

With respect to Mr. Clerk's reference in his letter to you of November 1, to the contemplated use of a special endorsement by a member bank on non-cash collection items, I believe his recommendation that the form of endorsement to be used by member banks on all non-cash items deposited with any Federal reserve bank or branch for collection, be definitely prescribed in the check collection circular and provisions made in the circular that any other form of endorsement will be disregarded.

It seems to me that there should be added to the language suggested by Mr. Clerk, a provision warranting the member bank's authority to waive its rights which might accrue through endorsements bearing special instructions, conditions, or qualifications, and to agree to indemnify any Federal reserve bank for any loss resulting from the failure of the depositing bank to have such authority. This would be in accordance with a similar provision in Regulation J.

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I have not as yet heard what the Federal Reserve Board has decided to do in connection with the issuance of a new regulation on non-cash collections, but if it is decided that such a regulation be issued, I shall be very much in favor of modifying the terms of collection so as to harmonize with Governor Young's views which I believe to be perfectly sound. I shall be very much interested in knowing the Board's decision on this question inasmuch as if the Board approves the recommendation of the Governors' conference that a uniform non-cash collection circular be prepared by the Standing Committee on Collections, it is essential that the committee begin to work on the preparation of such a circular at the earliest possible moment so that it may be presented as a finished product to the next conference.

I hope that my views as expressed to you in this letter, do not reach you too late to be of any value to you.

Very truly yours,

H. F. Strater,
Cashier.

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FEDERAL RESERVE BANK OF SAN FRANCISCO

November 5, 1927.

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

Dear Mr. Wyatt:

I have read carefully and with a great deal of interest the two very illuminating articles transmitted with your letter of October 26, being extracts from the Virginia Law Register furnished through the courtesy of Mr. Steadman, the editor of that publication.

The articles referred to are the best resumes of the law on that subject I have seen and will be of great value in the preparation of briefs involving the subject covered. I am, as you may perhaps remember, in sympathy with the position taken by Mr. Harris in his article, inasmuch as I have always felt that the doctrine of the Peters case is contrary to the reason and principle of our law. I have, however, been seeking an opportunity to establish the theory of that case in the states of this district.

The perusal of these articles prompts me to recall to your attention a matter mentioned in a letter, dated November 1, 1927, addressed by Mr. Clerk, one of the Deputy Governors of this bank, to you. In the letter referred to Mr. Clerk calls to your attention the provisions of paragraph 2 of Section V of the revised draft of Regulation K, Series of 1927 (X-4915-a), wherein the new regulation provides that collection items may be forwarded for payment in cash, bank draft, or solvent credits.

It seems to me that it even is more essential to preserve, so far as possible, the relation of principal and agent in the handling of collection items than in the handling of cash items. The authorities cited by both Mr. Bryan and Mr. Harris seem to draw a very clear distinction between those cases in which the forwarding bank has transmitted the items with the understanding that the proceeds thereof were to be intermingled with the general assets of the collecting bank and those cases where the items are forwarded merely for collection and remittance, and having been collected, the proceeds thereof are, in violation of contract, intermingled with the general assets of the bank and credit given in the form of a draft or otherwise. In the first class of cases the courts quite generally hold that the action of the bank which forwards the items in consenting that the proceeds be intermingled with the assets of the collecting bank constitutes a consent to the establishment of the relation of debtor and creditor and prevents the establishment of a preference, while in those cases where the items are forwarded for collection and remittance, the collecting bank is held to be a constructive trustee for the proceeds of the collection.

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Therefore, it seems to me that if the Federal reserve banks expressly reserve the right to forward collection items for payment in cash, bank draft, or in solvent credits, this constitutes an implied consent to the establishment of the relationship of debtor and creditor and even in such states as Virginia and Missouri, would prevent the establishment of a preferred claim where a settlement was made under the recirpocal account method. Would it not, therefore, be better to reword paragraph 2 of Section V of the new regulation to read as follows:

> "Federal reserve banks may present or forward such items direct to the bank on which they are drawn and at which they are payable, or through which they are collectible, for collection and remittance; or present them direct to the person, firm, or corporation on which they are drawn, for collection and remittance; 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. Such forms of remittance as are customarily accepted by other banks in settlement for collection items may be accepted by Federal reserve banks."

I realize that the foregoing leaves indefinite the specific kind of remittance which Federal reserve banks are authorized to accept, but it seems to me that this uncertainty is preferable to the use of terms which carry with them notice and consent to the establishment of the relation of debtor and creditor.

I submit the foregoing merely for your consideration.

Yours very truly,

(Signed) Albert C. Agnew
Counsel.

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Federal Reserve Bank of St. Louis

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FEDERAL RESERVE BANK OF SAN FRANCISCO

November 1, 1927.

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

Dear Mr. Wyatt:

In reviewing rather hastily the revised draft of Regulation K, Series of 1927, (X-4915-a), several ideas have occurred to us which you may desire to consider before making the final draft of this regulation.

SECTION II. DEFINITIONS

In paragraph 5 we suggest inserting "or non-member clearing Bank", making the paragraph read as follows:

> ***provided that any Federal reserve bank may require any depositing member bank or non-member clearing bank to show to such Federal reserve bank's satisfaction ***etc.

SECTION IV. ITEMS RECEIVED FOR COLLECTION

Paragraph (c) provides that Federal reserve bank may authorize member and non-member clearing banks to direct route to other Federal reserve banks in order to eliminate unnecessary delay and expense. It would seem that for this same reason Federal reserve banks should have the option to require direct routing if the volume of transactions warrants it. Wherever we have had a material volume of items we have asked our member banks to direct route them and in all cases, but one, have received the fullest cooperation. The one bank declining has a large volume of coupons payable in New York; that bank has refused to direct route in the absence of a specific ruling requiring it. Its failure to direct route imposes a double expense upon the Federal Reserve System and , in addition, gives the dissenting member bank the advantage in the matter of shipping costs over those banks which have agreed to cooperate with us.

SECTION V. TERMS OF COLLECTION

Recently it came to our attention that a member bank contemplated placing a special endorsement on its items forwarded to the Federal reserve bank for collection, as follows:

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"For collection and remittance without deposit or intermingling with the Bank's funds."

To remove the additional responsibility which would be placed upon the Federal reserve bank as a consequence of such endorsement, we contemplated inserting in our revised Circular 101, covering the collection of non-cash items, the following provision:

> All items received and sent forward for collection will be forwarded under indorsement of this bank substantially as follows:
>
> "Pay to the order of any bank, banker, trust company, or Federal Reserve Bank for collection only. Prior indorsements guaranteed."
>
> This bank does not undertake to procure for the owners of items entrusted to it for collection any greater rights than those accorded by law under the foregoing indorsement. Items bearing indorsements containing special instructions, qualifications, or conditions, will be forwarded by this bank as aforesaid, and banks sending them to this bank, and prior indorsers, will be deemed to have waived any rights which might accure through indoresements bearing such special instructions, conditions or qualifications.

Inasmuch as the proposed Regulation K. reguires all Federal reserve banks to promulgate rulse and regulations indentical in terms, you may de sire to give consideration as to whether this provision should be incorporated in such regulation. It appears to us as a matter of particular importance,

Paragraph 2 of Section V, provides that items may be forwarded for payment in cash, bank draft, or solvent credits. The thought has occurred to us that the use of "solvent credits" would imply that the Federal reserve bank may forward items to member and non-member clearing banks for collection and CREDIT. While it is true that Federal reserve banks accept solvent credits in settlement of collections, it would seem preferable not to ask for such form of payment for fear that the credit given may not prove to be solvent and the Federal reserve bank may find itself in the position of having asked for credit and thereby having act up the debtor and creditor relationship which experience has shown it was desirable to avoid. (Colo. & So. Ry. Co. v. Docking - 124 Kans. 48:257 Pac. 743.)

Yours very truly,

(Signed) Ira Clerk
Deputy Governor.

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X-5060-d

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August 8, 1927

MEMORANDUM FOR MR. MARTIN:

As requested, I have studied the revised draft of Regulation K, Series of 1927, X-4910, which you brot back with you from Washington. I have the following comments and suggestions to make:

Section V. 1, provides that Federal Reserve Banks ***** will be responsible only for due diligence and care in forwarding and presenting such items ********.

The effect of paragraph 2 is not entirely clear to me. For instance: Supposing a draft on an individual or firm, with bill of lading or securities attached, is forwarded by a Federal Reserve Bank to a commercial bank in another city for collection and returns. The collecting bank presents the draft to the drawee for payment and delivers the draft and documents upon payment in the form of a check of the drawee on its account in a local bank. The check develops to be no good, and there is a loss. The collecting bank can show that it was justified in accepting the check, in that it had no reason to believe that the drawer was not good, and as a matter of fact might be able to indicate that it had on numerous occasions accepted checks of the same maker, all of which were promptly paid. Under the circumstances, would the collecting bank have exercised due diligence and be relieved from the more or less established rule that results in responsibility for accepting payment in a form other than cash?

Now, let us take the case of an item payable in a Federal Reserve Bank or Branch Bank City, where presentation is made by the Federal Reserve Bank or Branch and not thru another bank. Under circumstances similar to those enumerated in respect to where an item is handled thru another bank, would a Federal Reserve Bank or Branch have exercised due diligence?

It occurred to me that these two paragraphs might permit and encourage the acceptance of checks both on the part of the Federal Reserve Banks as well as collecting agents they may select, when the acceptance of such checks is unwise from a credit standpoint, and doubtful from the standpoint of having exercised due diligence.

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Memorandum to Mr. Martin. 8/8/27

Paragraph 4 provides that "Federal Reserve Banks shall be held liable only when they have received actual payment in cash or in the final proceeds of any bank draft or check received in remittance". The fact that the terms "bank draft or check" are used in this paragraph leaves the impression that it applies both to remittances received from collecting agents as well as remittances received from payers where personal presentation is made by the Federal Reserve Bank.

I am thoroly in accord with the idea that the Regulation should provide for the acceptance of remittances in the form of bank draft of collecting agents along the same lines as is followed in the check collection system, but I do question the desirability of the Regulation authorizing Federal Reserve Banks to accept checks in payment of collections where the Federal Reserve Bank makes the presentation direct, or the authorization of a similar practice on the part of collecting agents they may select. I do not believe that such authorization in the Regulation would have the effect of relieving Federal Reserve Banks or the agents they select from negligence in accepting checks, and I am of the opinion that if member banks using the collection system understood that the Federal Reserve Banks were trying to contract or successfully contracting against such negligence, the System's value to them would be considerably reduced.

In paragraph 2, first line, the words "or forward" suggest to me the possibility of Federal Reserve Banks turning over local items to member or non-member banks for collection along the lines recently tried out in Minneapolis.

Section VII, paragraphs 2 and 3 apparently make it optional with each Federal Reserve Bank whether the actual expense of registration, insurance or transportation and all telegraph and telephone charges in connection with the collection of maturing notes and bills are recovered from the bank which deposits such items. The question of uniformity again crops up. As worded, the Federal Reserve Bank of St. Louis would be permitted to waive such items of expense and at the same time, the Federal Reserve Bank of Chicago or any other Federal Reserve Bank might adopt the opposite practice, and the question is immediately raised - Why is one Federal Reserve Bank more liberal than the other? At the present time, the Federal Reserve Bank of St. Louis does not absorb any telegraph and telephone charges in connection with the collection of maturing notes and bills, nor does it assume the actual expense of registration, insurance or transportation of maturing notes and bills forwarded to other points for collection when the cost exceeds 25¢

Very truly yours,

O. M. Attebery,
Deputy Governor.

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Copy X-5060-e 365

July 25, 1927.

Mr. F. J. Zurlinden, Deputy Governor,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

My dear Mr. Zurlinden:

I enclose for your information and for such further criticism and comment as you may care to submit a revised draft of the proposed regulation on the collection of maturing notes and bills. This draft was prepared after consideration of the various suggestions submitted by the other Federal reserve banks and is based upon the draft prepared by the Federal Reserve Bank of Cleveland. I shall indicate briefly the reasons for the various changes which I have made in the Cleveland draft:

Section II. A slight change is made in the first paragraph to improve the phraseology. The change in subdivision (a) 3 was suggested by several of the other Federal reserve banks and is believed to be desirable. In subdivision 5 the words "evidence of indebtedness" have been inserted in lieu of the words "negotiable instruments", because several Federal reserve banks pointed out that non-cash items very frequently are non-negotiable and that it would be burdensome on the Federal reserve banks to undertake to determine whether or not such items are negotiable. Similar changes are made in subdivision (c) and (d) for the same purpose.

SectionIV. I have inserted in subdivision (a) the words "payable in the continental United States" to distinguish this from the items handled under (b) and (c) which must be payable in the district of the receiving Federal reserve bank. I have combined subdivision (c) and (d) and believe that I have improved the language somewhat without changing the meaning.

Section V. Owing to suggestions made by several Federal reserve banks, I have incorporated in the first paragraph of this section a provision for the guarantee of all prior indorsements; and, at the end of subdivision 2, I have added the words "and for its guarantee of prior indorsements". The change made in subdivision 3 was suggested by several different Federal reserve banks to cover the situation where it is desirable for items payable in other districts to be forwarded direct to the place of payment instead of being forwarded to the Federal reserve bank of such other district.

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Section VII. The language of subdivisions 1 and 2 has been changed so as to make it possible either to charge the bank from which such items are received or to deduct the charge from the proceeds and give credit for the actual net proceeds. In subdivision 2 the words "maturing notes and bills" have been substituted for the words "bonds and coupons" because it was suggested that the words "maturing notes and bills" are broad enough to include"bonds and coupons" and also broad enough to include "notes and bills" to which bonds and coupons are attached and which should be registered or insured. In subdivision 3 the words "from which such items were received" have been inserted in lieu of the words "making the request involving such expense" because it was suggested that very often telegraph and telephone charges must be incurred without any specific request having been made, and that such charges should be collected from the sending banks even though such banks did not make any request involving such expense. Subdivisions 2 and 3 have also been made permissive and not mandatory because it was suggested that the banks may wish to waive expenses amounting to less than 25 cents.

I am submitting this to you informally because I have not had an opportunity to submit to the Board and because I desire to obtain your further comments and criticisms at the earliest possible date. I do not know when the Board will take up the regulations for final approval but if it should decide to take them up this week I may call you on the telephone to obtain your further comments and criticisms regarding this regulation.

Thanking you and the other officers of the bank for your kind assistance in this matter, and with all best wishes, I am,

Cordially yours,

Walter Wyatt,
General Counsel.

Enclosure.
WW MD

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Copy X-5060-f

FEDERAL RESERVE BANK OF ST.LOUIS

June 28, 1927.

Dear Mr. Strater:

Replying to your letter of the 25th, I have carefully gone over Regulation K, as submitted by the Federal Reserve Board with its letter X-4378, bearing date of June 21st. I have the following comments or suggestions to offer:

Section II, (a), 3 and 5, would seem to preclude our handling as a collection checks or drafts drawn on banks unless such items have been previously dishonored. I imagine the practice of all of the Reserve Banks is to handle checks and drafts on banks for collection when special advice of payment is desired, irrespective of previous dishonor. I would, therefore, suggest that No. 3 be eliminated, and that No. 5 be made to read: "All other negotiable instruments payable in the United States".

Section IV, (b). At the present time, I believe all of the Federal Reserve Banks, with the exception of Minneapolis, have given other Federal Reserve Banks blanket authority to handle non-cash items received from all of their member banks and non-member clearing banks. If this authority is continued, the wording of this paragraph will not up-set things, but if it becomes necessary, as a result of the way in which this paragraph is now worded, for each Federal Reserve Bank to furnish each other Federal Reserve Bank with a list of the member and non-member clearing banks authorized to route direct, and for the Federal Reserve Banks receiving collections from banks in other Districts to check such collections to see whether they are from banks that have authority to route direct, it will result in what I consider unnecessary work, inconvenience and expense. I would suggest that in the third line "are authorized to" be omitted.

Section IV, (c). As you are aware, we now handle for the account of the Treasurer of the United States checks drawn on banks which we do not know whether can be collected at par. Possible the fact that such items are handled only for the Treasurer of the United States makes no difference so far as the Regulation is concerned. I have, however, thot it well to mention the matter, in order that it might not be overlooked.

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Federal Reserve Bank of St. Louis

Section V, 2. I am not so sure about the possibilities under this paragraph. Would it permit a Federal Reserve Bank to follow the plan recently inaugurated by Minneapolis?

Section V. 3. The Standing Committee on Collections, in its Report to the Conference of Governors November 12th, 1923, recommended that Federal Reserve Banks be permitted, in their discretion, to route any documentary draft payable at sight or on demand, whether such draft be purchased, discounted or received for collection, direct to the point of payment in another District, but only when specifically requested to do so by the member bank selling, rediscounting or depositing for collection. This recommendation was, in my judgment, a proper one, and I think the paragraph under review should be altered so as to provide for items payable in another District being forwarded direct to point of payment either when the depositing bank requests that they be so forwarded or it is necessary to so forward an item in order that it may reach the point of payment by maturity.

Section VI. This is the most important Section in the Regulation. It is the custom in this District to expect that credit covering the proceeds of a collection is final; and I think this is the general custom thruout the Country. This paragraph, as drawn, makes credit conditional. The Federal Reserve Bank of St. Louis never knowingly credits a collection until the proceeds are in actually collected funds. If we send an item to an out-of-town bank and receive returns in St. Louis exchange, credit is given after the draft on St. Louis is actually collected. If we receive returns in the form of exchange on some other point, credit is only given after such exchange has been converted into actual funds on which there is no possible recourse. The same is true of local collections handled by our four offices - credit is never intentionally passed until we know we have the money. I would strongly recommend that this paragraph be worded so as to meet the practice just described.

Section VII, (a), 2 suggests that expense other than collection charges be deducted when giving credit for the proceeds of the collection. This is rather impractical, and I believe has been discussed at previous meetings of the Standing Committee on Collections - particularly in respect to telegraphic costs. To illustrate:

Suppose the Federal Reserve Bank of St. Louis received a collection from the Federal Reserve Bank of Cleveland payable at Evansville, Indiana, which is to be forwarded by registered mail and insured. The expense of registration and in-

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surance would have to be held in suspense, awaiting returns on the collection, and then deducted from the returns received before crediting the net proceeds, whereas, following the usual procedure, the moment the expense was incurred, that is, the day the item was forwarded or not later than the following day, a charge would go thru and the accounting procedure would be ended, so far as the expense was concerned. When an item is returned unpaid, there is nothing from which to deduct such expense, and the charge must necessarily be put thru in the manner I have just described.

Section VII, (b) would appear to permit the making of a reasonable charge for the collecting of checks and drafts drawn on banks which have previously been dishonored, and, if the suggestions I have made in respect to Section II were adopted, would permit a collection charge on any checks and drafts drawn on banks, which, of course, is inconsistent with the Act and other Regulations.

Very truly yours,

O. M. Attebery,
Deputy Governor.

OMA:S

Mr. H. F. Strater, Chairman,
Standing Committee on Collections,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

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Federal Reserve Bank of St. Louis

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:			
Frederick S. Chamberlain	New Britain, Conn.	V.P., Cash., New Britain Nat'l Bk	1928
Alfred L. Ripley	Boston, Mass.	Pres. Merchants Nat'l Bank	1929
Edward S. Kennard	Rumford, Maine	V.P.& Cashier Rumford Nat'l Bank	1930
Class B:			
Albert C. Bowman	Springfield, Vt.	Pres. The John T. Slack Corp'n	1928
Phillip R. Allen	E. Walpole, Mass.	Pres. Bird & Son, Inc.	1929
Chas. G. Washburn	Worcester, Mass.	President, The Washburn Company	1930
Class C:			
Chas. H. Manchester	Providence, R.I.	Public Utilities	1928
Frederic H. Curtiss	Boston, Mass.		1929
Allen Hollis	Concord, N.H.	Lawyer	1930

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:			
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
Delmer Runkle	Hoosick Falls, N.Y.	Pres. Peoples Nat'l Bank	1930
Class B:			
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
Samuel W. Reyburn	New York, N. Y.	Pres. Lord & Taylor	1930
Class C:			
Gates W. McGarrah	New York, N. Y.		1928
Owen D. Young	New York, N. Y.	Chrm. General Electric Co.	1929
Clarence M. Woolley	New York, N. Y.	Chrm. American Radiator Co.	1930

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Federal Reserve Bank of St. Louis

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
District No. 3 - Federal Reserve Bank of Philadelphia (Richard L. Austin, Chairman and Federal Reserve Agent; Alba B. Johnson, Deputy Chairman; Geo. W. Norris, Governor)			
Class A:			
John C. Cosgrove	Johnstown, Pa.	Banker and Coal Operator	1928
Jos. Wayne, Jr.	Philadelphia, Pa.	Pres.Philadelphia-Girard Nat'l Bank	1929
Geo. W. Reily	Harrisburg, Pa.	Pres.Harrisburg Nat'l Bank	1930
Class B:			
C. Fred'k C. Stout	Philadelphia	Sr.Member Jno. R. Evans & Co.	1928
Arthur W. Sewall	Philadelphia, Pa.	Pres. General Asphalt Co.	1929
A. C. Dorrance	Camden, N.J.	Actg.Gen.Mgr. Campbell Soup Co.	1930
Class C:			
H. L. Cannon	Bridgeville, Del.	Canner and Farmer	1928
R. L. Austin	Philadelphia, Pa.		1929
Alba B. Johnson	Philadelphia, Pa.	Chrm. Southwark Fndry.& Mach.Co.	1930
District No. 4 - Federal Reserve Bank of Cleveland (Geo. DeCamp, Chairman and Federal Reserve Agent; Lewis Blair Williams, Deputy Chairman; E. R. Fancher, Governor)			
Class A:			
Chass Lamberton	Franklin, Pa.	V. P.Lamberton Nat'l Bank	1928
Robert Wardrop	Pittsburgh, Pa.	Chrm. First Nat'l Bank	1929
O. N. Sams	Hillsboro, Ohio	Pres. Merchants Nat'l Bank	1930
Class B:			
R. P. Wright	Erie, Pa.	Reed Manufacturing Co.	1928
Geo. D. Crabbs	Cincinnati, Ohio	Philip Carey Manufacturing Co.	1929
S. P. Bush	Columbus, Ohio	Manufacturer	1930
Class C:			
L. B. Williams	Cleveland, Ohio	Hayden, Miller & Co.	1928
George DeCamp	Cleveland, Ohio		1929
W. W. Knight	Toledo, Ohio	V. P. Bostwick-Braun Co.	1930

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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:			
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
Chas. E. Rieman	Baltimore, Md.	Pres.Western Nat'l Bank	1930
Class B:			
Edwin C. Graham	Washington, D. C.	Pres. Nat'l Elec.Supply Co.	1928
D. R. Coker	Hartsville, S. C.	Merchant and Planter	1929
Edmund Strudwick	Richmond, Va.	Chrm. Atlantic Life Ins. Co.	1930
Class C:			
Robert Lassiter	Charlotte, N. C.	Textiles	1928
Wm. W. Hoxton	Richmond, Va.		1929
Frederic A. Delano	Washington, D. C.	Receiver	1930
District No. 6 - Federal Reserve Bank of Atlanta (Oscar Newton, Chairman and Federal Reserve Agent; W. H. Kettig, Deputy Chairman; E. R. Black, Governor)			
Class A:			
E. C. Melvin	Selma, Ala.	Pres. Selma Nat'l Bank	1928
G. G. Ware	Leesburg, Fla.	Pres. First Nat'l Bank	1929
H. Lane Young	Atlanta, Ga.	Exec.V.P.Citizens & Southern Nat'l Bk.	1930
Class B:			
Luke Lea	Nashville, Tenn	Publisher	1928
Leon C. Simon	New Orleans, La.	Pres. Kohn, Weil & Simon, Inc.	1929
J. A. McCrary	Decatur, Ga.	Pres. J. B. McCrary Co. (Atlanta)	1930
Class C:			
W. H. Kettig	Birmingham, Ala.	Southern Rep., Crane Co.	1928
Oscar Newton	Atlanta, Ga.		1929
Geo. S. Harris	Atlanta, Ga.	Pres.&Mgr. Exposition Cotton Mills	1930

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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:			
Chas. H. McNider	Mason City, Iowa	Pres. First Nat'l Bank	1928
E. L. Johnson	Waterloo, Iowa	Pres. Leavitt & Johnson Trust Co.	1929
George M. Reynolds	Chicago, Ill	Chrm. Cont'l Nat'l Bank & Tr. Co.	1930
Class B:			
S. T. Crapo	Detroit, Mich	Sec. & Treas. Huron Port. Cement Co.	1928
Robert Mueller	Decatur, Ill.	Mueller Manufacturing Co.	1929
A. H. Vogel	Milwaukee, Wis.	V.P. Pfister & Vogel Leather Co.	1930
Class C:			
F. C. Ball	Muncie, Ind.	Pres. Ball Bros. Mfg. Co.	1928
James Simpson	Chicago, Ill.	Pres. Marshall Field & Co.	1929
W. A. Heath	Chicago, Ill.		1930
District No. 8 - Federal Reserve Bank of St. Louis (William McC. Martin, Chairman & Federal Reserve Agent; John W. Boehne, Deputy Chairman; David C. Biggs, Governor)			
Class A:			
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
Max B. Nahm	Bowling Green, Ky.	V.P. Citizens Nat'l Bank	1930
Class B:			
W. B. Plunkett	Little Rock, Ark.	Pres. Plunkett-Jarrell Groc. Co.	1928
LeRoy Percy	Greenville, Miss.	Planter	1929
Rolla Wells	St. Louis, Mo.	Pres. Wells Realty & Invest. Co.	1930
Class C:			
Paul Dillard	Memphis, Tenn.	Dillard & Coffin Co.	1928
John W. Boehne	Evansville, Ind.	Retired	1929
Wm. McC. Martin	St. Louis, Mo.		1930

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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; W. B. Geery, Governor)			
Class A:			
Paul J. Leeman	Minneapolis, Minn.	V. P. First Nat'l Bank	1928
J. C. Bassett	Aberdeen, S.D.	Pres. Aberdeen Nat'l Bank	1929
Karl J. Farup	Park River, N.D.	Pres. First Nat'l Bank	1930
Class B:			
Paul N. Myers	St. Paul, Minn.	V. P. Waldorf Paper Products Co.	1928
N. B. Holter	Helena, Mont.	A. M. Holter Hdwre. Co.	1929
John S. Owen	Eau Claire, Wis.	John S. Owen Lumber Co.	1930
Class C:			
Geo. W. McCormick	Menominee, Mich.	Gen. Mgr. Menominee River Sugar Co.	1928
John R. Mitchell	Minneapolis, Minn		1929
Homer P. Clark	St. Paul, Minn	Pres. West Publishing Co.,	1930
District No. 10 -- Federal Reserve Bank of Kansas City (M. L. McClure, Chairman and Federal Reserve Agent; Wm. L. Petrikin, Deputy Chairman; W. J. Bailey, Governor)			
Class A:			
Frank W. Sponable	Paola, Kans.	Pres. Miami County Nat'l Bank	1928
E. E. Mullaney	Hill City, Kans.	Pres. Farmers & Merchants Bank	1929
C. C. Parks	Denver, Colo	V.P. First Nat'l Bank	1930
Class B:			
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
Thos. C. Byrne	Omaha, Nebra.	Byrne & Hammer Dry Goods Co.	1930
Class C:			
Wm. L. Petrikin	Denver, Colo.	Pres. Great Western Sugar Co.	1928
M. L. McClure	Kansas City, Mo.		1929
E. M. Brass	Grand Island, Nebr.	Farming & Livestock	1930

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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:			
W. H. Patrick	Clarendon, Tex.	Pres. First Nat'l Bank	1928
Howell E. Smith	McKinney, Tex.	Pres. First Nat'l Bank	1929
J. H. Frost	San Antonio, Tex.	Pres. Frost Nat'l Bank	1930
Class B:			
J. H. Nail	Fort Worth, Tex.	Cattleman	1928
J. J. Culbertson	Paris, Tex.	V.P. Southland Cotton Oil Co.	1929
J. R. Milan	Waco, Tex.	V. P. Cooper Grocery Co.	1930
Class C:			
C. C. Walsh	Dallas, Tex.		1928
Clarence E. Linz	Dallas, Tex.	V.P. & Treas. Southland Life Ins. Co.	1929
S. B. Perkins	Dallas, Tex.	Perkins Dry Goods Co.	1930
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:			
C. K. McIntosh	San Francisco, Cal.	Pres. Bank of California, N. A.	1928
T. H. Ramsay	Red Bluff, Cal.	Pres. First Nat'l Bank of Red Bluff	1929
Howard Whipple	Turlock, Cal.	Pres. First Nat'l Bank	1930
Class B:			
E. H. Cox	Madera, Cal.	V.P. & Gen.Mgr. Madera Sugar Pine Co.	1928
A.B.C.Dohrmann	San Francisco, Cal.	Pres. Dohrmann Comm'l Co.	1929
Wm. T. Sesnon	Soquel, Cal.	Agriculturist	1930
Class C:			
Wm. Sproule	San Francisco, Cal.	Pres. Southern Pacific Ry. Co.	1928
Isaac B. Newton	San Francisco, Cal.		1929
Walton N. Moore	San Francisco, Cal.	Pres. Walton N. Moore Dry Goods Co.	1930

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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.		1928
Edward A. Duerr #	Buffalo, N. Y.	Pres. Community Nat'l Bank	1928
Frank W. Crandall	Westfield, N. Y.	Pres. Nat'l Bank of Westfield	1928
F. B. Cooley #	Buffalo, N. Y.	Pres. New York Car Wheel Co.	1929
Harry T. Ramsdell	Buffalo, N. Y.	Chrm. Mfgrs. & Traders Tr. Co.	1929
Arthur G. Hough # Chrm.	Batavia, N. Y.	Pres. Wiard Plow Company	1930
Elliott C. McDougal	Buffalo, N. Y.	Chrm. Marine Trust Co.	1930

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

C. F. McCombs	Cincinnati, Ohio		1928
Fred A. Geier # Chrm	Cincinnati, Ohio	Pres.Cin.Milling Machine Co.	1928
E. S. Lee	Covington, KY.	Pres.First Nat'l Bank	1928
John Omwake #	Cincinnati, Ohio	Pres. U. S. Playing Card Co.	1929
CharlesW. DePuis	Cincinnati, Ohio	Pres. Citizens Nat'l Bank & Tr. Co.	1929
Geo. M. Verity #	Middletown, Ohio	Pres.American Rolling Mill Co.	1930
B. H. Kroger	Cincinnati, Ohio	Pres.Provident Savings Bk & Tr. Co.	1930

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

J. C. Nevin	Pittsburgh, Pa.		1928
Chas. W. Brown # Chrm	Pittsburgh, Pa.	Pres. Pittsburgh Plate Glass Co.	1928
A. E. Braun	Pittsburgh, Pa.	Pres. Farmers Deposit Nat'l Bank	1928
A. L. Humphrey #	Pittsburgh, Pa.	Pres. Westinghouse Air Brake Co.	1929
Jos. R. Eisaman	Greensburg, Pa.	V.P. First Nat'l Bank	1929
Jos. R. Naylor	Wheeling, W.Va.	John S. Naylor & Co.	1930
R. B. Mellon	Pittsburgh, Pa.	Pres. Mellon Nat'l Bank	1930

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

Albert H. Dudley	Baltimore, Md.		1928
Wm. H. Matthai # Chrm.	Baltimore, Md.	Pres. Beaver Dam Marble Co.	1928
Levi B. Phillips	Cambridge, Md.	Pres. Nat'l Bank of Cambridge	1928
Edmund P. Cohill #	Hancock, Md.	Pres. & Treas. Tonoloway OrchardCo.	1929
Carter G. Osburn	Baltimore, Md.	Chrm.Farmers &Merchants Nat'l Bank	1929
Norman James #	Baltimore, Md.	James Lumber Co.	1930
Henry B. Wilcox	Baltimore, Md.	Vice-Chrm. Merchant's Nat'l Bank	1930

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District No. 5 - Charlotte Branch of the Federal Reserve Bank of Richmond (Hugh Leach, Managing Director)

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
Hugh Leach	Charlotte, N. C.		1928
W. H. Wood	Charlotte, N. C.	Pres.Am.Tr.Company of Charlotte	1928
Jno. L. Morehead#Chrm	Charlotte, N. C.	Manufacturer	1928
W. J. Roddey, Sr.	Columbia, S. C.	Chrm.Columbia National Bank	1929
Chas. A. Cannon #	Concord, N. C.	Pres.Cannon Mfg.Co.Kannapolis,N.C.	1929
Robert Gage	Chester, S. C.	V.P.&Cashier,Nat'l Bank of Chester	1930
John A. Law #	Spartanburg, S. C.	Manufacturer - Banker	1930

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

Marcus Walker	New Orleans, La.		1928
J. P. Butler, Jr.	New Orleans, La.	Pres. Canal Bank & Trust Co.	1928
P. H. Saunders #	New Orleans, La.	V.P. Newman, Saunders & Co., Inc.	1928
L. C. Simon # Chrm.	New Orleans, La.	Pres. Kohn, Weil & Simon, Inc.	1929
F. W. Foote	Hattiesburg, Miss.	Pres. First National Bank	1929
Albert P. Bush #	Mobile, Ala.	V.P. & Treas. T. G. Bush Grocery Co.	1930
James E. Bouden,Jr.	New Orleans, La.	Pres. Whitney-Central National Bank	1930

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

A. E. Walker	Birmingham, Ala.		1928
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 Tr. & Savings Bk	1929
E. F. Allison #	Bellamy, Ala.	Pres. Allison Lumber Co.	1930
Walter E. Henley	Birmingham, Ala.	Pres. Birmingham Trust & Svngs.Co.	1930

District No. 6 - Jacksonville Branch of the Federal Reserve Bank of Atlanta (W. S. McLarin, Jr., Managing Director)

W. S. McLarin, Jr.	Jacksonville, Fla.		1928
J. C. Cooper #Chrm.	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 Nat'l Bank	1929
S. O. Chase #	Sanford, Fla.	Chase & Company	1930
C. P. Kendall	Jacksonville, Fla.	V.P. Barnett National Bank	1930

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
Joel B. Fort. Jr.	Nashville, Tenn.		1928
Luke Lea # Chrm.	Nashville, Tenn.	Publisher	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 National Bk.	1929
Wm. P. Ridley #	Columbia, Tenn.	Farmer	1930
J. E. Caldwell	Nashville, Tenn.	Pres. Fourth & First Bk. & Tr. Co.	1930

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

Wm. R. Cation	Detroit, Mich.		1928
James Inglis # Chrm.	Detroit, Mich.	Pres. American Blower Co.	1928
Wm. 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
David McMorran #	Port Huron, Mich.	McMorran & Company	1930
Geo. B. Morley	Saginaw, Mich.	Pres. Second National Bank	1930

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

W. P, Kincheloe	Louisville, Ky.		1928
E. L. Swearingen # Chrm.	Louisville, Ky.	Pres. First National Bank	1928
Jno. T. Reynolds	Greenville, Ky.	Pres. First National Bank	1928
Wm. Black #	Louisville, Ky.	Pres. B. F. Avery & Sons, Inc.	1929
Eugene E. Hoge	Frankfort, Ky.	Pres. State National Bank	1929
E. H. Woods #	Lucas, Ky.	Planter	1930
H. E. Jewett	New Albany, Ind.	Pres. Second National Bank	1930

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

W. H. Glasgow	Memphis, Tenn.		1928
T. K. Riddick #Chrm.	Memphis, Tenn.	Attorney	1928
Jno. W. Alderson	Forrest City,Ark.	V.P. Bank of Eastern Arkansas	1928
Wm. Orgill #	Memphis, Tenn.	Pres. Orgill Bros. & Co.	1929
Jno. D. McDowell	Memphis, Tenn.	Pres. Fidelity Bank& Tr. Co.	1929
E. L. Anderson	Clarksdale, Miss	Pres. &Gen.Mgr.King & Anderson, Inc	1930
R. Brinkley Snowden	Memphis, Tenn.	V. P. Bank of Commerce & Trust Co.	1930

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec.31
A. F. Bailey	Little Rock Ark.		1928
Moorhead Wright #Chrm.	Little Rock, Ark.	Pres. Union Trust Co.	1928
W. A. Hicks	Little Rock, Ark.	V.P. American Southern Trust Co.	1928
G. H. Campbell #	Little Rock, Ark.	Insurance	1929
Stuart Wilson	Texarkana, Ark.	Pres. State National Bank	1929
Hamp Williams #	Hot Springs, Ark.	Pres. Hamp Williams Hdwe.Co.	1930
John M. Davis	Little Rock, Ark.	Pres. Exchange National Bank	1930

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

R. E. Towle	Helena, Mont.		1928
C. J. Kelly #Chrm.	Butte, Mont.	Hanson Packing Co.	1928
R. O. Kaufman	Helena, Mont.	V.P. & Cash. Union Bank & TrustCo.	1928
Henry Sieben #	Helena, Mont.	Pres. Sieben Live Stock Co.	1929
T. A. Marlow	Helena, Mont.	Pres. National Bank of Montana	1929

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

J. E. Olson	Denver, Colo.		1928
Murdo MacKenzie #Chrm	Denver, Colo.	The Matador Land & Cattle Co.,Ltd.	1928
Harry W. Farr	Greeley, Colo.	Livestock & Farming	1928
R. H. Davis #	Denver, Colo.	Wholesale Drug Business	1929
Henry Swan	Denver, Colo.	V.P.,U.S.National Bank	1929
Merritt W. Gano #	Denver, Colo.	The Gano-Downs Co.	1930
Harold Kountze	Denver, Colo.	Chrm. & V.P. Colo. National Bank	1930

District No. 11 - Omaha Branch of the Federal Reserve Bank of Kansas City (L. H. Earhart, Managing Director)

L. H. Earhart	Omaha, Nebr.		1928
Wm. Diesing # Chrm.	Omaha, Nebr.	Cudahy Packing Co.	1928
A. H. Marble	Cheyenne, Wyo.	Pres. Stock Growers Nat'l Bank	1928
Wm. E. Hardy #	Lincoln, Nebr.	Hardy Furniture Co.	1929
T. L. Davis	Omaha, Nebr.	V.P. First National Bank	1929
W. W. Magee #	Bennington, Nebr.	Farmer - Stockman	1930
R. O. Marnell	Nebraska City, Nebr.	Cashier Merchants National Bank	1930

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES Dec. 31
C. E. Daniel	Oklahoma City, Okla.		1928
W. F. Nichols #Chrm.	Tulsa, Okla.	Merchandising & 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
E. J. Murphy #	Clinton, Okla.	Farming & Livestock	1930
William Mee	Oklahoma City,Okla.	Pres.Security National Bank	1930

District No. 11 - El Paso Branch of the Federal Reserve Bank of Dallas (W. O. Ford, Managing Director)

W. O. Ford	El Paso, Tex.		1928
C. M. Newman # Chrm.	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.M.	Pres.First Nat'l Bank of Roswell	1929
A. J. Crawford #	Carlsbad, N.M.	Pres.Peoples Mercantile Co.	1930
Geo. D. Flory	El Paso, Tex.	V. P. The State Nat. Bank	1930

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

D.P.Reordan	Houston, Tex.		1928
R. M. Farrar # Chrm.	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 Tex. Com. Nat. Bank	1929
E. A. Peden #	Houston, Tex.	Pres. Peden Iron & Steel Co.	1930
Fred W. Catterall	Galveston, Tex.	Cash.First Nat'l Bank of Galveston	1930

District No. 11 - San Antonio Branch of the Federal Reserve bank of Dallas(M. Crump, Managing Director)

M. Crump	San Antonio, Tex.		1928
Reagan Houston # Chrm	San Antonio, Tex.	V.P.&Gen.Mgr.,A.B.Frank Co.	1928
Ernest Steves	San Antonio, Tex.	Pres. Alamo National Bank	1928
H. H. Rogers #	San Antonio, Tex.	Pres. Travis Investment Co.	1929
Franz C. Groos	San Antonio, Tex.	Pres. Groos National Bank	1929
F. E. Scobey #	San Antonio, Tex.	Pres. Scobey Fireproof Storage Co.	1930
R. T. Hunnicutt	Del Rio, Tex.	V.P. First National Bank	1930

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

DIRECTOR	RESIDENCE	BUSINESS AFFILIATION	TERM EXPIRES
R. B. West	Portland, Ore.		1928
Edward C. Pease #	The Dalles, Ore.	Edward C. Pease Co., Inc.	1928
John F. Daly	Portland, Ore.	Pres. Hibernia Com & Savngs. Bank	1928
Nathan Strauss # Chrm.	Portland, Ore.	Gen. Mgr. Fleischner, Mayer & Co.	1929
J. C. Ainsworth	Portland, Ore.	Pres. United States National 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.		1928
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)

D. L. Davis	Spokane, Wash.		1928
Peter McGregor #	Hooper, Wash.	McGregor Land & Livestock Co.	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.		1928
F. J. Hagenbarth #	Spencer, Idaho	Pres. Wood Livestock Co.	1928
L. H. Farnsworth	Salt Lake City, Ut.	Chrm. Walker Brothers, Bankers	1928
Lafayette Hanchett #Chrm.	Salt Lake City, Ut.	Pres. Utah Power&Light Co.	1929
Charles H. Barton	Ogden, Utah	Pres. National Bank of Commerce	1929

District No. 12 - Los Angeles Branch of the Federal Reserve Bank of San Francisco (W. M. Hale, Managing Director)

W. M. Hale	Los Angeles, Cal.		1928
J. B. Alexander #	Los Angeles, Cal.	Retired	1929
Henry M. Robinson	Los Angeles, Cal.	Pres. L.A.-First Nat'l Bank & Tr.Co.	1928
W. L. Valentine #Chrm.	Fullerton, Cal.	Pres. Fullerton Oil Co.	1929
J. F. Sartori	Los Angeles, Cal.	Pres. Security Trust & Sav. Bank	1929

Appointed by the Board. Corrected to February 15, 1928.

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X-5065

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. February 2, 1928

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 3, 1928.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5066

February 3, 1928.

SUBJECT: Administration of Section IV (b) of Regulation D

Dear Sir:

The Federal Reserve Board has received a request for an interpretation of the language of Section IV (b) of Regulation D which pertains to the personal liability of directors permitting violations of the law regarding reserves.

The primary purpose of this section is not to lay the basis for a law suit to establish the personal liability of directors of member banks which fail to maintain their reserves, but to challenge the attention of the directors to the fact that such banks are not complying with the law regarding reserves in order that they will take proper steps to see that the banks do comply with the law in the future. It is not necessary, therefore, to define precisely in advance the measure of the personal liability of such directors. It is only necessary to call the attention of the directors to the fact that they may incur personal liability if they continue to permit the bank to violate the law regarding the maintenance of its reserves. In writing to the directors, therefore, a general statement of the common law rule regarding their personal liability will be sufficient. The exact grounds and measure of legal liability which may be incurred by the directors in their personal capacity is a matter which depends upon the peculiar circumstances of each case and which may be left for future determination in the event that it becomes necessary for the receiver, stockholders or creditors of a bank to bring suit against the directors.

For your own information, however, it may be stated that the Board is advised by its counsel that the directors of a bank would be liable for any loss or damage sustained by the bank, its stockholders, or its creditors as a result of the failure of such bank to maintain the reserves required by law or as the result of permitting such bank to make loans or pay dividends while its reserves are deficient. Such loss obviously would include the amount of penalties incurred by the bank for deficiencies in reserves and probably any amounts which the bank might lose on loans made while its reserves were deficient. Moreover, in the case of a national bank, its charter may be forfeited for

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failure to maintain its reserves and, in the case of a State member bank, all of its rights and privileges as a member of the Federal Reserve System may be forfeited. In either case, damages may be sustained by the bank for which the directors would be personally liable.

The fact that Section 19 provides that the required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities does not exempt a bank from the mandatory provisions of Section 19 requiring it to establish and maintain its reserves. This is evidenced by the fact that Section 19 also provides that no bank shall at any time make new loans or pay any dividends unless and until the total balance required by law is fully restored. A bank violates the law every time it makes a loan while its reserves are deficient. It is obvious, therefore, that the privilege of checking against its required minimum reserve balance is a privilege intended to be availed of only in emergencies, in order that the reserve may be of some use and not merely an idle fund impounded with the Federal reserve bank. It is obviously proper, however, for a member bank to withdraw any balance which it may have with the Federal reserve bank in excess of its required reserve.

For your guidance, in writing to directors of member banks pursuant to the provisions of Section IV (b) of Regulation D, there is enclosed herewith a draft of a proposed letter for this purpose. This is not intended as a form letter but is intended merely to indicate the character of letter which the Board desires you to send to such directors. It is desirable that a personal letter be written to each director, designed to fit the particular case in hand, rather than a form of printed or mimeographed letter.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS.

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(Draft of personal letter to be written by Federal Reserve Agent pursuant to Section IV (b) of Regulation D. Not to be mimeographed or printed.)

Dear Sir:

Pursuant to the provisions of Section IV (b) of Regulation D of the Federal Reserve Board, Series of 1928, a copy of which is enclosed for your information, I am writing to direct your attention to the fact that the (Name of Bank), of which you are a director, is not paying due regard to the maintenance of its reserves, having been deficient in its reserves during _____ reserve computation periods between _____ (date) and _____ (date).

Section 19 of the Federal Reserve Act requires the above mentioned bank to maintain a reserve consisting of an actual net balance with this Federal reserve bank equal to not less than _____% of the aggregate amount of its demand deposits and 3% of its time deposits, and specifically forbids such bank to make any loans or to pay any dividends while its reserves are deficient. Moreover, Section IV of the Federal Reserve Board's Regulation D prescribes penalties for a failure to maintain the reserves required by law and provides for summary action to be taken against any bank which is continuously deficient in its reserves for six consecutive months.

I am also directed by the Regulations of the Federal Reserve Board to call your attention to the fact that the directors of a bank are required to administer the affairs of such bank in accordance with the laws to which it is subject; and a failure so to administer the affairs of the bank will subject the directors to personal liability for any loss or damage sustained by said bank, its stockholders, or its creditors as a result of the failure to comply with the law. If, therefore, the (Name of Bank), its stockholders, or its creditors sustain any loss or suffer any damage through a failure of such bank to maintain its reserves as required by Section 19 of the Federal Reserve Act, or through the making of any loans or the payment of any dividends while its reserves are deficient, you, as one of the directors of said bank, may be held personally liable for such loss or damage.

Very truly yours,

Federal Reserve Agent.

Enclosure.

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS X-5067

For immediate release. February 3, 1928.
6 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of San Francisco has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 4, 1928.

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X-5068

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release.

February 6, 1928
4 o'clock p. m.

The Federal Reserve Board announces that the Federal Reserve Bank of Minneapolis has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 7, 1928.

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FEDERAL RESERVE BOARD

WASHINGTON

X-5069

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 7, 1928.

Gentlemen:

You are advised that in compliance with the provision of Section 21 of the Federal Reserve Act that "The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank * * *", the Federal Reserve Board has ordered its Chief Examiner, through its Division of Examination, to make an examination of each Federal reserve bank at least once during the calendar year.

In accordance with this action, the Board has directed Mr. J. F. Herson, its Chief Examiner, to make at least one examination of the Federal Reserve Bank of during the year 1928.

The Board has also empowered its Chief Examiner to select the dates on which all examinations will be begun.

You are requested to give him and his force all proper assistance in making the examinations.

Very truly yours,

R. A. Young,
Governor.

To all F. R. Banks.

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X-5070

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate Release:

February 7, 1928
3 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Boston has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 8, 1928.

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X-5071

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release:

February 7, 1928
5 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Dallas has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 8, 1928.

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FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5072

February 8, 1928.

SUBJECT: Report by Federal Reserve Agents of violations of criminal statutes.

Dear Sir:

Certain questions have recently been presented to the Federal Reserve Board regarding the reporting of violations of the criminal provisions of Section 22 of the Federal Reserve Act and Sections 5208 and 5209 of the Revised Statutes to the United States District Attorney and to the Federal Reserve Board in accordance with the Board's letter of April 4, 1923 (X-3683).

The question was raised whether it is the desire of the Federal Reserve Board that Federal reserve agents report alleged violations of the criminal statutes mentioned, in the case of national banks as well as in the case of State member banks. Such violations are, in case of national banks, brought to the attention of the Comptroller of the Currency by national bank examiners and the facts in the cases reported are customarily transmitted both to the United States District Attorney and the Department of Justice for appropriate action. If Federal reserve agents were instructed to report these violations in the case of national banks, ordinarily it would be merely a duplication of the work done by the Comptroller of the Currency and the national bank examiners. Accordingly there seems to be no necessity for Federal reserve agents making such reports in the case of national banks. In addition there are some cases in which the Comptroller of the Currency reports the matter to the Attorney General, but at the same time suggests that no immediate action be taken because to do so might cause a run on the bank involved. To have duplicate reports by Federal reserve agents in cases of this kind might lead to confusion and possibly injurious consequences to some of the national banks. However, in cases where information is received which might not otherwise come to the attention of the national bank examiner, such information should be promptly furnished him.

The question was also presented whether it is the Board's desire when a Federal reserve agent receives through press reports or other unofficial sources notice of possible violations of the law, he should follow up the matter to

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ascertain the facts and make a report in the usual manner, or whether he should await the receipt of information through official sources. When the Federal reserve agent receives knowledge of possible violations of law in connection with his official duties, he should immediately follow the matter up. Where, however, he receives his information from rumors, the Board believes that he should be given a wide discretion as to what action he should take. In many cases it would seem unnecessary to take action until the matter has come to his attention through official channels. In exceptional cases, however, where the facts are widely known and the matter is an important one, the Federal reserve agent should use sound discretion, and if he deems it advisable or appropriate should undertake to ascertain the facts officially.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS.

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X-5073 L. 39

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 8, 1928.

SUBJECT: Deduction of Balances due from American Branches of Foreign Banks in Computing Reserves.

Dear Sir:

The Federal Reserve Board was recently requested to rule upon the question whether dollar balances carried by member banks in American branches of foreign banks may be considered balances due from banks within the meaning of Section 19 of the Federal Reserve Act and accordingly deducted from the amount of balances due to banks in computing reserves.

The Federal Reserve Board's Regulation D provides that balances due from foreign banks may not be deducted from due to bank balances in computing reserves of member banks. This provision is based on the fact, however, that balances due from foreign banks are payable in foreign currency and the Board believes that the phrase "the net difference of amounts due to and from other banks" contained in Section 19 of the Act has reference only to balances payable in dollars and does not include balances payable in foreign currency. The Board has also ruled that while balances payable in foreign currency due from a foreign branch of a domestic bank may not be deducted from due to bank balances by a member bank in computing its reserves, when such balances are payable in dollars the contrary is true the deduction from due to bank balances being permitted. (1925 Federal Reserve Bulletin, page 483).

In the case under consideration the amounts due from American branches of foreign banks were payable in dollars rather than in foreign currency, and accordingly the Federal Reserve Board ruled that such balances payable in dollars due from branches located in this country of foreign banks may be deducted from amounts due to other banks by a member bank in computing its reserves under Section 19 of the Federal Reserve Act.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO ALL
GOVERNORS AND
FEDERAL RESERVE AGENTS.

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TREASURY DEPARTMENT
Office of the Secretary
Washington

February 6, 1928.

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, 1928, to January 31, 1928, amounting to $111,292.50, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston					5,000	5,000
New York	650,000	200,000				850,000
Philadelphia	300,000	150,000	50,000			500,000
Cleveland	300,000	150,000	50,000			500,000
Richmond	100,000		50,000			150,000
Atlanta	50,000					50,000
Chicago	350,000	150,000	100,000	5,000		605,000
St. Louis	100,000		25,000			125,000
Kansas City	50,000	75,000	25,000			150,000
San Francisco	150,000	50,000				200,000
	2,050,000	775,000	300,000	5,000	5,000	3,135,000

3,135,000 sheets @ $35.50 per M $111,292.50

The charges against the several Federal reserve banks are as follows:

Boston	$ 177.50
New York	30,175.00
Philadelphia	17,750.00
Cleveland	17,750.00
Richmond	5,325.00
Atlanta	1,775.00
Chicago	21,477.50
St. Louis	4,437.50
Kansas City	5,325.00
San Francisco	7,100.00
	$111,292.50

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,

J. R. Jacobs,
Deputy Commissioner.

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X-5076

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. February 9, 1928.
4 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Kansas City has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 10, 1928.

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X-5077

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

February 10, 1928.
For immediate release. 4 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Atlanta has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 11, 1928.

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(Confidential)

RECORD OF THE CONFERENCE OF COUNSEL OF FEDERAL RESERVE BANKS HELD AT WASHINGTON, D. C., ON FEBRUARY 9 AND 10, 1928.

The conference convened on February 9th at 10:00 A.M. in the Board room of the Federal Reserve Board, Treasury Department, Washington, D.C. Those present were:

Mr. A. H. Weed,	Federal	Reserve	Bank	of	Boston
K. K. Carrick,	"	"	"	"	Boston
L. R. Mason,	"	"	"	"	New York
J. S. Sinclair,	"	"	"	"	Philadelphia
Sterling B. Newell,	"	"	"	"	Cleveland
M. G. Wallace	"	"	"	"	Richmond
R. S. Parker,	"	"	"	"	Atlanta
C. L. Powell,	"	"	"	"	Chicago
J. G. McConkey,	"	"	"	"	St. Louis
A. Ueland,	"	"	"	"	Minneapolis
Sigurd Ueland,	"	"	"	"	Minneapolis
H. G. Leedy,	"	"	"	"	Kansas City
E. B. Stroud, Jr.,	"	"	"	"	Dallas
A. C. Agnew,	"	"	"	"	San Francisco.

Mr. Newton D. Baker was present during the morning session on February 9th.

Mr. Walter Wyatt, Mr. B. M. Wingfield, and Mr. George B. Vest from the Federal Reserve Board.

Governor Young of the Federal Reserve Board addressed the conference briefly upon its opening. Mr. Wyatt was then elected permanent Chairman of the conference and he appointed Mr. Vest as Secretary.

The following is a record of the action taken by the conference on the various matters on the program.

TOPIC NUMBER 1.

What effect will ruling of Supreme Court of Texas that trade acceptances are non-negotiable which bear the legend - "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"- have upon the negotiability of bankers' acceptances containing similar language, e. g., "This acceptance arises from the domestic storage of cotton and was secured at time of acceptance by documents securing and conveying title to --- bales and will remain so secured throughout the life of this acceptance."

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After a discussion of this subject a committee consisting of Messrs. Mason, Weed and Stroud was appointed to consider a report with reference thereto. The committee later submitted its report which, after amendment, was adopted in the following form:

"RESOLVED, That it is the opinion of this conference that the following certificate now appearing on bankers' acceptances, namely -

"'This bill was secured at the time of acceptance by independent warehouse, terminal, or other similar receipt conveying security title to (name of readily marketable staple) stored in (country where stored) and the acceptor will remain secured throughout the life of the bill.'

may render the instrument non-negotiable, and, therefore, it is recommended that the following words be eliminated from the certificate -

"'and the acceptor will remain secured throughout the life of the bill.'

"FURTHER RESOLVED, That in the event this elimination is made from the certificate, it is the opinion of this conference that Regulation A, Article B, Section XI, Subsection 3, will be sufficient to give effect to the policy of requiring the acceptor to remain secured throughout the life of the bill. It is recognized, however, that for practical reasons the operating officials may desire to adopt other means to assure the continued security of such bills, in which case it is recommended that the matter be referred to the General Counsel of the Federal Reserve Board to devise further ways and means."

The conference then voted to approve the recommendations of Mr.Wyatt contained in his opinion dated October 7, 1927, with reference to the clauses to be used in bankers acceptances covering domestic shipments and import and export transactions. These recommendations are as follows:

"1. That no change be made in the form of certificate to be used on acceptances covering domestic shipments.

"2. That the form of certificate to be used on acceptances covering import and export transactions be changed to read as follows:

"'The transaction which gives rise to this instrument is the (importation) of (name of commodity)
(exportation)
from (point of shipment) to (place of destination).

_____
Name of Acceptor."

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TOPIC NUMBER 2.

In view of recent decision of Supreme Court of Kansas (Colorado and So. Railway Co. vs. Docking, Receiver of American State Bank, 124 Kansas, 48) , in which it was held that directions contained in cash letters to remit by draft, changed the relationship between the forwarding bank and collecting bank from principal and agent to that of creditor and debtor: What change, if any, should be made in methods of procedure now followed to obtain immediately available remittances for cash letters?

After discussion Mr. Agnew moved that it be the sense of the conference in view of the conflicting statutory requirements, and in view of the conflicting judicial decisions on the question of the status of remittance draft claims, that no uniform or concerted action can be taken on this problem, and it must be left for solution to the Federal reserve banks in their respective jurisdictions.

This motion was adopted by the conference.

TOPICS NUMBERS 3 & 4.

The action of certain member banks in stamping on cashier's checks the phrase "not payable through Federal reserve banks."

The action of member banks in stamping on cashier's checks the phrase "Payable in New York Exchange."

These topics were considered together and after a discussion Mr. Wallace moved that it is the opinion of this conference that the handling of the matters covered in Topics Numbers 3 and 4 by the Federal Reserve Bank of Atlanta, under the advice of Mr. Baker, Mr. Wyatt and Mr. Parker, is entirely proper and that the conference approve of the methods followed.

This motion was adopted by the conference.

TOPIC NUMBER 5.

The par clearance case of the State Bank of Hugo, Minn.

Mr. Baker made a brief statement with reference to this matter and the legal aspects of the case were generally discussed. No formal action was taken.

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TOPIC NUMBER 6.

The individual reports by each Federal reserve bank outlining the procedure followed by each bank in handling cash and non-cash collections. These reports were prepared as a result of a request made at the Spring Conference of Governors to be submitted to Mr. Baker for his review and recommendations.

Mr. Baker stated that the reports referred to had not yet been submitted to him, and accordingly were not available for consideration at this time. No formal action was taken.

TOPIC NUMBER 7.

The right of a Federal reserve bank to charge to the reserve account of an insolvent member bank checks received by the Federal reserve bank for collection and transmitted to the member bank for payment prior to the insolvency. (See Board Letter (X-4976) dated October 1927).

After a full discussion of this topic, upon vote of the conference a committee consisting of Messrs. Agnew, Stroud and Mason was appointed to draft a resolution expressing the views of the conference. The committee later reported, submitting two resolutions. The first of these was as follows:

"RESOLVED, That after thorough discussion and consideration of the subject it is the opinion of this conference that the inclusion by the Federal reserve banks in their check collection circulars of provisions giving to such Federal reserve banks the right to charge cash items to the reserve account or clearing account of banks 'at any time when in any particular case such Federal reserve bank deems it necessary so to do,' is a dangerous policy involving legal complications and that such provisions should be eliminated from the check collection circulars of the Federal reserve banks."

"BE IT FURTHER RESOLVED, That in the opinion of this conference, uniformity among all reserve banks in the method of handling reserve balances in relation to outstanding cash letter obligations is most desirable."

This resolution was adopted by the conference, Mr. Sinclair and Mr. Wallace voting in the negative.

Mr. Sinclair, on behalf of Counsel for the Federal Reserve

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Bank of Philadelphia, desired to be recorded as voting in the negative on the foregoing resolution in view of the present collection procedure followed by the Federal Reserve Bank of Philadelphia, and its present check collection circular issued pursuant to Regulation J.

The second resolution proposed by the committee was as follows:

> "BE IT RESOLVED, That after careful consideration of the facts involved and the law applicable it is the opinion of this conference that the pursuit by the Federal Reserve Bank of Richmond of the litigation contemplated between that bank and the Receiver of the Farmers and Merchants National Bank of Lake City, South Carolina, is fraught with most dangerous consequences to the entire Federal reserve collection system."

This resolution was adopted by the conference with Mr. Wallace, Mr. Ueland and Mr. Weed voting in the negative, and Mr. Sinclair not voting. Mr. Weed stated that he voted "No" on the ground that the resolution was a direction to the Federal Reserve Bank of Richmond.

TOPIC NUMBER 8.

> Liability of Federal reserve banks on Federal reserve exchange draft before such draft is presented and accepted.

This subject was discussed by the conference and views exchanged but no formal action was taken.

TOPIC NUMBER 9.

> Terms on which non-cash collections should be handled by Federal reserve banks.

After consideration of this subject the conference voted that a committee be appointed to report on the form of paragraph which the conference should recommend be adopted by the Standing Committee on Collections. Messrs. Newell, Mason, Parker and Stroud were appointed on this committee. The committee submitted its report as follows:

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"Your Committee, appointed for the purpose of considering a form of conditions under which Federal reserve banks will receive non-cash items for collection, makes the following report:

"It is the opinion of all members of the Committee that the Federal reserve banks may, if they so desire, by appropriate provisions of their circular letters, secure the right to accept drafts or checks in payment of non-cash items accompanied by documents or other things of value and avoid liability for having accepted something in purported payment which may prove to be non-collectible, provided the Federal reserve bank in accepting the check or other form of payment used due care.

"It is the opinion of three members of the Committee that the Federal reserve banks should not incorporate in their circulars language exempting them from liability where they accept anything other than cash in payment of non-cash items accompanied by documents or other things of value where these non-cash items are collected by the Federal reserve bank or its branches in their own cities. If it be determined as a matter of policy by the Standing Committee on Collections that the Federal reserve banks should not exempt themselves from liability as stated above the Committee is unanimously of the opinion that a statement of conditions substantially in the form set forth below will accomplish the purpose, placing upon the Federal reserve banks the obligation of procuring actual payment for non-cash collection items accompanied by documents or other things of value when presented to the Federal reserve bank or its branch in the city where same is located, and will adequately protect the Federal reserve banks and their branches from liability where presentation of such items is made by or through collecting agents.

"The Committee calls the attention of the conference to the fact that Mr. Strater has not yet completed his study of the provisions in the collection circulars of the several banks and it is quite possible that there may be a necessity for making some additions or amendments to the form of conditions submitted herewith to the conference by reason of newly discovered matters not now considered which may later be brought to light by Mr. Strater's study. Therefore, it is the recommendation of the Committee that the conference approve the statement of conditions submitted herewith, with the understanding that it may be subject to some modifications and additions before the report is made by the Standing Committee on Collections to the next conference of Governors.

"PROPOSED CONDITIONS UNDER WHICH FEDERAL RESERVE BANKS WILL RECEIVE NON-CASH ITEMS FOR COLLECTION.

Every member or non-member clearing bank which send maturing notes and bills or other non-cash items to any Federal reserve bank for

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"collection shall, by such action, be deemed:

(a) To have agreed to all the terms and conditions of this circular;

(b) To have warranted to the Federal reserve bank that it has authority to empower the Federal reserve bank to handle such items in the manner hereinafter provided;

(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;

(d) To have guaranteed all prior endorsements on such items whether or not a specific guaranty is incorporated in the endorsement of the sending bank;

the said terms and conditions so agreed to being as follows:

(1) A Federal reserve bank will act only as agent of the bank from which it receives such notes, bills or other non-cash items, and will assume no liability except for its own negligence and its guaranty of prior endorsement;

(2) A Federal reserve bank may present such items with any accompanying documents for payment or send the same for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible; or, in its discretion, may forward them to another agent with authority to make presentation or to send them for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible;

(3) No Federal reserve bank will be responsible for the default, omissions or negligence of any such agent for collection selected by it with reasonable care (the bank upon which any such items may be drawn, or at which the same may be payable, or through which the same are payable or collectible being deemed to be an agent for collection within the meaning of this circular); and any such Federal reserve bank may accept either cash or bank drafts from any such agent

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"in payment of or in remittance for such items and shall not be liable for any loss resulting from such acceptance of bank drafts, nor for the failure of the drawee bank or any agent to remit for such items, nor for the non-payment of any bank draft accepted in payment or in remittance from the drawee bank or any agent."

The report made by the committee on Topic Number 9 was then duly adopted by the conference. In connection with the vote on the report of the committee on this subject Mr. Mason made the following statement:

"The Federal Reserve Bank of New York excepts to the report of the Committee and to the conclusions stated in Mr. Newell's letter of January 31, 1928, addressed to this conference, to this extent: The Federal Reserve Bank of New York holds the view that a Federal reserve bank should seek exemption from liability by contract in cases where by its own agent it presents for payment a non-cash collection item accompanied by securities, bills of lading and other things of value to be delivered upon payment by the person obligated to pay the instrument and receives in purported payment a bank check or draft which later proves worthless."

Mr. Sinclair made the following statement in this connection:

"Mr. Sinclair, on behalf of Counsel for the Federal Reserve Bank of Philadelphia wishes to be recorded as voting in favor generally of the report of the Committee and the resolution with the exception, however, that with respect to the matter covered by the foregoing statement of Mr. Mason he wishes to be recorded as not voting, inasmuch as he is not aware of the actual views of the officers of the Federal Reserve Bank of Philadelphia on the question of relieving itself by contract from liability in the case of presentation of non-cash collection items with documents attached in the city of Philadelphia, and the receipt of anything other than cash in payment thereof."

TOPIC NUMBER 10.

Proposed uniform answer for use in check collection suits.

After discussion Mr. Powell moved that Mr. Stroud be commended

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for his efforts in tendering a draft of a proposed answer which so admirably sets forth the operations of the Federal reserve collection system.

This motion was adopted by the conference.

TOPIC NUMBER 11.

Recommendation by American Bankers Association of uniform bank collection code which it is proposed to have enacted in every State of the Union.

Mr. Stroud moved that within a reasonably short time after the return of Counsel to their homes they write Mr. Wyatt their views with reference to this proposed code, Mr. Wyatt, upon receipt of communications from Counsel of all banks, to name a committee to consider the communications and reconcile and iron them out, and that the committee, as individuals, give such expression as they care to to Mr. Paton.

This motion was adopted by the conference.

TOPIC NUMBER 12.

In determining negotiability of instruments, what should be the attitude of the Federal Reserve Banks where there are no decisions on the question involved in the state under whose laws the instrument must be construed, and there is a conflict in the authorities in other jurisdictions?

This subject was discussed and views exchanged but no action taken.

TOPIC NUMBER 13.

Do State statutes providing for preference against failed banks apply to National Banks?

This subject was discussed and views exchanged but no action taken.

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TOPIC NUMBER 14.

Should an effort be made to obtain a decision of the Supreme Court of the United States on the question as to right of preference against failed banks for checks drawn against such banks which are charged to drawees accounts, but proceeds of which are not finally paid over?

This subject was discussed and views exchanged but no action taken.

CONFERENCES OF COUNSEL.

Mr. Stroud offered the following resolution:

"RESOLVED, That conferences of Counsel are very beneficial to the respective attorneys for the various Federal reserve banks and should be held at least once a year. The Federal Reserve Board is respectfully requested to consider favorably a conference of Counsel at least once a year."

This resolution was adopted by the conference.

VOTE OF THANKS.

At the conclusion of the conference Mr. Parker offered the following resolution:

"WHEREAS, the members of this conference feel the same has resulted in much benefit, and

"WHEREAS, we feel that the advantages which have accrued from the conference have been in substantial measure due to the care and industry with which the material has been gathered together by our Chairman, Mr. Wyatt, and much of the pleasure and profit which we have had together has been due to his courtesy and consideration,

"THEREFORE, BE IT RESOLVED, That a hearty vote of thanks be presented and is hereby extended to Mr. Wyatt."

This resolution was adopted by the conference.

The conference adjourned on February 10th, at 5:15 P.M.

(Signed) George B. Vest,
Secretary.

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Federal Reserve Bank of St. Louis

X-5079

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. February 15, 1928.
3 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 16, 1928.

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Federal Reserve Bank of St. Louis

X-5081

STATEMENT FOR THE PRESS.

For Release in Papers
Saturday, February 18, 1928.

The first and organization meeting of the Federal Advisory Council for 1928 with the Federal Reserve Board at which general business and financial conditions were discussed was held Friday, February 17. 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, Walter W. Smith
No. 9, Minneapolis, Theodore Wold
No. 10, Kansas City, Peter W. Goebel
No. 11, Dallas, B. A. McKinney
No. 12, San Francisco, F. L. Lipman

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 Smith will comprise the Executive Committee. Mr. Walter Lichtenstein was reappointed Secretary of the Council.

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FEDERAL ADVISORY COUNCIL.
1928

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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 — W. W. Smith

M E M B E R S.

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'l. Bk., 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.	Walter W. Smith	First National Bank, 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.	F. L. Lipman	Wells Fargo Bk.&Union Tr.Co., San Francisco, Cal.

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

February 17, 1928.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

L 310

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5083

February 20, 1928.

SUBJECT: Holidays during March, 1928.

Dear Sir:

On Friday, March 2nd, the Federal Reserve Bank of Dallas and all of its branches will be closed in observance of Texas Independence Day.

On Monday, March 26th, the Baltimore Branch of the Federal Reserve Bank of Richmond will be closed in observance of Maryland Day.

Therefore, on the dates indicated, 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 your credits for the following business day, and make no shipments of Federal Reserve notes, fit or unfit, for account of the Federal Reserve Bank of Dallas, on March 2nd.

Kindly notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

X-5084

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. February 20, 1928.
3 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of St. Louis has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective February 21, 1928.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5086

February 24, 1928.

SUBJECT: Translation of code word "ARCHERY"

Dear Sir:

In connection with the advice of approval of applications of state institutions for membership in the Federal Reserve System, the translation of the code word "ARCHERY" has been amended to read as follows:

> "The application of (name of applying bank) for membership in the Federal Reserve System has been approved by the Federal Reserve Board subject to the conditions contained in section IV, Regulation H, series of 1928, numbered 1 to 7 inclusive."

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS

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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 27, 1928.

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 production and shipments of commodities by railroads increased considerably in January from the low point reached at the end of 1927. The general level of wholesale commodity prices showed a slight decline.

Production.

The increase of 6 per cent in industrial production from December to January reflected a larger output of manufactures, particularly of iron and steel and automobiles. Daily average production of steel ingots increased by over 25 per cent in January - the largest monthly increase since 1924. Buying of steel products by the railroads, and by the automobile and construction industries was also active in January, and notwithstanding the large volume of production and shipments, unfilled orders showed an increase during the month. Since the first of February production of steel products has continued active with new orders and shipments more nearly in balance than in previous months. Automobile production, which in December was in smallest volume since 1922, increased considerably in January and was only slightly smaller than in the same month of the preceding year. Cotton consumption showed about the usual seasonal increase in January following substantial curtailment in December and the woolen and silk industries were somewhat more active than in December. Production of minerals, after adjustment for customary seasonal changes, was in practically the same

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volume in January as in December. Building contracts awarded in January exceeded those for the corrosponding month of last year and awards during the first half of February were in practically the same volume as a year ago.

Trade.

Sales of department stores showed more than the usual seasonal decline in January from the high levels reached in December and averaged slightly smaller than in January of last year. Sales of mail order houses, on the other hand, were about 6 per cent larger than a year ago. Wholesale trade in nine leading lines averaged larger than in January of last year. Stocks of groceries and hardware carried by wholesale firms were smaller than a year ago, but reports in other lines indicated that stocks were somewhat larger.

Freight car loadings for all groups of commodities were larger in January than in December - the increase being particularly large for miscellaneous commodities. Compared with January of last year, however, loadings of all classes of commodities, except livestock, were smaller.

Prices.

The Bureau of Labor Statistics index number of wholesale commodity prices declined from 96.8 per cent of the 1926 average in December to 96.3 per cent in January. Prices of farm and hide and leather products increased, while prices of meats and dairy products, textiles, fuels, nonferrous metals, and rubber declined. During the first two weeks of February, prices of grains, cotton, silk, and wool advanced, while those of cattle, sugar, and rubber declined.

Bank Credit.

For the four weeks ending February 15 total loans and investments of member

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banks in leading cities showed a decline of more than $200,000,000, the decline being almost entirely in loans on securities. From the peak at the turn of the year this class of loans decreased by nearly $460,000,000. Loans for commercial purposes, after a further decline in January, showed a seasonal increase in the first two weeks of February. The decline in the volume of loans since the first of the year has been accompanied by a corresponding decline in net demand deposits, while time deposits have continued to increase.

At the reserve banks the total volume of member bank borrowing declined seasonally during the opening weeks of the year and reached a low point on January 25, but increased by about $70,000,000 between that date and February 21. This increase in discounts accompanied smaller reductions in the reserve banks' holdings of United States securities and acceptances, and the total volume of reserve bank credit in use showed an increase for the four weeks.

During the four weeks ending February 21 a firmer tendency in the money market was indicated by increased rates on call and time loans and by a further increase from 3 3/8 per cent to 3 1/2 per cent in the rate on 90-day bankers' acceptances. Between January 25 and February 1 discount rates at eleven Federal reserve banks were advanced from 3½ to 4 per cent.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5088

February 28, 1928.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

Upon agreement between the Federal Reserve Bank of Kansas City and the other Federal reserve banks involved, the Board has approved the following changes in the inter-district time schedule:

From	Kansas City	to	Memphis	From	2	days	to	1 day
"	"	"	Atlanta	"	3	"	"	2 days
"	"	"	New Orleans	"	3	"	"	2 "
"	"	"	San Francisco	"	4	"	"	3 "
"	"	"	Los Angeles	"	4	"	"	3 "
"	"	"	Portland	"	4	"	"	3 "
"	"	"	Spokane	"	4	"	"	3 "
"	Denver	to	Helena	"	3	"	"	2 "
"	"	"	Los Angeles	"	4	"	"	3 "
"	"	"	Portland	"	4	"	"	3 "
"	"	"	San Francisco	"	4	"	"	3 "
"	Oklahoma City	to	New Orleans	"	3	"	"	2 "
"	"	"	Los Angeles	"	4	"	"	3 "
"	Omaha	to	Jacksonville	"	4	"	"	3 "
"	"	"	Portland	"	4	"	"	3 "
"	"	"	Seattle	"	4	"	"	3 "

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS

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FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5089

February 28, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, January, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-5089-a and X-5089-b, covering in detail operations of the main line, Leased Wire System, during the month of January, 1928.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Yours very truly,

Fiscal Agent.

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

Enclosures:

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1928.

From	Business reported by banks	Words sent by New York chargeable to other F.R. Banks	(1) Total	Treasury Department Business	War Finance Corporation Business	Net Federal Reserve Bank Business	Per cent of total bank Business (*)
Boston	36,222	1,325	37,547	3,854		33,693	3.79
New York	143,157	-	143,157	6,800	244	136,113	15.33
Philadelphia	39,887	1,112	40,999	3,270		37,729	4.25
Cleveland	83,135	2,700	85,835	4,806		81,029	9.13
Richmond	58,508	2,569	61,077	4,120		56,957	6.41
Atlanta	56,632	5,562	62,194	5,396		56,798	6.40
Chicago	110,974	3,629	114,603	8,814		105,789	11.91
St. Louis	79,945	3,149	83,094	4,467		78,627	8.86
Minneapolis	34,444	2,943	37,387	2,819		34,568	3.89
Kansas City	84,444	3,117	87,561	5,854		81,707	9.20
Dallas	73,574	6,798	80,372	3,252		77,120	8.69
San Francisco	111,187	2,770	113,957	6,158		107,799	12.14
Total	912,109	35,674	947,783	59,610	244	887,929	100.00
			403,579	108,855	-	294,724	
			1,351,362	168,465	244	1,182,653	
			100.00%	12.47%	.02%	87.51%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-5089-b)

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

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REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, JANUARY, 1928.

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	$761.82	$261.00	$500.82
New York	995.78	-	-	995.78	3,081.46	995.78	2,085.68
Philadelphia	225.00	-	-	225.00	854.29	225.00	629.29
Cleveland	296.66	-	-	296.66	1,835.21	296.66	1,538.55
Richmond	190.00	-	-	190.00	1,288.47	190.00	1,105.80(&)
Atlanta	270.00	-	-	270.00	1,286.46	270.00	1,016.46
Chicago	3,923.32(#)	-	-	3,923.32	2,394.01	3,923.32	1,529.31(*)
St. Louis	202.00	-	-	202.00	1,780.94	202.00	1,578.94
Minneapolis	177.90	-	-	177.90	781.92	177.90	604.02
Kansas City	275.64	-	-	275.64	1,849.28	275.64	1,573.64
Dallas	251.00	-	-	251.00	1,746.76	251.00	1,495.76
San Francisco	370.00	-	-	370.00	2,440.25	370.00	2,070.25
Federal Reserve Board	-	-	$15,528.68	15,528.68	-	-	-
Total	$7,437.30	$ 1.00	$15,528.68	22,966.98	$20,100.87	$7,438.30	$14,199.21
				2,866.11(a)			1,529.31(b)
				$20,100.87			$12,669.90

(&) Includes $7.33 for branch line business (adjustment acct. of error Dec. 1927 Statement)
(#) Includes salaries of Washington Operators
(*) Credit
(a) Received $2,863.14 from Treasury Dept. and $2.97 from War Finance Corp. covering business for the month of January, 1928.
(b) Amount reimbursable to Chicago.

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X-5090

February 28, 1928.

Federal Reserve Board.

Mr. Wyatt, General Counsel.

Proposed Amendments to the Federal Reserve Act.

In accordance with the Board's request, I respectfully submit herewith drafts of bills to effect the following proposed amendments to the Federal Reserve Act:

1. A proposed amendment to the first paragraph of Section 19 more clearly defining demand deposits, time deposits, savings deposits, etc., and making it more difficult to evade the proper classification of deposits for the purpose of computing reserves.

2. An amendment to Section 19 authorizing member banks in computing their reserves to deduct "balances due from banks" from their gross demand deposits instead of from "balances due to other banks", as at present.

3. A complete revision of Section 19 adjusting, clarifying and simplifying the reserve requirements in accordance with the proposed plan suggested by Mr. Smead in a memorandum addressed to the Board under date of June 27, 1927 (St. 5420), a copy of which is attached hereto. This would make important changes in the reserve requirements and it is suggested that it should be subjected to careful study and criticism by both the Board and the Federal reserve banks before being recommended to Congress.

4. A proposed amendment to Section 13 eliminating the word "agricultural" from the provision authorizing the discount of sight and demand drafts secured by bills of lading, in order to eliminate the difficulty in determining what is, or what is not, a "non-perishable, readily marketable, staple agricultural product." A bill for this purpose, S. 1989, was introduced by Senator Sheppard on January 4th and has already been reported out by the Senate Banking and Currency Committee.

5. A proposed amendment restoring the jurisdiction of the United States District Courts over suits brought by or against Federal reserve banks, Federal Land Banks, and Joint Stock Land Banks. It is important to the Federal reserve banks that this amendment be obtained at the earliest favorable opportunity, and the Treasury Department has requested that Federal Land Banks and Joint Stock Land Banks be included. (Letter from Mr. Dewey dated September 20, 1926.) This bill would be referred to the Judiciary Committee instead of the Banking and Currency Committee, and any riders amending the Federal Reserve Act would not be germane to the purpose of the bill.

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6. A proposed amendment exempting Federal reserve banks from attachment or garnishment proceedings in the same manner as national banks are now exempted. This is in the form of an amendment to Section 4 of the Federal Reserve Act and probably would be referred to the Banking and Currency Committee.

7. A proposed amendment to Section 13 of the Federal Reserve Act increasing the maximum maturity of advances made by Federal reserve banks to member banks on their promissory notes from 15 days to 90 days when such notes are secured by paper eligible for rediscount or for purchase by Federal reserve banks. Such an amendment was recommended by the Board in a letter addressed to Congressman McFadden under date of January 16, 1926 (X-4508) and a bill containing such an amendment was introduced in the Fifty-Ninth Congress by Congressman McFadden as H.R. 7894 but was never reported out by the House Banking and Currency Committee.

8. The proposed amendment to Section 8 of the Clayton Act designed to give the Board more latitude in the matter of granting permits for interlocking bank directorates. This proposed amendment has been introduced in the present Congress as H.R. 6491, has passed the House, and is now in the hands of the Senate Committee on Banking and Currency.

9. A proposed amendment to Section 4 of the Federal Reserve Act to permit an officer, director or employee of a mutual savings bank to serve as a Class B or Class C director of a Federal reserve bank. I understand that in January, 1927, the Board approved such an amendment but voted to withhold any recommendation to Congress until the present session.

10. An amendment to Section 9, as amended by the McFadden Act, permitting State member banks to have foreign branches.

11. An amendment permitting the cancellation and surrender of Federal reserve bank stock held by member banks which go out of the banking business or cease to function without any receiver or liquidating agent being appointed therefor.

12. An amendment to Section 21 of the Federal Reserve Act suggested by the Comptroller of the Currency to provide that the salaries of national bank examiners shall be fixed by the Comptroller of the Currency instead of the Federal Reserve Board. This has been covered by making a change in the longer of the two bills submitted with my memorandum of January 7th amending Sections 9 and 21 of the Federal Reserve Act.

In deciding whether or not to recommend such amendments in its annual report, I respectfully suggest that the Board give very careful consideration to the question whether the present is a favorable or safe time to recommend any amendments to the Federal Reserve Act, especially in view of the debates on the proposed amendment to the Clayton Act and the Retirement Bill, and in view of the number of pending amendments of a more or less radical nature which have been introduced by various Congressmen and Senators.

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If I may be permitted to record my personal opinion on this matter, I would say that I agree with the view expressed by the Comptroller of the Currency, to wit: That it would be impossible to secure constructive legislation in connection with the Federal Reserve System at the present time and the introduction of legislation recommended by the Board would lead to amendments and hearings before committees which would be broad in their scope and dangerous to the Federal Reserve System. It would also give the proponents of radical amendments to the Federal Reserve Act an opportunity of forcing action upon such radical amendments by tacking them on as riders to any bills which might be introduced at the Board's suggestion.

Respectfully,

Walter Wyatt,
General Counsel.

Bills attached.

WW MD

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COPY X-5090-a 32

A BILL

To amend Section 19 of the Federal Reserve Act.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the first paragraph of Section 19 of the Federal Reserve Act, as amended, be further amended and re-enacted to read as follows:

"Bank Reserves."

"Sec. 19. The term 'demand deposits' within the meaning of this act shall include all deposit balances due to other banks, bankers, and trust companies in the United States and foreign countries, all certified checks, cashier's checks, treasurer's checks, demand letters of credit, and travellers' checks outstanding, and all other deposits except 'time deposits' as hereinafter defined, and deposits of public moneys by the United States in designated depositaries.

"The term 'time deposits' within the meaning of this act shall include all 'savings accounts', 'time certificates of deposit', 'postal savings deposits' and 'open account time deposits' as hereinafter defined, except that whenever, by the lapse of time or the giving of notice of an intended withdrawal, savings accounts, time certificates of deposit, and open account time deposits become payable in less than 30 days, such deposits shall be considered demand deposits.

"The term 'savings accounts' shall mean deposits of individuals and religious, charitable or similar corporations, in respect to which -

(1) A pass book, certificate or other similar form of receipt, delivered to and retained by the depositor or his assignee, must actually be presented to the bank whenever a withdrawal is made;

(2) The depositor or his assignee may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made; and

(3) The bank's printed regulations, accepted by the depositor include the above requirements.

"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' with-

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in the meaning of this act. The retention of the pass book, certificate or other similar form of receipt or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank or by an officer, agent or employee thereof, shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another or a deposit of a business corporation or firm shall not in any case be considered a 'savings account' within the meaning of this act.

"The term 'time certificate of deposit' shall mean a deposit evidenced by written instruments delivered to and retained by the depositor evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate, payable in whole or in part to the depositor or on his order -

(1) On a certain date, specified on the certificate, more than thirty days after the date of the deposit; or

(2) After the lapse of a certain time subsequent to the date of the certificate, in no case less than thirty days; or

(3) After written notice which the bank may at its option require to be given a certain specified number of days, not less than thirty days before the date of repayment; and

(4) In all cases only upon the actual presentation of the certificate at each withdrawal for proper endorsement or surrender.

"The retention of the certificate, or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation by the bank or by an officer, agent or employee thereof shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another shall not in any case be considered a 'time certificate of deposit' within the meaning of this act.

"The term 'postal savings deposits' as used in this act shall mean deposits of postal savings funds in banks under the terms of the postal savings act approved June 25, 1919, as amended.

"The term 'open account time deposits' as used in this act shall mean deposits not evidenced by certificates of deposits or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made providing that neither the whole or any part of such deposit may be withdrawn, by check or otherwise, except on a given date

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more than thirty days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than thirty days. In order for deposits to be classified as 'open account time deposits' the bank in which such deposits are made must actually require such written notice before permitting withdrawals to be made.

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X-5090-b

An Act to Amend Section 19 of the Federal Reserve Act, As Amended.

BE IT ENACTED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the eighth paragraph of Section 19 of the Federal Reserve Act, as amended, is further amended and reenacted to read as follows:

In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve Banks and foreign banks), cash items with Federal Reserve Banks and other banks in process of collection, checks on other banks in the same place, and exchanges for clearing house.

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Federal Reserve Bank of St. Louis

A BILL

To amend Section 19 of the Federal Reserve Act.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the first paragraph of Section 19 of the Federal Reserve Act, as amended, be further amended and re-enacted to read as follows:

"Bank Reserves."

"Sec. 19. The term 'demand deposits' within the meaning of this act shall include all deposits of public moneys of the United States, all certified checks, cashier's checks, treasurer's checks, demand letters of credit, and travellers' checks outstanding, and all other deposits except 'time deposits' and 'bank deposits' as hereinafter defined.

"The term 'time deposits' within the meaning of this act shall include all 'savings accounts', 'time certificates of deposit', 'postal savings deposits' and 'open account time deposits' as hereinafter defined, except that whenever, by the lapse of time or the giving of notice of an intended withdrawal, savings accounts, time certificates of deposit, and open account time deposits become payable in less than 30 days, such deposits shall be considered demand deposits.

"The term 'savings accounts' shall mean deposits of individuals and religious, charitable or similar corporations, in respect to which-

(1) A pass book, certificate or other similar form of receipt, delivered to and retained by the depositor or his assignee, must actually be presented to the bank whenever a withdrawal is made;

(2) The depositor or his assignee may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made; and

(3) The bank's printed regulations, accepted by the depositor include the above requirements.

"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 act. The retention of

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the pass book, certificate or other similar form of receipt or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank, or by an officer, agent or employee thereof, shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another or a deposit of a business corporation or firm shall not in any case be considered a 'savings account' within the meaning of this act.

"The term 'time certificate of deposit' shall mean a deposit evidenced by written instrument delivered to and retained by the depositor evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate, payable in whole or in part to the depositor or on his order-

(1) On a certain date, specified on the certificate, more than thirty days after the date of the deposit; or

(2) After the lapse of a certain time subsequent to the date of the certificate, in no case less than thirty days; or

(3) After written notice which the bank may at its option require to be given a certain specified number of days, not less than thirty days before the date of repayment; and

(4) In all cases only upon the actual presentation of the certificate at each withdrawal for proper endorsement or surrender.

"The retention of the certificate, or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank or by an officer, agent or employee thereof shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another shall not in any case be considered a 'time certificate of deposit' within the meaning of this act.

"The term 'postal savings deposits' as used in this act shall mean deposits of postal savings funds in banks under the terms of the postal savings act approved June 25, 1919, as amended.

"The term 'open account time deposits' as used in this act shall mean deposits not evidenced by certificates of deposits or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made providing that neither the whole or any part of such deposit may be

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withdrawn, by check or otherwise, except on a given date, more than thirty days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than thirty days. In order for deposits to be classified as 'open account time deposits' the bank in which such deposits are made must actually require such written notice before permitting withdrawals to be made.

"The term 'bank deposits' shall include all deposit balances due to other banks, bankers, and trust companies in the United States and foreign countries.

"Every bank, banking association, and trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain a reserve consisting of an actual net balance with the Federal reserve bank of its district equal to not less than thirteen per centum of the aggregate amount of its bank deposits, three per centum of the aggregate amount of its time deposits, and the following per centum of the aggregate amount of its net demand deposits:

Banks in central reserve cities, 13 per centum;

Banks in reserve cities, 9 per centum; and

Other banks, 7 per centum;

"PROVIDED, HOWEVER, That, upon the affirmative vote of five members of the Federal Reserve Board, any bank located in an outlying district of a central reserve city may be permitted to maintain a reserve balance equal to not less than seven or nine per centum of its net demand deposits, and any bank located in an outlying district of a reserve city may be permitted to maintain a reserve balance equal to not less than seven per centum of its net demand deposits; AND PROVIDED FURTHER, That, in computing the amounts of net demand deposits against which reserves must be maintained, all member banks may deduct from the amount of their gross demand deposits, all balances due to them from other banks (except Federal reserve banks and foreign banks), all cash items deposited by them with Federal reserve banks and other banks in process of collection, all exchanges for the clearing house, and all checks in other banks in the same place.

"The Federal Reserve Board shall have authority to prescribe regulations governing the maintenance of the reserves required by this section and further defining the various classes of deposits herein mentioned.

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"No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

"The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: PROVIDED, HOWEVER, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act."

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CALENDAR NO. 346

70th CONGRESS
1st Session

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(Report No. 335)

IN THE SENATE OF THE UNITED STATES

January 4, 1928.

Mr. Sheppard introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

February 16(calendar day, February 20), 1928.

Reported by Mr. Edwards, with amendments

(Omit the part struck through and insert the part printed in italic)

A B I L L

To amend the third paragraph of section 13 of the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the third paragraph of section 13 of the Federal Reserve Act be amended and reenacted to read as follows: "Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Federal Reserve Board, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which ~~are drawn to finance~~ *grow out of* the domestic shipment or the exportation of nonperishable, readily marketable *agricultural and other* staples and are secured by bills of lading or other shipping documents conveying or securing title to such staples: *Provided*,

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That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: Provided further, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of ninety days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof".

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A BILL

To amend section 12 of the Act entitled "An Act to amend the Judicial Code, and to further define the jurisdiction of the circuit courts of appeals and of the Supreme Court, and for other purposes," approved February 13, 1925, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that section 12 of the Act entitled "And Act to amend the Judicial Code, and to further define the jurisdiction of the circuit courts of appeals and of the Supreme Court, and for other purposes," approved February 13, 1925, be amended and reenacted to read as follows:

"Sec. 12. That no district court shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an Act of Congress: Provided, That this section shall not apply to any suit, action, or proceeding brought by or against a Federal Land Bank, Joint Stock Land Bank, Federal reserve bank or any corporation incorporated by or under an Act of Congress wherein the Government of the United States is the owner of more than one-half of its capital stock."

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A BILL

To amend section 4 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the fourth subdivision of the fourth paragraph of section 4 of the Federal Reserve Act be amended to read as follows:

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

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A BILL

To amend section 13 of the Federal Reserve Act, and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the seventh paragraph of section 13 of the Federal Reserve Act, as amended, be amended and reenacted to read as follows:

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

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70th CONGRESS
1st Session

H. R. 6491

IN THE SENATE OF THE UNITED STATES

February 1 (calendar day, February 2), 1928

Read twice and referred to the Committee on Banking and Currency

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AN ACT

To amend section 8 of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the last proviso of the second paragraph of section 8 of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," found in title 15, chapter 1, section 19, United States Code, approved October 15, 1914, as amended, is amended to read as follows:

"And provided further, That nothing in this Act shall prohibit any private banker from being an officer, director, or employee of not more than two banks, banking associations, or trust companies, or prohibit any officer, director, or employee of any bank, banking association, or trust company, or any Class A director of a Federal reserve bank, from

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being an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any State, if in any such case there is in force a permit therefor issued by the Federal Reserve Board; and the Federal Reserve Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds, after reasonable notice and opportunity to be heard, that the public interest requires its revocation."

Passed the House of Representatives February 1, 1928.

Attest: WM. TYLER PAGE,

Clerk.

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A BILL

To amend Section 4 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 4 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by striking out that part of said section which reads as follows:

"No director of Class B shall be an officer, director or employee of any bank.

"No director of Class C shall be an officer, director, employee or stockholder of any bank."

And by substituting therefor the following:

"No director of Class B shall be an officer, director, or employee of any bank, other than a mutual savings bank not having a capital stock represented by shares.

"No director of Class C shall be an officer, director, employee or stockholder of any bank, other than a mutual savings bank not having a capital stock represented by shares."

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A BILL

To amend section 9 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the second paragraph of section 9 of the Federal Reserve Act be amended by changing the period at the end thereof to a comma and by adding the following words:

> "provided, however, that the establishment or operation of any branch or branches in a foreign country or dependency or insular possession of the United States shall not affect the right of any such State bank to retain or acquire stock in a Federal reserve bank."

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A BILL

To amend Section 6 and Section 9 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 6 of the Act of December 23, 1913, known as the "Federal Reserve Act" be amended and re-enacted to read as follows:

"Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.

"If any national bank which has not gone into liquidation as provided in Section 5220 of the Revised Statutes and for which a receiver has not already been appointed for other lawful cause, shall discontinue its banking operations for a period of 60 days the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such bank. The stock held by the said national bank in the Federal reserve bank of its district shall thereupon be canceled and said national bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash paid subscriptions on the shares canceled and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank.

"Whenever the capital stock of a Federal reserve bank is reduced either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank or on account of the appointment of a receiver for a national bank following discontinuance of its banking operations as provided in this section, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank."

Sec. 2. That the eighth paragraph of Section 9 of the Federal Reserve Act as amended be amended and re-enacted to read as follows:

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank

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and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section."

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A BILL

To amend Sections 9 and 21 of the Federal Reserve Act and Section 5240 of the Revised Statutes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the sixth and seventh paragraphs of Section 9 of the Federal Reserve Act, as amended, be further amended to read as follows:

"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.

"Whenever the Federal Reserve Board 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 Federal Reserve 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, may, in the discretion of the Federal Reserve Board, be assessed against the banks examined and, when so assessed, shall be paid by the banks examined. Copies of the reports of such examinations may, in the discretion of the Federal Reserve Board, be furnished to the State authorities having supervision of such banks, to officers, directors or receivers of such banks, and to any other proper persons.

"Sec. 2. That Section 21 of the Federal Reserve Act be amended to read 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 national bank at least twice in each calendar year and oftener if considered necessary. The examiner making the examination of any national 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.

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"The Comptroller of the Currency shall fix the salaries of all national 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 of national banks 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 may, in the discretion of the Federal Reserve Board, be assessed against the banks examined, and, when so assessed, shall be paid by the banks 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.

"The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank."

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

For immediate release: February 29, 1928
3 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Cleveland has established a rediscount rate of 4 per cent on all classes of paper of all maturities, effective March 1, 1928.

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LEGISLATION RECOMMENDED

The Federal Reserve Board has heretofore recommended the enactment of S. 1989 and H. R. 6491, two bills pending in the present Congress, and desires to renew its recommendation that these bills be enacted into law.

The third paragraph of Section 13 of the Federal Reserve Act now authorizes Federal reserve banks to rediscount or purchase bills of exchange payable at sight or on demand which are drawn to finance the domestic shipment of nonperishable, readily marketable, staple agricultural products; and S. 1989 would amend this paragraph in two respects: (1) It would make the provisions thereof applicable to bills of exchange payable at sight or on demand covering not only nonperishable, readily marketable, staple, agricultural products but also other nonperishable, readily marketable staples, whether agricultural or not; and (2) it would make such sight and demand drafts eligible for rediscount when drawn to finance the exportation as well as the domestic shipment of nonperishable, readily marketable staples. The Board has had some difficulty in construing and applying the term "agricultural products"; and, due to certain court decisions defining similar terms, it has been constrained to rule that a number of products such as cotton seed oil, flour, bran, and canned food products are not "agricultural products" within the meaning of the statute. The Board feels that these commodities and other nonperishable, readily marketable, staples are equally as good security for sight and demand drafts as are products which are technically "agricultural products", and also that there is no good reason why this privilege should not be extended to bills drawn to finance the exportation as well as the domestic shipment of such products. The enactment of S. 1989, therefore, would

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broaden the scope of this particular rediscount facility of the Federal reserve banks in a manner beneficial both to the member banks of the Federal Reserve System and to our domestic and foreign commerce in general.

H. R. 6491 would amend that part of Section 8 of the Clayton Anti-trust Act which authorizes the Federal Reserve Board to permit interlocking directorates between not more than three banks in the classes affected by the Clayton Act, provided that such banks are not "in substantial competition". The Board has found this provision very difficult to administer and experience has shown that it sometimes defeats the purpose for which it was enacted, since it discourages rather than encourages competition between banks and penalizes those directors which permit their banks to compete. The amendment would authorize the Board to permit interlocking directorates between not more than three banks affected by the provisions of the Clayton Act whenever in the Board's judgment it is not incompatible with the public interest and would expressly authorize the Board to revoke any such permit whenever it finds, after reasonable notice and opportunity to be heard, that the public interest requires its revocation. In the Board's opinion, such an amendment would be much more effective than the present law in carrying out the original intent of the Clayton Anti-trust Act; and the Board desires to renew the recommendations contained in its Annual Reports for several years past that this amendment be enacted.

The Board is of the opinion that no major amendments to the Federal Reserve Act are necessary or desirable, but desires to recommend the

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following amendments concerning matters of detail which have arisen in the administration of the Federal Reserve System:

(1) An amendment to Section 9 of the Federal Reserve Act to permit State member banks of the Federal Reserve System to have foreign branches. This section, as amended by the McFadden Act approved February 25, 1927, provides that no State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of 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. It is obvious that Congress intended to deal with domestic branches, but the language of the act is so broad that it clearly applies to foreign branches and forbids any State bank to acquire or retain stock in a Federal reserve bank if it has a foreign branch established subsequent to February 25, 1927. The McFadden Act expressly provides that the restrictions on the establishment of branches by national banks shall not be construed to affect the establishment by national banks of branches in foreign countries, dependencies, or insular possessions of the United States; but no exception was made as to foreign branches of State member banks of the Federal Reserve System. There is no justification for such a discrimination against State member banks, and the Board is of the opinion that the law should be amended as soon as possible so as to remove such discrimination.

(2) An amendment to Section 4 of the Federal Reserve Act to permit an officer, director or employee of a mutual savings bank to serve as a Class B director or Class C director of a Federal reserve bank. Section 4 of the Federal Reserve Act provides that no Class B director of a Federal reserve bank shall be an officer, director or employee of any bank and

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no Class C director shall be an officer, director, employee or stockholder of any bank; and the Attorney General has ruled that mutual savings banks are "banks" within these provisions of law and that, accordingly, an officer, director or employee of a mutual savings bank may not be a Class B or Class C director of a Federal reserve bank. The Federal Reserve Board is thoroughly in accord with the principle that Class B and Class C directors should not be connected with commercial banking institutions; but there is no reason why this principle should apply to officers, directors or employees of mutual savings banks, which are essentially different from ordinary commercial banking institutions and are not permitted to be members of the Federal Reserve System. A number of cases have arisen in which persons eminently fitted to serve as directors of Federal reserve banks were ineligible to do so merely because of their connections with mutual savings banks, and the Board feels that the law should be amended so as to exclude directors, officers, and employees of mutual savings banks from this prohibition.

(3) An amendment permitting the cancellation of Federal reserve bank stock held by member banks which have gone out of business without a receiver or liquidating agent having been appointed therefor. The present law authorizes the surrender and cancellation of all of the stock held by a member bank only when such member bank (1) goes into voluntary liquidation, (2) is placed in the hands of a receiver, or (3) withdraws from the Federal Reserve System either voluntarily or involuntarily; and, in a number of cases, Federal reserve banks have experienced great difficulty in securing the surrender of Federal reserve bank stock held by member banks which have ceased entirely to do business but which have not techni-

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cally gone into voluntary liquidation or into the hands of receivers. Under such circumstances, Federal reserve banks have sometimes been compelled to pay dividends in large amounts on stock held by banks which have ceased to do business and ceased to maintain reserve accounts with them. The Board believes that this situation should be remedied by an appropriate amendment to the law providing means whereby Federal reserve bank stock held by such member banks may be cancelled and the proceeds paid to them.

(4) An amendment making it discretionary with the Federal Reserve Board to assess the costs of examining State member banks against the banks examined. The Federal Reserve Board has been handicapped in its efforts "to establish a more effective supervision of banking" by the fact that the present law requires the expenses of all examinations of State member banks made by the Federal Reserve Board or by the Federal reserve banks to be assessed against the banks examined. The State banks object to bearing the expenses of such examinations on the ground that it subjects them to the expenses of double examinations; since they are also required, either directly or indirectly, to bear the expenses of examinations made by the State authorities, whereas national banks only have to bear the expenses of examinations made by the Comptroller of the Currency. As a result of this opposition, both the Federal Reserve Board and the Federal reserve banks have been reluctant to make independent examinations of State member banks and have had to rely very largely upon reports of examinations made by the State authorities. Such examinations frequently are inadequate for the Board's purpose, since the State authorities are not charged with the duty of enforcing the provisions of the Federal Reserve Act and do not consider it necessary to broaden the scope of their examinations so as to

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disclose violations of the Federal Reserve Act. The fear of having to bear the expenses of double examinations has also been frequently given as one of the reasons why more State banks do not join the Federal Reserve System. The Board, therefore, believes that an amendment granting it the discretionary authority to absorb the expenses of such examinations, to permit the Federal reserve banks to absorb them, or to assess the expenses against the banks examined when deemed necessary, would be very beneficial.

(5) An amendment exempting Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding. Under the provisions of Section 5242 of the Revised Statutes, national banks are exempted from attachment, injunction or execution before final judgment in any case or proceeding; and the Board feels that the law should be amended so as to give Federal reserve banks the same protection in this respect. It is conceivable that if large amounts of the funds or credits of the Federal reserve banks should be tied up through attachment or garnishment proceedings the ability of the reserve banks to meet the credit needs of the country might be seriously hampered.

(6) An amendment to the Judicial Code restoring to the United States District Courts jurisdiction of suits by and against Federal reserve banks. Formerly, the Federal courts had jurisdiction of such suits, because the Federal reserve banks were incorporated under an act of Congress; but Section 12 of the Act of February 13, 1925, provides that no district court of the United States shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by

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or under an act of Congress, except corporations in which the Government of the United States is the owner of more than one-half of the capital stock. It is not believed that Congress had the Federal reserve banks in mind when it enacted this amendment, but the amendment deprives the United States District Courts of jurisdiction of all suits by or against Federal reserve banks unless a question involving the interpretation of the Constitution of the United States or some Federal statute is raised by the original pleadings of the plaintiff. The Federal reserve banks frequently have to rely upon the provisions of the Federal Reserve Act or the Regulations of the Federal Reserve Board in defending suits brought against them; but this is not a ground of original jurisdiction in the United States District Courts. The Federal reserve banks are thus forced to defend in the State courts suits which turn upon essentially Federal questions. Not infrequently the judges and juries in the State courts are unreasonably prejudiced against or hostile to the Federal reserve banks and it is sometimes difficult for them to get fair trials in the State courts. Unlike national banks, they can not remove suits brought against them by persons located in other States to the United States District Courts on the ground of diversity of citizenship, because the Supreme Court has held that a Federal corporation is not a citizen of any State, and there is no provision in the Federal Reserve Act similar to that in the National Bank Act providing that they shall be deemed citizens of the States in which they are located. Section 12 of the Act of February 13, 1925, makes an exception in the case of corporations in which the Government of the United States is the owner of more than one-half of the capital stock; and it would seem

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that the same exception should be extended to cover Federal reserve banks, since they act as fiscal agents and sub-treasuries and perform many other important functions for the Government. Moreover, the excess earnings of the Federal reserve banks are payable to the United States in the form of a franchise tax and, in the event of the liquidation of the Federal reserve banks, all of their surplus, which amounts to approximately twice their capital stock, would become the property of the United States. For the protection of the Federal reserve banks and for the protection of the interests of the Government in them, it is believed that the law should be amended so as to restore to the United States District Courts jurisdiction over suits brought by and against Federal reserve banks; and the Board strongly recommends the enactment of such an amendment. The Treasury Department has expressed the opinion that such an amendment should apply also to Federal Land Banks and Joint Stock Land Banks.

(7) An amendment to Section 13 of the Federal Reserve Act increasing from fifteen days to ninety days the maximum maturity of advances made by Federal reserve banks to member banks on their promissory notes secured by paper eligible for rediscount or for purchase by Federal reserve banks. Such an amendment was suggested to the Board under date of October 31, 1925, by Honorable L. T. McFadden, Chairman of the Banking and Currency Committee of the House of Representatives, and was favored by the Board after very careful consideration and after consultation with the Federal Reserve Agents and the Governors of the Federal reserve banks. It would save much trouble and expense to both the member banks and the Federal reserve banks, since it would eliminate the necessity of listing separately

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the various pieces of eligible paper offered as collateral and would at the same time eliminate the necessity of frequent renewals. It would be especially helpful to country banks which are now deterred by the necessity of frequent renewals from using this more convenient form of borrowing from the Federal reserve banks. The Board is of the opinion however, that the maturity of promissory notes of member banks secured by Government bonds should not be extended beyond fifteen days, since it is theoretically unsound to permit the issue of Federal reserve notes against promissory notes secured by Government bonds as collateral.

Proposed forms of bills to effect each of the amendments recommended above are published in the appendix to this Report.

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DRAFTS OF BILLS TO EFFECT AMENDMENTS RECOMMENDED IN THIS REPORT.

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(#1)

X-5093-a

A BILL

To amend section 9 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the second paragraph of section 9 of the Federal Reserve Act be amended by changing the period at the end thereof to a comma and by adding the following words:

> "provided, however, that the establishment or operation of any branch or branches in a foreign country or dependency or insular possession of the United States shall not affect the right of any such State bank to retain or acquire stock in a Federal reserve bank."

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(#2)

X-5093-a

A BILL

To amend Section 4 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 4 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by striking out that part of said section which reads as follows:

"No director of Class B shall be an officer, director or employee of any bank.

"No director of Class C shall be an officer, director, employee or stockholder of any bank."

And by substituting therefor the following:

"No director of Class B shall be an officer, director, or employee of any bank, other than a mutual savings bank not having a capital stock represented by shares.

"No director of Class C shall be an officer, director, employee or stockholder of any bank, other than a mutual savings bank not having a capital stock represented by shares."

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A BILL

X-5093-a

To amend Section 6 and Section 9 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 6 of the Act of December 23, 1913, known as the "Federal Reserve Act" be amended and re-enacted to read as follows:

"Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.

"If any national bank which has not gone into liquidation as provided in Section 5220 of the Revised Statutes and for which a receiver has not already been appointed for other lawful cause, shall discontinue its banking operations for a period of 60 days the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such bank. The stock held by the said national bank in the Federal reserve bank of its district shall thereupon be canceled and said national bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash paid subscriptions on the shares canceled and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank.

"Whenever the capital stock of a Federal reserve bank is reduced either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank or on account of the appointment of a receiver for a national bank following discontinuance of its banking operations as provided in this section, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank."

Sec. 2. That the eighth paragraph of Section 9 of the Federal Reserve Act as amended be amended and re-enacted to read as follows:

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank

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and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section."

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(#4)

A BILL

To amend Section 9 of the Federal Reserve Act and Section 5240 of the Revised Statutes of the United States, and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the seventh paragraph of Section 9 of the Federal Reserve Act, as amended, is further amended by striking out the last sentence thereof and inserting the following:

"The expenses of all examinations, other than those made by State authorities, may, in the discretion of the Federal Reserve Board, be assessed against the banks examined and, when so assessed, shall be paid by the banks examined. Copies of the reports of such examinations may, in the discretion of the Federal Reserve Board, be furnished to the State authorities having supervision of such banks, to officers, directors or receivers of such banks, and to any other proper persons."

Sec. 2. That section fifty-two hundred and forty, United States Revised Statutes, as amended by Section 21 of the Federal Reserve Act, is further amended by striking out the second sentence of the third paragraph thereof and inserting in lieu thereof the following:

"The expense of such examinations may, in the discretion of the Federal Reserve Board, be assessed against the banks examined, and, when so assessed, shall be paid by the banks examined."

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(#5)

X-5093-a

A BILL

To amend section 4 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the fourth subdivision of the fourth paragraph of section 4 of the Federal Reserve Act be amended to read as follows:

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

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(#6)

X-5093-a

A BILL

To amend section 12 of the Act entitled "An Act to amend the Judicial Code, and to further define the jurisdiction of the circuit courts of appeals and of the Supreme Court, and for other purposes," approved February 13, 1925, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that section 12 of the Act entitled "And Act to amend the Judicial Code, and to further define the jurisdiction of the circuit courts of appeals and of the Supreme Court, and for other purposes," approved February 13, 1925, be amended and reenacted to read as follows:

"Sec. 12. That no district court shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an Act of Congress: Provided, That this section shall not apply to any suit, action, or proceeding brought by or against a Federal Land Bank, Joint Stock Land Bank, Federal reserve bank or any corporation incorporated by or under an Act of Congress wherein the Government of the United States is the owner of more than one-half of its capital stock."

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(#7)

X-5093-a

A BILL

To amend section 13 of the Federal Reserve Act, and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the seventh paragraph of section 13 of the Federal Reserve Act, as amended, be amended and reenacted to read as follows:

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

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5095

March 9, 1928.

SUBJECT: Code Words to cover new Issues of Treasury Certificates of Indebtedness, Series TD2-1928, and Series TM-1929, in Telegraphic Transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks the code word "BESTOWED" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TD2-1928, dated March 15, 1928, due December 15, 1928; and the code word "BESTOWING" has been designated to cover Series TM-1929, dated March 15, 1928, due March 15, 1929.

These words should be inserted in the Federal Reserve Telegraphic Code Book following the supplemental code word "BESTOWAL" at the bottom of page 26.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5096

March 12, 1928.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

Upon agreement between the Federal Reserve Bank of Atlanta and the other Federal reserve banks involved, the Board has approved the following changes in the inter-district time schedule:

From	Atlanta	to	Kansas City	From 3 days	to 2 days
"	"	"	El Paso	" 4 "	" 3 "
"	New Orleans	to	Kansas City	" 3 "	" 2 "
"	"	"	Omaha	" 3 "	" 2 "
"	"	"	Oklahoma City	" 3 "	" 2 "
"	"	"	Memphis	" 2 "	" 1 day
"	"	"	Houston	" 2 "	" 1 "
"	Birmingham	"	Omaha	" 3 "	" 2 days
"	"	"	El Paso	" 4 "	" 3 "
"					
"	Jacksonville	to	Little Rock	" 3 "	" 2 "
"	"	"	Denver	" 4 "	" 3 "
"	"	"	Kansas City	" 3 "	" 2 "
"	Nashville	to	Houston	" 2 "	" 3 "

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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X-5097

TREASURY DEPARTMENT
Office of the Secretary
Washington

March 10, 1928.

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, 1928, to February 29, 1928, amounting to $102,417.50, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
Boston				5,000		5,000
New York	650,000	300,000			5,000	955,000
Philadelphia	250,000	100,000	50,000	5,000	5,000	410,000
Cleveland	250,000	100,000	50,000			400,000
Chicago	250,000	100,000	50,000	25,000		425,000
St. Louis		50,000				50,000
Minneapolis	150,000	25,000	50,000			225,000
Kansas City		75,000	25,000			100,000
Dallas	50,000	25,000				75,000
San Francisco	100,000	75,000	50,000	10,000	5,000	240,000
	1,700,000	850,000	275,000	45,000	15,000	2,885,000

2,885,000 sheets @ $35.50 per M $102,417.50

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

Boston	$ 177.50
New York	33,902.50
Philadelphia	14,555.00
Cleveland	14,200.00
Chicago	15,087.50
St. Louis	1,775.00
Minneapolis	7,987.50
Kansas City	3,550.00
Dallas	2,662.50
San Francisco	8,520.00
	$102,417.50

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.

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March 14, 1928

To Federal Reserve Board.

SUBJECT: Revision of the Clayton Act Regulation.

From Mr. Wyatt, General Counsel.

Due to the enactment of the amendment to the Clayton Act, which was signed by the President on March 9th, it is necessary to revise the Board's Regulation, pertaining to interlocking directorates under the Clayton Act; and I respectfully submit herewith for the Board's consideration a proposed draft of a revised regulation in such form as to show the exact textual changes proposed to be made in the Regulation.

Most of these changes are technical and are designed to make the Regulations conform to the provisions of the law as amended. There is one question, however, which is of considerable importance and to which, I believe, the Board should give especial attention, viz: What facts should the Board take into consideration in determining whether it will be "compatible with the public interest" to permit interlocking directorates between particular banks?

Heretofore, the Board has had only one question to consider in granting interlocking directorates, i.e., whether the banks were "in substantial competition". If the banks were in substantial competition the Board had no authority to permit interlocking directorates and could do nothing but refuse its permission. If the banks were not in substantial competition, the Board had discretionary authority to grant the application, and usually granted it without considering any other question.

As amended, however, the statute provides that the Federal Reserve Board may issue a permit "if in its judgment it is not incompatible with the public interest". This clearly gives the Board much broader authority than it previously had, and it would seem that such increased authority carries with it an increased responsibility. Moreover, the question whether it is compatible with the public interest for a person to serve as director of two or more banks coming within the prohibitions of the Clayton Act would seem to be a broader question than the mere question whether such banks are in substantial competition.

Every time the Board grants permission for interlocking directorates under the law as amended the issuance of such a permit will be equivalent to an expression of the Board's opinion that it is compatible with the public interest for the applicant to serve as director of all the banks involved and for such banks to have interlocking directorates. In passing upon each application, therefore, it is the Board's duty to take into consideration every fact which would have a bearing upon the question whether it is compatible with the public interest to grant a permit, and it would seem that the applicants should be advised in advance as to the facts which the Board will consider in formulating its judgment on this question.

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In revising the regulation, therefore, I have stricken out all reference to substantial competition; and, in lieu of the old definition of that term, have inserted, as Section IV(d), a proposed statement of what the Board will take into consideration in determining whether the issuance of such a permit would be compatible with the public interest. This is a difficult question and I am not prepared definitely to recommend the adoption of the statement which I have drafted. I submit it, however, for the Board's consideration and shall discuss below my reasons for suggesting these various points. In deciding whether it would be compatible with the public interest for a person to be permitted to serve as director of two or more banks coming within the prohibitions of the Clayton Act, it is obvious that the Board should consider (1) whether the banks are natural competitors, and (2) whether the existence of such an interlocking directorate would tend to lessen competition between such banks; since the main purpose of the original Clayton Act was to prevent a lessening of competition and a restriction of credit.

It seems to me that it would also be proper for the Board to consider whether the banks involved have conflicting interests and whether the applicant will be able faithfully to serve both of them. In other words, it would seem to be incompatible with the public interest for the Board to sanction a person serving as director of a bank when he has interests adverse to that bank. Thus, it might be considered incompatible with the public interest for a director of a large bank with branches to serve also as director of a small independent bank which is resisting absorption into the branch system of the larger bank.

It may also be appropriate for the Board to consider whether the service by the applicant as officer, director or employee of more than one of the banks involved would prevent him from giving proper attention to the affairs of all of the banks involved or from properly discharging his duties to all of them. It seems obvious that the public is vitally concerned with the proper management of banks, since bank failures always affect the public adversely, and one of the most frequent causes of bank failures is poor management, which usually is due to the lack of proper attention to the bank's affairs by the directors thereof. Conceivably, a person might make an excellent director for one bank, but would be unable to give proper attention to the affairs of three banks, especially if such banks are located in widely different parts of the country. The Supreme Court has said that a person should not accept the position of director of a bank, unless he is able to attend the directors' meetings regularly and faithfully to discharge his duties by acquainting himself with the bank's affairs and intelligently participating in the supervision of its management by the Board of directors.

It would also seem that the Board should take into consideration any other facts having a bearing upon the interest of the public in the banks involved, in so far as such interest is affected by their having the same directors, officers or employees.

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While I am not prepared to recommend unqualifiedly the statement on this subject which I have drafted, therefore, I submit it for the Board's consideration and believe that it is worthy of careful attention.

Respectfully,

Walter Wyatt,
General Counsel.

Draft attached.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6000

March 20, 1928.

SUBJECT: Holidays during April, 1928.

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 2	Detroit	Election Day
Friday	April 6	Philadelphia Pittsburgh Baltimore New Orleans Nashville Jacksonville Memphis Minneapolis	Good Friday
Thursday	April 12	Charlotte	Halifax Day
Friday	April 13	Birmingham	Jefferson's birthday
Monday	April 16	Salt Lake City	Arbor Day
Thursday	April 19	Boston	Patriots' Day
Saturday	April 21	Dallas El Paso Houston San Antonio	San Jacinto Day
Monday	April 23	Omaha	Arbor Day
Tuesday	April 24	Cleveland) at 1 p.m. account Cincinnati) Election Day	Primary
Thursday	April 26	Atlanta Birmingham Jacksonville	Southern Memorial Day

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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.

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STATEMENT TO THE PRESS

Released for publication in morning papers on Tuesday, March 27, 1928.

ANNUAL REPORT TO CONGRESS OF THE FEDERAL RESERVE BOARD

In its Fourteenth Annual Report, the Federal Reserve Board notes as the principal event of the past year for the Federal reserve system the legislation by Congress granting indeterminate charters to the Federal reserve banks. The action is interpreted by the Board as affirming the confidence of Congress in the reserve system, and as giving assurance to the country that the system's operations will be continued on a permanent basis. Since their establishment in 1914, the Board says, the Federal reserve banks first assisted the Government in meeting the heavy financial requirements arising out of the war; later were an influence in moderating the economic effects on this country of a world-wide readjustment. More recently they have taken part in the restoration of sound monetary conditions throughout the world, and they are now in a position to formulate long-term policies to be pursued under more normal conditions in a world that has made great progress during the past year toward economic and financial reconstruction.

Business activity

The Board finds that, taken as a whole, the year 1927 was one of large production, though with a gradual recession during the last six months. It is noted that agriculture followed a course during the year quite dissimilar to that of industry. At the beginning of 1927 agricultural prospects were not as bright as those of industry, but they improved considerably in the latter part of the year. Late in the spring prices of agricultural commodities began to rise, and this advance, accompanying a constant level of industrial prices, resulted in

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increased purchasing power for agricultural producers. For industrial enterprises in general the year marked a decline in profits below the high level of 1926. Increased efficiency in production was the principal factor affecting the movement of industrial prices and the volume and distribution of industrial profits, and it was largely companies that were able to profit by economies of large-scale production that showed satisfactory results for the year.

Bank credit

In consequence of the somewhat smaller volume of production and employment in 1927 compared with the previous year, the demand for bank credit to finance the current operations of trade and industry in 1927 was no larger than the year before.

For the year 1927 there was an increase in loans on securities and in real estate loans of member banks and a decrease in commercial loans proper. The decrease in commercial loans was due, in addition to the smaller volume of business activity, also to the fact that many corporations floated securities at the prevailing low rates and used the proceeds to reduce their bank loans. Another factor was the increase in the use of acceptance credit by means of which funds for commercial operations were supplied by the short-term investment market. Increased use of credit by the security markets is indicated by the increase in loans to brokers and dealers in securities. Bank funds were abundant throughout the country and, in the absence of local demand for additional banking accommodation, these funds flowed into the money market either in the form of bankers' balances or in the form of funds to be loaned on account of correspondent bankers and corporations. Other sources from which these funds have been received include the dollar balances being built up for various purposes by foreign banks and other foreign interests. The demand for liquid funds at the central money market, as indicated by the growth in security loans and in new issues of securities, was large and absorbed the supply that came from the

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several sources indicated, without any considerable lowering of interest rates.

Increase in bank investments

The abundance of funds was reflected also in a growth of bank investments. Security holdings of member banks of the Federal reserve system increased by $1,371,000,000, or 15 per cent, between December, 1926 and December, 1927, the largest growth in investments of member banks since 1924. This growth of investments by banks occurred during a period when the absorption of securities by all classes of investors in the United States was in unusually large volume. Security flotations, domestic and foreign, during the year 1927, exclusive of refunding issues, were $7,533,000,000, a larger amount than in any previous year, excepting only the time of war financing. The continued abundance of funds available for investment in private enterprises during recent years has been due chiefly to the growing volume of national income and national savings, which arose in turn from the large volume of industrial production and the consequent increased earnings of individuals and corporations engaged in industrial enterprises. Another source of funds available for investment in corporate securities has been the reduction of our public debt.

Demand and time deposits

The growth of loans and investments of member banks during the past year was accompanied by an increase of $2,506,000,000 in the banks' combined net demand and time deposits, the growth in time deposits being $1,325,000,000 and the growth in net demand deposits $1,181,000,000. The increase in demand deposits during 1927 was in contrast to the movement of these deposits during the two preceding years, when demand deposits remained constant, while time deposits increased steadily. The increase in the total of demand and time deposits during the year provided member banks with an increased volume of funds available for use in extending credit for long or short periods to the different enterprises of the country.

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Banks in financial centers and elsewhere

Analysis of the growth of bank credit during 1927 indicates that this growth reflected largely a demand for investment funds and for funds to be employed in the securities market. The character of the demand was such that some concentration in the financial centers, New York and Chicago, was to be expected, and detailed figures indicate that member banks having surplus funds have used a part of them in the purchase of investments and have transferred a part to New York, Chicago, or other financial centers to be there either directly or indirectly used in making loans on securities. In these respects the year 1927 was different from the two preceding years and similar to 1924, which also was a year of easy money, showing a large growth of bankers' balances at New York banks, of security loans, and of member bank investments.

Federal reserve policy in 1927

Throughout the year international gold movements materially affected the credit situation. During the first four months of 1927 there were large increases in the stock of monetary gold arising from gold imports, which in January were larger than in any month for about three years. This inflow of gold, together with the usual seasonal return flow of currency, enabled member banks to liquidate their indebtedness at the reserve banks with the result that the volume of reserve bank credit outstanding declined rapidly during January to the lowest level in about two years. In February and March business throughout the country was active and the demand for member bank credit for commercial purposes increased. Gold continued to flow in from abroad, but in much smaller volume than in January and there was some seasonal increase in the demand for currency. The total volume of reserve bank credit, however, continued with little fluctuation near the $1,000,000,000 level, and money rates remained relatively constant. No changes in discount rates were made during this period and no open-market operations were undertaken.

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The somewhat uncertain situation which prevailed in business during the spring became in June a more clearly defined recession. At the same time the direction of gold movements began to change. The monetary gold stock of the country, which reached its high point for all time in May, declined continuously after that month. Net changes in gold stock between May and September, however, were relatively small.

During the period from June to September, while changes in gold stock were small, the reserve banks purchased about $80,000,000 of Government securities in furtherance of a policy of easing the money situation. This policy was adopted by the system in consideration of the recession in business in the United States, of the relatively heavy indebtedness of member banks, and of the tendency toward firmer conditions in the money market. During this period it also became evident that there was a serious credit stringency in European countries generally, and it was felt that easy money in this country would help foreign countries to meet their autumn demand for credit and exchange without unduly depressing their exchanges or increasing the cost of credit to trade and industry. Easier credit conditions abroad would also facilitate the financing of our exports and would thus be of benefit to American producers. By purchasing securities at that time the Federal reserve banks were in fact successful in easing the condition of the money market and in exerting a favorable influence on the international financial situation. The purchase of securities in the open market during the summer months was accompanied by reduction of the discount rate at all of the Federal reserve banks from 4 to 3 1/2 per cent.

The decline of money rates to the low level which prevailed in this country beginning with August increased the differential between rates in this country and abroad, and led to a considerable outflow of funds from the United States with a consequent rapid advance of sterling and other exchanges in the New York market.

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The low level of money rates and the high level of the exchanges, in combination with other conditions, induced large exports of gold from the United States to South America. Argentina had resumed gold payments in August, and Brazil was carrying out a program of currency reform. Both of these countries had floated large loans in the United States and were in a position to increase their gold holdings by converting a part of their dollar balances into gold at the prevailing favorable rates. Thus one of the consequences of easy money in the United States was that a part of the demand for gold from South America was met by withdrawals from New York rather than from other financial centers. While the exports of gold in the latter part of the year were principally to Argentina and Brazil, Canada also obtained the usual seasonal volume of gold in November and December, and there were smaller exports to Poland, Netherlands, France, England, and Belgium.

In addition to the exports of gold in the autumn months there were also gold withdrawals for earmarking, bringing the decrease in the country's total monetary /stock of gold between September 1 and January 1 to $209,000,000.

At first the reserve banks pursued the policy of offsetting the effects of these decreases on the money market through purchases of securities, but after the beginning of November such purchases were both absolutely and relatively in much smaller volume. The larger part of the gold withdrawal toward the end of the year, therefore, exerted its usual influence upon credit conditions in this country, contributing to an increase of member bank indebtedness at the reserve banks and to a somewhat firmer situation in the money market. The system's policy in not offsetting the gold exports in the last months of the year was formulated in consideration largely of the fact that in the absence of demand for additional credit from trade and industry there was a continued rapid growth in the volume of member bank credit used in investments and in loans on securities.

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37.

To summarize, reserve bank policy in the early part of the year, when gold imports were exerting an influence toward easier money, was to refrain from taking an active position toward the market; in the spring and summer, in the absence of considerable net gold movements, the system's policy was expressed in easing the money market through the purchase of securities and the reduction of discount rates; in the early autumn, when an outward movement of gold began, the system offset in part the effect of gold withdrawals through purchases in the open market; and finally in the closing months of the year, the system's policy, in view of the rapid expansion of member bank credit, was to permit the continued outflow of gold to exert its customary tightening influence on credit conditions.

Progress of the gold standard during 1927

The Board points out that during 1927 important progress was made in the restoration of the gold standard. At the opening of the year, the obligation of the National Bank of Denmark to redeem its notes upon demand in gold bars at the old parity of 26.8 cents per krone became once more effective, and in the course of the year formal steps for the reestablishment of the gold standard were taken by the governments of India, Ecuador, and Argentina.

In the final quarter of the year two notable developments occurred, in which the Federal reserve banks cooperated with the central banks of Europe. On October 13, the Government of Poland announced the legal stabilization of its currency, and an international credit to the Bank of Poland was arranged with the banks of issue of 14 countries. Under the terms of this arrangement the Federal Reserve Bank of New York in association with the other Federal reserve banks agreed, if desired, to purchase from the Bank of Poland up to a total of $5,250,000 of prime commercial bills. On December 22 the Italian Government reestablished the lira on a gold basis. A decree issued on that date made it compulsory for the Bank of Italy to redeem its notes on demand

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in gold coin or foreign currencies on a gold basis at the new parity of 5.26 cents per lira. In connection with this return to the gold basis the Bank of Italy arranged for a $50,000,000 credit from a group of private banks headed by J. P. Morgan & Company, and for a $75,000,000 credit with the banks of issue of seventeen countries. In this case, the Federal Reserve Bank of New York in association with the other Federal reserve banks agreed, if desired, to purchase from the Bank of Italy up to a total of $15,000,000 of prime commercial bills.

The agreements with the Bank of Italy and the Bank of Poland were similar to an earlier agreement with the National Bank of Belgium. The Belgian agreement as well as the somewhat different arrangement made with the Bank of England at the time when Great Britain returned to the gold standard, expired during 1927. Under none of these agreements has any actual draft been made on Federal reserve bank funds by the foreign central banks.

The influence of the Federal reserve system during the year, in so far as this was consistent with the requirements of the domestic situation, was exerted toward conditions favorable to the maintenance and further progress of the gold standard. The policy of maintaining easy conditions in the money market, which was pursued by the system throughout a large part of 1927, encouraged the flotation of foreign loans in the United States and facilitated the exportation of gold to countries undertaking monetary reforms. In adopting a policy of international cooperation in support of the gold standard, the Federal reserve system acted in recognition of the responsibility resting upon this country, as the holder of nearly one-half of the world's stock of monetary gold, and of the importance of sound monetary conditions throughout the world to the prosperity of industry and trade in the United States.

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Earnings and expenses and volume of work of the Federal Reserve Banks

Earnings of the Federal reserve banks in 1927 totaled $43,024,000. A reduction in earnings last year as compared with earnings of $47,600,000 in 1926, resulted largely from a decline of $84,717,000 in the daily average of the banks' holdings of bills and securities and from a decline in the average rate of earnings on these holdings from 3.76 per cent in 1926 to 3.6 per cent in 1927. The decline in the average rate of return on earning assets reflected both the lower discount rates prevailing during the latter part of the year and the larger proportion of the earning assets represented by United States Government securities having yields lower than the discount rate.

There was a substantial growth in 1927 over the preceding year in the volume of work handled by the Federal reserve banks and a slight increase in operating expenses of these banks from $25,646,000 in 1926 to $25,674,000 in 1927. The number of checks handled by the Federal reserve system was 862,000,000 in 1927 compared with 823,000,000 in 1926 and their total value was $278,000,000,000 last year compared with $273,000,000,000 the year before. The banks discounted $32,300,000,000 of paper for member banks, purchased $4,100,000,000 of bills in the open market, paid $55,000,000 of Government coupons, collected $6,700,000,000 of noncash items for member banks, transferred $136,000,000,000 of funds through the gold settlement fund for member banks, and handled new issues, redemptions, and exchanges of United States securities for the Treasury Department aggregating $10,800,000,000.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6003

March 22, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, February, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6003-a and X-6003-b, covering in detail operations of the main line, Leased Wire System, during the month of February, 1928.

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.

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1928.

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	30,748	985	31,733	3,125	-	28,608	3.53
New York	130,994	-	130,994	8,317	-	122,677	15.15
Philadelphia	37,372	758	38,130	3,029	-	35,101	4.33
Cleveland	75,065	1,800	76,865	2,956	-	73,909	9.13
Richmond	51,621	2,140	53,761	3,246	-	50,515	6.24
Atlanta	53,406	5,771	59,177	4,318	-	54,859	6.77
Chicago	103,093	2,030	105,123	6,527	-	98,596	12.18
St. Louis	73,455	2,266	75,721	3,467	-	72,254	8.92
Minneapolis	31,181	2,297	33,478	1,601	-	31,877	3.94
Kansas City	74,017	2,482	76,499	3,681	-	72,818	8.99
Dallas	67,687	4,848	72,535	2,375	-	70,160	8.66
San Francisco	101,973	2,313	104,286	5,828	-	98,458	12.16
Total	830,612	27,690	858,302	48,470	-	809,832	100.00%
F. R. Board			333,959	56,658		277,301	
Total			1,192,261	105,128		1,087,133	
Percent of Total			100.00%	8.82%		91.18%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6003-b).

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

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REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, FEBRUARY, 1928.

X-6003-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	$ 736.84	$ 260.00	$ 476.84
New York	995.78	-	-	995.78	3,162.38	995.78	2,166.60
Philadelphia	225.00	-	-	225.00	903.83	225.00	678.83
Cleveland	296.66	-	-	296.66	1,905.78	296.66	1,609.12
Richmond	190.00	--	230.00(&)	420.00	1,302.52	420.00	882.52
Atlanta	270.00	-	-	270.00	1,413.16	270.00	1,143.16
Chicago	3,934.84(#)	-	-	3,934.84	2,542.43	3,934.84	1,392.41(*)
St. Louis	205.00	-	-	205.00	1,861.94	205.00	1,656.94
Minneapolis	177.90	-	-	177.90	822.43	177.90	644.53
Kansas City	275.64	-	-	275.64	1,876.55	275.64	1,600.91
Dallas	251.00	-	-	251.00	1,807.67	251.00	1,556.67
San Francisco	370.00	-	-	370.00	2,538.25	370.00	2,168.25
Federal Reserve Board	-	-	$15,210.50	15,210.50	-	-	-
Total	$ 7,451.82		$15,440.50	$22,892.32	$20,873.78	$ 7,681.82	$14,584.37
				2,018.54(a)			1,392.41(b)
				$20,873.78			$13,191.96

(&) Main line rental, Richmond - Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2,018.54 from Treasury Department covering business for the month of February, 1928.
(b) Amount reimbursable to Chicago.

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X-6004

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,
Wednesday, March 28, 1928.

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

Production and distribution of commodities increased further in February, while wholesale commodity prices remained practically unchanged. Commercial loans of member banks showed a larger increase in February and the first half of March than at the same season in other recent years.

Production. - Production of manufactures in February, as indicated by the Federal Reserve Board's index, increased 3 per cent over January and was 2 per cent larger than a year ago, while production of minerals declined slightly and continued to be substantially smaller than last year. Factory employment and payrolls showed a seasonal increase in February but continued at a lower level than a year ago. Output of iron and steel, automobiles, and agricultural machinery has increased considerably since the first of the year. Daily average production of steel ingots in February was larger than in any other month since last March, and current reports indicate that output was sustained in the first three weeks in March. Production of nonferrous metals also increased in February. Activity in the textile industries has shown little change since the first of the year. Production of bituminous coal and crude petroleum, which decreased in February, increased slightly in the first half of March. Building contracts awarded were larger in February than in the corresponding month of any previous

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year, reflecting chiefly a large volume of awards for residential construction in the New York and Chicago Districts. Contracts let in the first two weeks of March were in approximately the same volume as in the corresponding period of last year.

Trade. - Sales of wholesale firms in leading lines increased in February and were slightly larger than a year ago, while sales of department stores, after allowance for the customary seasonal changes, were in about the same volume as in January and somewhat smaller than a year ago. Stocks of merchandise carried both by wholesale firms and by department stores showed a seasonal increase in February.

Freight-car loadings have shown somewhat more than the usual seasonal increase since the beginning of the year, but have continued to be in smaller volume than in the corresponding period of last year, owing chiefly to much smaller shipments of coal. Loadings of merchandise in less than carload lots and of miscellaneous commodities have been less than in the corresponding period of the last two years, while loadings of livestock and grain products have been larger.

Prices. - The general level of wholesale commodity prices, as indicated by the Bureau of Labor Statistics index, remained practically unchanged in February at approximately 96 per cent of the 1926 average. There were decreases in the prices of cotton, sugar, nonferrous metals, chemicals, and rubber, as well as a seasonal decline in dairy products. Increases occurred in prices of grains, metals, hides and leather products, and steel. In the first two weeks in March, prices of grains, hogs, and cotton advanced, while those of cattle and rubber showed further declines.

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Bank Credit.- From the middle of February to the middle of March the loans and investments of member banks in leading cities increased by $200,000,000, reflecting a growth in the banks' commercial loans. The banks' loans on securities and investments showed little change for the period.

The volume of reserve bank credit outstanding increased somewhat from February to March, chiefly in consequence of increased borrowings by member banks, which in part reflected further withdrawals of gold for export.

During the four weeks ending March 21 conditions in the money market were firmer; the rate on prime commercial paper increased from 4 to 4-4¼ per cent and there were advances in time rates on security loans.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6005

March 27, 1928.

SUBJECT: Monthly Report of Leased Wire Operations.

Dear Sir:

Referring to the telegraphic information now being furnished the Board in connection with the monthly main line leased wire operations, (see Board's letter X-3547 of October 30, 1922) it is requested that each Federal reserve bank telegraph the following information to the Board during the first week of each month, commencing with the business for the month of April, 1928: (1) Amount of salaries paid main line operators during the preceding month; (2) Amount paid said operators for overtime; (3) Total number of words contained in all messages sent to Washington on Treasury Department business; (4) Total number of words contained in all messages sent over the main line leased wires chargeable to your bank and branches.

The segregation of the Treasury Department incoming Washington business from the total number of words sent over the main line leased wires by head office and branches is to effect a saving in the time now being consumed in counting these messages. This segregation will also expedite settlement of the monthly bills rendered the Treasury Department covering telegraphic service afforded the several bureaus of that Department.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6006

March 29, 1928.

SUBJECT: New Clayton Act Regulation and Forms.

Dear Sir:

There is enclosed for your information a copy of the Act of March 9, 1928, amending Section 8 of the Clayton Anti-trust Act so as to broaden the powers of the Federal Reserve Board in the matter of granting permits for interlocking bank directorates. You will observe that the Board is now authorized to grant such permits whenever in its judgment it is not incompatible with the public interest, and also that it is no longer necessary for a member bank to be involved in order for the Board to be authorized to grant such permits.

The Board has recently revised its Regulation L pertaining to interlocking bank directorates so as to conform to the law as amended. This regulation has not yet been printed but a mimeographed copy is enclosed herewith for your advance information.

The various forms used in connection with the administration of the Clayton Act are also being revised and a supply of such forms will be forwarded to you as soon as they can be printed. Hereafter, all applications should be submitted to the Board on the new forms.

Please advise the Board as soon as possible how many copies of the new regulation and forms you will require.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosures.

TO ALL FEDERAL RESERVE AGENTS.

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FEDERAL RESERVE BOARD

REGULATION L, SECOND SERIES OF 1928.

(Superseding Regulation L of 1928)

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

Section I. Definitions

Within the meaning of this regulation--

The term "bank" shall include any bank, banking association or trust company organized or operating under the laws of the United States or of any State thereof.

The term "national bank" shall be construed to apply not only to national banking associations but also to banks, banking associations, and trust companies organized or operating under the laws of the United States, including all banks and trust companies doing business in the District of Columbia, regardless of the sources of their charters.

The term "resources" shall be construed to mean an amount equal to the sum of the deposits, capital, surplus, and undivided profits.

The term "State bank" shall include any bank, banking association, or trust company incorporated under State law.

The term "private banker" shall apply to any unincorporated individual engaging in one or more phases of the banking business as that term is generally understood and to any member of an unincorporated firm engaging in such business.

The term "Edge corporation" shall mean any corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended.

The term "city of over 200,000 inhabitants" includes any city, incorporated town, or village of more than 200,000 inhabitants, as shown by the last preceding decennial census of the United States. Any bank located anywhere within the corporate limits of such city is located in a city of over 200,000 inhabitants within the meaning of the Clayton Act, even though it is located in a suburb or an outlying district at some distance from the principal part of the city.

Section II. Prohibitions of Clayton Act

Under section 8 of the Clayton Antitrust Act--

(1) No person who is a director or other officer or employee of a national bank having resources aggregating more than $5,000,000 can legally serve at the same time as director, officer, or employee of any other national bank, regardless of its location.

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(2) No person who is a director in a State bank or trust company having resources aggregating more than $5,000,000 or who is a private banker having resources aggregating more than $5,000,000 can legally serve at the same time as director of any national bank, regardless of its location.

(3) No person can legally be a director, officer, or employee of a national bank located in a city of more than 200,000 inhabitants who is at the same time a private banker in the same city or a director, officer, or employee of any other bank (State or national) located in the same city, regardless of the size of such bank.

The eligibility of a director, officer, or employee under the foregoing provisions is determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of the Clayton Act it is lawful for him to continue as such for one year thereafter under said election or employment.

When any person elected or chosen as a director, officer, or employee of any bank is eligible at the time of his election or selection to act for such bank in such capacity his eligibility to act in such capacity is not affected by reason of any change in the affairs of such bank from whatsoever cause until the expiration of one year from the date of his election or employment.

Section III. Exceptions

The provisions of section 8 of the Clayton Act--

(1) Do not apply to mutual savings banks not having a capital stock represented by shares.

(2) Do not prohibit a person from being at the same time a director, officer, or employee of a national bank and not more than one other national bank, State bank, or trust company, where the entire capital stock of one is owned by the stockholders of the other.

(3) Do not prohibit a person from being at the same time a class A director of a Federal reserve bank and also an officer or director, or both an officer and a director, in one member bank.

(4) Do not prohibit a person who is serving as director, officer, or employee of a national bank, even though it has resources aggregating over $5,000,000, from serving at the same time as director, officer, or employee of any number of State banks and trust companies, provided such State institutions are not located in the same city of over 200,000 inhabitants as the national bank and do not have resources aggregating in the case of any one bank more than $5,000,000.

(5) Do not prohibit a person from serving at the same time as director, officer, or employee of any number of national banks, provided no two of them are located in the same city of over 200,000 inhabitants and no one of them has resources aggregating over $5,000,000.

(6) Do not prohibit a person who is not a director, officer or employee of any national bank from serving at the same time as officer, director, or employee of any number of State banks or trust companies, regardless of their locations and resources.

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(7) Do not prohibit a person who is an officer or employee but not a director of a State bank from serving as director, officer, or employee of a national bank, even though either or both of such banks have resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

(8) Do not prohibit a person who is an officer or employee but not a director of a national bank from serving at the same time as director, officer, or employee of a State bank, even though either or both of such banks have resources aggregating over $5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

(9) Do not prohibit a private banker or an officer, director or employee of any bank or a Class A director of a Federal reserve bank from being at the same time an officer, director or employee of not more than two other banks within the prohibitions of the Clayton Act, if there is in force a permit therefor issued by the Federal Reserve Board.

Exceptions cumulative.--The above exceptions are cumulative.

Section IV. Permission of the Federal Reserve Board.

(a) In General.- Section 8 of the Clayton Antitrust Act, as amended by the Acts of May 15, 1916, May 26, 1920, and March 9, 1928, authorizes the Federal Reserve Board to permit any private banker or any officer, director, or employee of any bank, banking association, or trust company, or any class A director of a Federal reserve bank to serve as director, officer, or employee of not more than two other banks, banking associations, or trust companies coming within the prohibitions of the Clayton Act, if in the judgment of the Federal Reserve Board it is not incompatible with the public interest.

(b) When obtained.--Inasmuch as this exception to the prohibitions of the Clayton Act applies only when "there is in force a permit therefor issued by the Federal Reserve Board," it is a violation of the law to serve two or more banks in the prohibited classes before such a permit has been obtained. A permit should be obtained, therefore, before becoming an officer, director, or employee of more than one bank in the prohibited classes. It may be procured before the person applying therefor has been elected as director or appointed an officer or employee of any bank in the prohibited classes.

(c) Applications for permission.-- A person wishing to obtain a permit from the Federal Reserve Board to serve banks coming within the prohibitions of the Clayton Act should--

(1) Make formal application on F. R. B. Form 94, or, if a private banker, on F. R. B. Form 94d. Each of these forms is made a part of this regulation.

(2) Obtain from each of the banks involved a statement on F. R. B. Form 94a, which is made a part of this regulation, showing the character of its business, together with a copy of its last published statement of condition, and, if a private banker, make a statement on F. R. B. Form 94e showing the

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character of his or his firm's business.

(3) Forward all these papers to the Federal reserve agent of his district, who will attach his recommendation on F. R. B. Form 94b, which is made a part of this regulation, and forward them in due course to the Federal Reserve Board.

(d) Compatibility with the Public Interest. - In determining whether the issuance of such a permit would be compatible with the public interest, the Federal Reserve Board will consider:

(1) Whether the banks involved are natural competitors;

(2) Whether their having the same directors, officers or employees would tend to lessen competition or to restrict credit; and

(3) Any other facts having a bearing upon the interest of the public in such banks as affected by their having the same directors, officers or employees.

(e) Approval or disapproval.--As soon as an application is acted upon by the board, the applicant will be advised of the action taken. If the board approves the application, a formal permit to serve on the banks involved will be issued to the applicant.

(f) Hearing. - If it appears to the Board that it would be incompatible with the public interest to grant such permit the Board will so notify the applicant and will afford him every opportunity to present any additional facts or arguments bearing on the subject before making any final decision in the case.

(g) Effect of permits. -A permit once granted continues in force until revoked, and need not be renewed.

(h) Revocation.--All permits, however, are subject to revocation whenever the Federal Reserve Board, after giving reasonable notice to the persons to whom they were issued and affording them an opportunity to be heard, finds that the public interest requires their revocation.

Section V. Permits Under Section 25 Of The Federal Reserve Act.

With the approval of the Federal Reserve Board, any director, officer, or employee of a member bank which has invested in the stock of any corporation principally engaged in international or foreign banking or financial operations or banking in a dependency or insular possession of the United States, under the provisions of section 25 of the Federal reserve act, may serve as director, officer, or employee of any such foreign bank or financial corporation.

Applications for approval.--The approval of the Federal Reserve Board for such interlocking directorates may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the officer, director, or employee involved, or in his behalf by one of the banks which he is serving. Such application should be sent directly to the Federal Reserve Board.

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Section VI. Permits To Serve Edge Corporations

With the approval of the Federal Reserve Board--

(1) Any officer, director, or employee of any member bank may serve at the same time as director, officer, or employee of any Edge corporation in whose capital stock the member bank shall have invested.

(2) Any officer, director, or employee of any Edge corporation may serve at the same time as officer, director, or employee of any other corporation in whose capital stock such Edge corporation shall have invested under the provisions of the Edge Act.

Applications for approval.-- Such approval may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the director, officer, or employee involved, or in his behalf by one of the banks or corporations involved. Such applications should be sent directly to the Federal Reserve Board.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6011

April 9, 1928.

SUBJECT: Classification of Personnel
at Federal Reserve Banks.

Dear Sir:

In December 1925 the Federal Reserve Bank of New York submitted to the Federal Reserve Board a plan for classifying its personnel into groups and grades, accompanied by an analysis covering each position within the grades established, with salary ranges for each grade and each position, and asked the Board to approve the plan and to authorize the bank to make promotions of employees within the grades and salary ranges without first securing the Board's approval. After consideration, the Board on January 12, 1926, advised the bank that it approved the plan submitted with certain restrictions.

The plan adopted for New York has proven more satisfactory to both the Board and the bank than that formerly in effect and the Board's committee on salaries and expenditures of Federal reserve banks feels that changes in personnel can be handled more advantageously if a plan along the same general lines is adopted for the System as a whole. Accordingly, the committee has recommended that a standard classification of employees be worked out for the Federal Reserve System and that under this classification: (1) The personnel be divided into groups such as, for instance, department heads, bank examiners, auditors, clerical, non-clerical, protection, building, etc., (2) Employees within each group be divided into grades, and (3) A job analysis be made of all the positions in the System which fall within each of the grades thus established, such analysis to show the duties to be performed and the qualifications the incumbent should have.

The committee also recommended that after this standard classification has been completed it be submitted to the Governor and Agent of each Federal reserve bank for study and such recommendations in regard thereto as they wish to submit. The committee's proposal also contemplates that when the standard classification has been approved by the Board each Federal reserve bank should

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be requested (a) to furnish the Board with a list of all employees within each group, grade and job classification and (b) to recommend to the Board salary ranges for each grade and job classification at the head office and at each branch.

Under this plan the group and grade classification would be identical for all Federal reserve banks and branches, and the job classification as nearly the same as the method of operation would permit, but the salary ranges for the different positions would be fixed with the view of paying salaries for the respective positions commensurate with salaries paid by other banks for similar classes of work in the place where the head office or branch is located. In a classification such as indicated above for the System as a whole, there would, of course, be many positions, and perhaps some grades, in which there would be no employees at a number of the banks and branches.

After the salary ranges proposed by the Federal reserve banks were approved by the Board, it would be the Board's intention to authorize the Federal reserve banks to make changes in their personnel from time to time without the advance approval of the Federal Reserve Board with the understanding that (1) no changes be made in the groups, grades, job classification, or salary ranges without the prior approval of the Federal Reserve Board, (2) the Board be furnished as of the first of each quarter with a statement showing all personnel changes made during the preceding quarter, including appointments and resignations, where the salary paid was in excess of $2,500, and (3) the Federal Reserve Board be furnished as of January 1 of each year with a complete list of all employees by departments and positions showing the name, position, and salary of each employee.

The Board has tentatively approved the recommendation of its Committee on Salaries and Expenditures and proposes to appoint a committee of representatives of the Federal reserve banks to prepare the group and grade classification and the specifications for the individual positions. Before taking final action in this matter, however, the Board would like to have an expression of your views with reference to the advisability of adopting such a plan for the System as a whole.

Very truly yours,

Walter L. Eddy,
Secretary.

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

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TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

April 5, 1928.

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 10 to March 31, 1928, amounting to $90,702.50, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	$50	$100	Total
New York	650,000	325,000	-	-	10,000	985,000
Philadelphia	-	100,000	-	-	10,000	110,000
Cleveland	100,000	75,000	25,000	-	-	200,000
Richmond	50,000	50,000	-	-	-	100,000
Atlanta	50,000	75,000	25,000	-	-	150,000
Chicago	100,000	75,000	50,000	20,000	-	245,000
St. Louis	50,000	50,000	25,000	-	-	125,000
Minneapolis	100,000	50,000	50,000	-	-	200,000
Kansas City	-	100,000	25,000	-	-	125,000
San Francisco	100,000	100,000	100,000	10,000	5,000	315,000
	1,200,000	1,000,000	300,000	30,000	35,000	2,555,000

2,555,000 sheets @ $35.50 per M $90,702.50

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

New York	$34,967.50
Philadelphia	3,905.00
Cleveland	7,100.00
Richmond	3,550.00
Atlanta	5,325.00
Chicago	8,697.50
St. Louis	4,437.50
Minneapolis	7,100.00
Kansas City	4,437.50
San Francisco	11,182.50
	$90,702.50

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

Respectfully,
R. W. Barr
Acting Deputy Commissioner.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6015

April 12, 1928.

SUBJECT: Topic for Governors' Conference.

Dear Sir:

At the suggestion of the Board there has been placed upon the program for the forthcoming conference of Governors the question of the "Desirability of recommending legislation amending Section 19 of Federal Reserve Act relating to required reserves of member banks and of writing into law a complete definition (along lines of the Board's Regulation D) of what constitutes savings and other time deposits". For consideration by the Governors in advance of the conference, there is enclosed herewith copy of a memorandum addressed to the Board under date of June 27, 1927 by the Chief of the Board's Division of Bank Operations (St.5420) on the subject of the general revision of member bank reserve requirements, together with copy of a bill prepared by the Board's General Counsel (X-5090-C) to amend Section 19 of the Federal Reserve Act along the lines of the recommendations contained in the memorandum.

Very truly yours,

Edmund Platt,
Vice-Governor.

Enclosures.

TO GOVERNORS OF ALL F.R. BANKS.

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A BILL

To amend Section 19 of the Federal Reserve Act.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the first paragraph of Section 19 of the Federal Reserve Act, as amended, be further amended and re-enacted to read as follows:

"Bank Reserves."

"Sec. 19. The term 'demand deposits' within the meaning of this act shall include all deposits of public moneys of the United States, all certified checks, cashier's checks, treasurer's checks, demand letters of credit, and travellers' checks outstanding, and all other deposits except 'time deposits' and 'bank deposits' as hereinafter defined.

"The term 'time deposits' within the meaning of this act shall include all 'savings accounts', 'time certificates of deposit', 'postal savings deposits' and 'open account time deposits' as hereinafter defined, except that whenever, by the lapse of time or the giving of notice of an intended withdrawal, savings accounts, time certificates of deposit, and open account time deposits become payable in less than 30 days, such deposits shall be considered demand deposits.

"The term 'savings accounts' shall mean deposits of individuals and religious, charitable or similar corporations, in respect to which-

(1) A pass book, certificate or other similar form of receipt, delivered to and retained by the depositor or his assignee, must actually be presented to the bank whenever a withdrawal is made;

(2) The depositor or his assignee may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made; and

(3) The bank's printed regulations, accepted by the depositor include the above requirements.

"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 act. The retention of

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the pass book, certificate or other similar form of receipt or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank, or by an officer, agent or employee thereof, shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another or a deposit of a business corporation or firm shall not in any case be considered a 'savings account' within the meaning of this act.

"The term 'time certificate of deposit' shall mean a deposit evidenced by written instrument delivered to and retained by the depositor evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate, payable in whole or in part to the depositor or on his order-

(1) On a certain date, specified on the certificate, more than thirty days after the date of the deposit; or

(2) After the lapse of a certain time subsequent to the date of the certificate, in no case less than thirty days; or

(3) After written notice which the bank may at its option require to be given a certain specified number of days, not less than thirty days before the date of repayment; and

(4) In all cases only upon the actual presentation of the certificate at each withdrawal for proper endorsement or surrender.

"The retention of the certificate, or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank or by an officer, agent or employee thereof shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another shall not in any case be considered a 'time certificate of deposit' within the meaning of this act.

"The term 'postal savings deposits' as used in this act shall mean deposits of postal savings funds in banks under the terms of the postal savings act approved June 25, 1919, as amended.

"The term 'open account time deposits' as used in this act shall mean deposits not evidenced by certificates of deposits or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made providing that neither the whole or any part of such deposit may be

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withdrawn, by check or otherwise, except on a given date, more than thirty days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than thirty days. In order for deposits to be classified as 'open account time deposits' the bank in which such deposits are made must actually require such written notice before permitting withdrawals to be made.

"The term 'bank deposits' shall include all deposit balances due to other banks, bankers, and trust companies in the United States and foreign countries.

"Every bank, banking association, and trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain a reserve consisting of an actual net balance with the Federal reserve bank of its district equal to not less than thirteen per centum of the aggregate amount of its bank deposits, three per centum of the aggregate amount of its time deposits, and the following per centum of the aggregate amount of its net demand deposits:

Banks in central reserve cities, 13 per centum;

Banks in reserve cities, 9 per centum; and

Other banks, 7 per centum;

"PROVIDED, HOWEVER, That, upon the affirmative vote of five members of the Federal Reserve Board, any bank located in an outlying district of a central reserve city may be permitted to maintain a reserve balance equal to not less than seven or nine per centum of its net demand deposits, and any bank located in an outlying district of a reserve city may be permitted to maintain a reserve balance equal to not less than seven per centum of its net demand deposits; AND PROVIDED FURTHER, That, in computing the amounts of net demand deposits against which reserves must be maintained, all member banks may deduct from the amount of their gross demand deposits, all balances due to them from other banks (except Federal reserve banks and foreign banks), all cash items deposited by them with Federal reserve banks and other banks in process of collection, all exchanges for the clearing house, and all checks in other banks in the same place.

"The Federal Reserve Board shall have authority to prescribe regulations governing the maintenance of the reserves required by this section and further defining the various classes of deposits herein mentioned.

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"No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

"The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: PROVIDED, HOWEVER, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act."

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BUSINESS CONDITIONS IN THE FIRST QUARTER, 1928.

Business conditions in the United States have shown improvement since the first of the year, and at the end of the first quarter the production and distribution of commodities were, on the whole, in approximately the same volume as a year ago. Manufacturing output, which at the end of 1927 was smaller than at any other time in three years, increased rapidly during the first quarter of this year and in March almost equaled the largest monthly output on record. Distribution of goods, as indicated by freight-car loadings and wholesale and retail trade, has also increased since January. Commercial loans of member banks have increased since February 1 by more than the usual seasonal amount, indicating larger business demands for credit, and more recently security loans have increased rapidly. Within the past two or three weeks the amount of currency in circulation has also increased considerably in order to meet the needs of expanding industrial payrolls and of Easter trade at retail stores.

Volume of business in agricultural regions has exceeded that of a year ago, as a result of larger income received from products of farm in 1927 than in 1926. While conditions in industrial regions during last autumn and winter were less favorable than a year earlier, they have improved considerably within recent weeks. Output in the steel industry at present almost equals the large volume of a year ago, and automobiles are also being produced in approximately record volume. Textile-mill activity in recent months has been somewhat below the exceptional level maintained during most of last year but compares favorably with activity of the three-years prior to 1927. The volume of building contracts awarded in the first quarter of

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this year exceeded that of the corresponding period of any previous year. Employment of industrial workers, which in the latter part of December was at the lowest level in several years, has increased within recent weeks as the result of recovery in manufacturing activity and seasonal expansion in building operations.

The volume of reserve bank credit outstanding at the beginning of April was at the highest level since the decline from the seasonal maximum reached at the turn of the year, reflecting in general demands growing out of large gold exports and recent expansion of currency in circulation and of loans of member banks. Money rates stiffened considerably in February and March, and in the early part of April were at least as high on most types of paper as at any other time in more than a year.

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X-6018

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. April 19, 1928.
3 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Banks of Boston and Chicago have established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective April 20, 1928.

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L 406

FEDERAL RESERVE BOARD

WASHINGTON

X-6019

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 20, 1928.

SUBJECT: Daylight Saving Schedule, 1928.

Dear Sir:

Beginning Monday, April 30th, and ending Saturday, September 29th, the following Federal Reserve Banks and Branches will operate under daylight saving schedule:

Boston, New York, Buffalo, Philadelphia, Pittsburgh and Chicago.

Banking hours at the Helena Branch from May 1st to September 1st, will be 9:30 a.m. to 2:00 p.m., mountain time, except Saturday, when the hours will be 9:00 a.m. to 12:00 noon.

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 Saturday, when the hours will be 9:00 a.m. to 12:00 noon.

Please notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6020

April 21, 1928.

SUBJECT: Expense, Main Line, Leased Wire System,
March, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6020-a and X-6020-b, covering in detail operations of the main line, Leased Wire System, during the month of March, 1928.

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.

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1928.

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	38,141	1,233	39,374	5,187	-	34,187	3.55
New York	167,336	-	167,336	14,549	-	152,787	15.88
Philadelphia	46,999	1,129	48,128	5,654	-	42,474	4.42
Cleveland	86,352	2,798	89,150	6,950	-	82,200	8.54
Richmond	64,388	2,944	67,332	7,130	-	60,202	6.26
Atlanta	61,332	6,819	68,151	8,464	-	59,687	6.20
Chicago	126,436	3,708	130,144	10,795	-	119,349	12.40
St. Louis	88,445	1,052	89,497	7,153	-	82,344	8.56
Minneapolis	37,463	3,123	40,586	4,191	-	36,395	3.78
Kansas City	90,545	3,239	93,784	6,877	-	86,907	9.03
Dallas	78,532	5,430	83,962	5,268	-	78,694	8.18
San Francisco	134,507	3,645	138,152	11,179	-	126,973	13.20
Total	1,020,476	35,120	1,055,596	93,397	-	962,199	100.00%
F. R. Board			429,065	88,427		340,638	
Total			1,484,661	181,824		1,302,837	
Percent of Total			100.00%	12.25%		87.75%	

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6020-b).

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

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REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, MARCH, 1928

X-6020-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	$ 712.21	$ 260.00	$ 452.21
New York	995.78	-	-	995.78	3,185.91	995.78	2,190.13
Philadelphia	225.00	-	-	225.00	886.76	225.00	661.76
Cleveland	296.66	-	-	296.66	1,713.33	296.66	1,416.67
Richmond	190.00	-	$ 230.00(&)	420.00	1,255.91	420.00	835.91
Atlanta	270.00	-	-	270.00	1,243.87	270.00	973.87
Chicago	3,903.72 (#)	-	-	3,903.72	2,487.74	3,903.72	1,415.98 (*)
St. Louis	205.00	-	-	205.00	1,717.34	205.00	1,512.34
Minneapolis	179.03	-	-	179.03	758.36	179.03	579.33
Kansas City	275.64	-	-	275.64	1,811.64	275.64	1,536.00
Dallas	251.00	-	-	251.00	1,641.11	251.00	1,390.11
San Francisco	370.00	-	-	370.00	2,648.24	370.00	2,278.24
Federal Reserve Board	-	-	15,210.50	15,210.50	-	-	-
Total	$7,421.83		$15,440.50	$22,862.33	$20,062.42	$7,651.83	$13,826.57
				2,799.91(a)			1,415.98(b)
				$20,062.42			$12,410.59

(&) Main line rental, Richmond--Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2,799.91 from Treasury Department covering business for the month of March, 1928.
(b) Amount reimbursable to Chicago.

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

April 21, 1928.
1 o'clock p.m.

For immediate release

The Federal Reserve Board announces that the Federal Reserve Bank of St. Louis has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective April 25, 1928.

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L 408

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6022
April 23, 1928.

SUBJECT: Holidays during May, 1928.

Dear Sir:

The Federal Reserve Banks and branches listed below will be closed on account of holidays on the dates specified, and therefore will not participate in either the Gold Settlement Fund or the Federal Reserve note clearing:

Tuesday	May 1	San Francisco Los Angeles	Primary Election Day
Thursday	May 10	Charlotte	Confederate Memorial Day
Friday	May 18	Portland	Primary Election Day
Monday	May 21	Charlotte	Mecklenburg Independence Day

On Wednesday, May 30th, Memorial Day, there will be neither Gold Settlement Fund nor Federal Reserve note clearing, and the books of the Board will be closed. The offices of the Board and all Federal Reserve Banks and branches, with the exception of the following, will be closed on that day:

Atlanta, New Orleans, Birmingham, Little Rock and Havana Agency, Charlotte.

Please include credits in the Gold Fund clearing for the offices affected on each of the holidays referred to (other than May 30th) with those of the following business day, and make no shipment of Federal Reserve notes, fit or unfit, for account of the Federal Reserve Bank of San Francisco on May 1st.

Kindly notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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L 410

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-6023

April 23, 1928.
3 o'clock p. m.

For immediate release.

The Federal Reserve Board announces that the Federal Reserve Bank of Richmond has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective April 24, 1928.

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-6024

For immediate release. April 24, 1928.
4 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Minneapolis has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective April 25, 1928.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6025

April 27, 1928.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

Upon agreement between the Federal Reserve Bank of St. Louis and the other Federal reserve banks involved, the Board has approved the following changes in the inter-district time schedule:

From	Little Rock	to	San Francisco	From	5 days	to	4 days
"	"	"	Jacksonville	"	3 "	"	2 "
"	"	"	Portland	"	5 "	"	4 "
"	"	"	Denver	"	3 "	"	2 "
"	Louisville	"	Seattle	"	5 "	"	4 "
"	"	"	Los Angeles	"	5 "	"	4 "
"	Memphis	"	Baltimore	"	3 "	"	2 "
"	"	"	Richmond	"	3 "	"	2 "
"	St. Louis	"	Boston	"	3 "	"	2 "
"	"	"	Helena	"	4 "	"	3 "
"	"	"	Jacksonville	"	3 "	"	2 "
"	"	"	Portland	"	4 "	"	3 "
"	Omaha	"	St. Louis	"	1 day	"	2 "
"	Boston	"	St. Louis	"	3 days	"	2 "

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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[41[illegible]

X-6027

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,
Saturday, April 28, 1928.

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 production during March was in about the same volume as in February and there was a seasonal increase in the distribution of commodities. Wholesale prices remained practically unchanged. During the past month there have been increases in bank credit in use and in member bank borrowing at the reserve banks, and open market money rates have shown further advances.

Production---Production of manufactures was maintained during March at the high level reached in February, and the output of minerals also showed little change. Production of passenger automobiles and trucks during March totaled 413,000, the largest output recorded for any month since August 1926, and production schedules in automobile plants continued large during April. Activity in the iron and steel industry was also maintained at a high level during March and April, and lumber production was in larger volume than a year ago. Cotton and wool consumption declined in March, but silk deliveries were the largest on record. There was some decline in meat-packing and in the production of sole leather, and the output of boots and shoes in March showed less than the usual seasonal increase. Mining of bituminous coal decreased during

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March by less than the usual seasonal amount, but as the result of a strike in certain Middle Western mines, production in the early weeks of April was considerably curtailed. Building contracts awarded were smaller in March than a year ago, while those for the first three weeks in April were in about the same volume as in the corresponding period of last year. As a result of large contracts during the first two months of this year, total awards for the year to April 20 exceeded those for the same period of 1927. Contracts for residential buildings and for public works have been especially large.

Trade--Sales of wholesale firms increased less than usual in March and were somewhat smaller than in the same month of last year. Sales of Department stores, on the other hand, after allowance is made for customary seasonal changes and the early date of Easter, were about the same in March as in the preceding month and in March 1927. Stocks of merchandise carried in March by wholesale firms were larger, while those of department stores were smaller, than at this time last year.

The volume of freight-car loadings showed more than the usual seasonal increase in March, but declined in the first two weeks of April. Loadings continued smaller than a year ago for all classes of commodities except grains and livestock.

Prices--The general level of wholesale commodity prices showed little change in March, the index of the Bureau of Labor Statistics declining slightly from 96.4 to 96 per cent of the 1926 average. There were decreases in the prices of livestock, dairy products, meats, coal, and rubber; prices of grains, cattle feed, cotton, and steel, on the other hand, advanced. During the first three weeks in April, there were further substantial increases in the prices

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of grains and more moderate advances in flour, hogs, cotton, and lumber, while prices of cattle and rubber declined.

Bank Credit--Between March 21 and April 18 total loans and investments of member banks in leading cities increased by about $410,000,000, reaching the highest level on record. The advance was largely in loans on securities which showed an increase of nearly $380,000,000 and in April were close to the high point of the first of the year. Loans for commercial purposes continued the increase which began in February and notwithstanding a small decline during the last week of the period were nearly $350,000,000 larger on April 18 than at the end of January.

The volume of reserve bank credit in use increased by $180,000,000 during the five weeks ending April 25, reflecting increased reserve requirements of member banks and a further net outflow of gold amounting to more than $50,000,000. Reserve bank holdings of securities were reduced by about $80,000,000 during the period, while discounts for member banks increased by $230,000,000. Acceptance holdings also showed a small increase.

A firmer tendency in the money market was evidenced at the end of March and during April by further increases in rates on call and time loans on securities, and by increases of from 4-4¼ per cent to 4½ per cent in the rates on commercial paper and from 3½ per cent to 3 7/8 per cent in the rate on 90-day bankers acceptances. Between April 20 and April 25 discount rates were raised from 4 to 4½ per cent at the Boston, Chicago, St. Louis, Richmond, and Minneapolis Federal reserve banks.

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[41C

TO THE HONORABLE JAMES B. NEWMAN, CHANCELLOR HOLDING PART TWO OF THE CHANCERY COURT AT NASHVILLE:

THE BILL OF COMPLAINT OF THE UNIVERSITY OF THE SOUTH, a corporation, duly chartered and existing under the laws of Tennessee, with its situs at Sewanee, Franklin County, Tennessee,

against

NASHVILLE BRANCH FEDERAL RESERVE BANK OF ATLANTA, a corporation chartered and existing under the laws of the United States, having its principal office at Nashville, Davidson County, Tennessee.

Complainant respectfully shows to the Court:

I

That complainant is a charitable corporation, chartered and existing under the laws of Tennessee, and is an educational institution, with its buildings and equipment located at Sewanee, in Franklin County, Tennessee.

That the defendant Nashville Branch Federal Reserve Bank is a banking institution, chartered under the laws of the United States, and engaged in business in Nashville, Davidson County, Tennessee.

II

That the National Bank of Franklin was a corporation, chartered under the laws of the United States and in September 1926 and for many years prior thereto, was engaged

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in the banking business in Franklin, Williamson County, Tennessee. The chief officials of said bank were E. E. Green, its Cashier, and Bates L. Green, its Assistant Cashier.

Prior to September 1926, the Misses Claybrooke had on deposit in the said National Bank of Franklin a considerable amount of money, more than twenty thousand dollars ($20,000.00) and also a fund in excess of eight thousand dollars ($8,000.00) which stood in the name of Miss Eliza M. Claybrooke as Administratrix of their deceased sister, Miss Annie Claybrooke.

The Misses Claybrooke, being members of the Episcopal Church, wished to create a memorial for their deceased sister, and decided to do this by endowing a scholarship in the University of the South, which is an institution conducted under the auspices of that church. They, thereupon, expressed to the officials of the complainant University of the South their intention to make a gift of eight thousand dollars ($8,000.00) for the purpose of endowing this scholarship which gift was thankfully accepted by the complainant.

III

The Misses Claybrooke, about September 1, 1926, went to the said National Bank of Franklin, and asked the Cashier to write a check for eight thousand dollars ($8,000.00) payable to the University of the South, to be drawn against the account of Miss Eliza M. Claybrooke, as Administrator. As heretofore stated, there was a sum in excess of eight thousand dollars ($8,000.00) standing to the credit of this account at that time, and no other check was ever drawn by said Administratrix against said account.

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The said E. E. Green and his son, Bates L. Green, were then engaged in various fraudulent transactions, which caused the ruin of said bank, as hereinafter set forth, and were manipulating the books and the funds on deposit so as to conceal thefts and fraudulent abstractions amounting to many thousands of dollars perpetrated by the said E. E. Green with the connivance and assistance of his son, the said Bates L. Green.

When the Misses Claybrooke made this request the said E. E. Green informed them that under the law thirty days' notice was required before they could draw out their money. The Misses Claybrooke, being absolutely ignorant of business matters, and having the utmost confidence in the said E. E. Green (who was considered one of the leading citizens of Franklin, and who then enjoined the respect of the entire community) believed his false statements in this behalf, and he accordingly made out a check in favor of the University of the South, Sewanee, Tennessee, in the sum of eight thousand dollars ($8,000.00) but it was dated thirty days ahead, namely, Oct. 1, 1926.

Said check is in words and figures as follows:

"Franklin Tenn. Oct.1st, 1926 No.____

"NATIONAL BANK OF FRANKLIN 87-137
Franklin, Tenn.

Pay to University of the South Sewanee Tenn. or order $8000.00
Eight Thousand ---------- Dollars
For _____

Eliza M. Claybrooke, Admx.
of estate of Annie W. Claybrooke"

The original is in possession of complainant and will be filed on or before the hearing.

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IV

That said check for $8,000.00 was sent to complainant and was acknowledged by its Vice-Chancellor in the early part of September, 1926. In accordance with the request made by the Misses Claybrooke, said check dated October 1, 1926, was not deposited when received, but was held by the officials of said University until October 1, 1926, at which time it was deposited in the Bank of Sewanee at Sewanee, Tennessee, to the credit of your complainant.

The Bank of Sewanee in a cash letter, dated October 1, 1926, forwarded this check to the Hamilton National Bank at Chattanooga, Tennessee; but said letter probably missed the last mail on October 1, 1926 and did not leave Sewanee until October 2nd. The 3rd of October 1926 was Sunday, and the Hamilton National Bank (as complainant is informed and believes) did not receive this letter until Monday, October 4, 1926. On that date, to-wit, October 4, 1926, said check was forwarded to the defendant Nashville Branch Atlanta Federal Reserve Bank at Nashville, Tennessee, and was received by said defendant on October 5, 1926.

On said date, to-wit, October 5, 1926, said defendant forwarded this $8,000.00 item, together with various other items, direct to the drawee bank, viz, the National Bank of Franklin. Said $8,000.00 check was received by said National Bank of Franklin on October 6, 1926, and was listed by said bank as a cash item at the close of business hours on October 6, 1926, while said National Bank of Franklin was open and carrying on its business in the usual and customary manner.

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No protest was made, nor was any notice of non-payment given, 420 although such notice by wire is imperatively required in case of all items over $500.00 by the rules of the Federal Reserve Bank.

The National Bank of Franklin then had to its credit with the defendant Nashville Branch Federal Reserve Bank of Atlanta a large amount of cash - more than twenty thousand dollars ($20,000.00) and much more than sufficient to pay said $8,000.00 check.

V

That the said National Bank of Franklin opened its doors for business in the usual way on the morning of October 7, 1926, but before the close of business hours suspended payment and closed its doors. The suspension of the bank was caused by the discovery of the thefts and defalcations on the part of the said E. E. Green and Bates L. Green, which resulted in the insolvency of said bank. Shortly thereafter, a receiver was appointed, and the assets of the bank are being liquidated under said receivership. Complainant states, on information and belief, that not more than ten (10) or fifteen (15) cents on the dollar will be paid to the depositors.

VI

That on October 7, 1926, the day of said suspension, the defendant Nashville Branch Federal Reserve Bank of Atlanta sent an employee and agent to Franklin, and although said $8,000.00 check had regularly gone through as a cash item, in the regular course of business, on October 6, 1926, without protest or wire, as required by the Federal Reserve rules where

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a check is not paid, the said defendant, through its said agent and employee, brought said check back to Nashville, and thereafter returned the same to the Hamilton National Bank which returned it to the Bank of Sewanee, claiming that said check was unpaid for lack of sufficient funds.

On and prior to October 7, 1926, the said National Bank of Franklin was indebted to the defendant in large amounts, some of them secured by notes or other collateral; and the purpose of said defendant in causing said $8,000.00 check to be taken from the bank, after it had regularly gone through on the preceding day in due course of business, was to obtain for itself the benefit of said $8,000.00, after it learned of the closing and possible insolvency of said Franklin Bank.

VII

Complainant is advised and charges that under the law of Tennessee the defendant was the agent of complainant, and as such was acting in a fiduciary capacity in collecting said check; and that as such agent, it could not lawfully take any step in furtherance of its own interest, as opposed to the interest of its principal, the holder of the check. That in attempting to recall said $8,000.00 item, and charge the same back, after the check had been put through in the ordinary course of business, on the preceding day, said defendant was endeavoring to conserve for itself and to its own indebtedness the cash which it held for the credit of the National Bank of Franklin, and complainant is advised that this constituted a breach of trust on the part of said defendant, and a violation of the duty owed by agent to principal and that said defendant is in equity liable to account to complainant, as the holder of said check, in the sum of

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eight thousand dollars ($8,000.00) with interest.

PREMISES CONSIDERED, COMPLAINANT PRAYS:

1. That process issue, requiring the said defendant to answer this bill, but not under oath, which is waived.

2. That complainant be given a decree against the defendant in the sum of eight thousand dollars ($8,000.00) with interest.

3. That if complainant has in aught mistaken its remedy, it be given such other and further relief as it in equity may be entitled to ask.

4. And for general relief.

Thomas H. Malone,

Wm. J. Wade,

Solrs for Complt.

I am surety for costs,

Thomas H. Malone.

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FEDERAL RESERVE BOARD

X-6029

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 3, 1928.

SUBJECT: Deposits of Mutual Savings Banks, Morris Plan Banks, Credit Unions, Building and Loan Associations and Cooperative Banks.

Dear Sir:

The question has been presented to the Federal Reserve Board whether deposits in member banks by mutual savings banks, Morris Plan banks, cooperative banks, credit unions, and building and loan associations should be classed by member banks in computing reserves as amounts "due to" banks within the meaning of Section 19 of the Federal Reserve Act, from which amounts "due from" banks may be deducted. From information obtained by the Federal Reserve Board it appears that there has been no uniform practice among member banks in classifyinf deposits of any one of the classes of institutions mentioned.

The question whether the respective institutions should properly be regarded as banks within the meaning of Section 19 of the Federal Reserve Act depends upon the nature and functions of each:

A mutual savings bank is engaged in banking functions in accepting deposits and making loans. The Attorney General has held that mutual savings banks should be considered "banks" within the meaning of Section 4 of the Federal Reserve Act and a similar reasoning would require that they be regarded as "banks" within the meaning of Section 19.

Morris Plan banks are also engaged in the acceptance of deposits and the making of loans to certain classes of persons, and the exercise of these functions require that they be regarded as banks.

A building and loan association is of a somewhat different character. It makes loans to its members upon the security of real estate and membership shares but it does not usually receive deposits from members or others, except installment payments on membership shares. Such installment payments are essentially capital rather than deposits. The primary function of a building and loan association is usually, therefore, to make loans on real estate to its members out of capital paid in by such members. Inasmuch as it does not receive deposits and loans are made from capital, it is not to be regarded as a bank.

Cooperative banks of the type found in Massachusetts are similar in purpose and functions to building and loan associations and are to be classified in the same way. Cooperative

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banks of the Massachusetts type are to be distinguished from those so-called cooperative banks organized either under national or State law having general banking powers; the latter are undoubtedly banks within the meaning of Section 19.

Credit unions are authorized to receive savings of their members in payment for shares of capital stock and also generally to receive such savings on deposit. Loans are made to members under certain restrictions and limitations. The fact that they receive deposits and loans are thus made not only out of capital but from deposits brings them within the usual definition of a bank.

After a careful consideration of the nature of these several institutions the Federal Reserve Board is of the opinion that deposits made by mutual savings banks, Morris Plan banks and credit unions should be classified by member banks as amounts "due to" banks within the meaning of Section 19 of the Federal Reserve Act, from which amounts "due from" banks may be deducted, but deposits of building and loan associations and cooperative banks of the type found in Massachusetts may not be so classified.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

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

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Federal Reserve Bank of St. Louis

X-6031

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 4, 1928.

SUBJECT: Revision of Member Bank Reserve Requirements.

Dear Sir:

Under date of April 12, 1928, the Board addressed a letter to all Governors of Federal reserve banks, a copy of which was sent to each Agent, submitting the following topic to be placed on the program for the Governors' Conference.

> "Desirability of recommending legislation amending Section 19 of Federal Reserve Act relating to required reserves of member banks and of writing into law a complete definition (along lines of the Board's Regulation D) of what constitutes savings and other time deposits."

This question was discussed at the Governors' Conference and the Governor of your bank will acquaint you with the action taken.

The Board would like to have at your early convenience your views with reference to the proposals outlined in the memorandum prepared by the Chief of the Board's Division of Bank Operations (St.5420) and the suggested bill prepared by the Board's Counsel which would write into law the changes suggested in the memorandum.

The proposed bill through inadvertence failed to include the provision contained in paragraph one on page three of the memorandum to the effect that,

> "(d) no withdrawal in excess of $500 on any one day shall be made unless the depositor has given notice of such intended withdrawal not less than 30 days before the withdrawal is made."

It will be appreciated if you will change the words "may at its option" appearing in sub-paragraph three on page two of the bill to "must", so that the sub-paragraph will read "After written notice which the bank must require to be given--".

For your information we are enclosing an additional copy of the memorandum and the proposed bill.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL F.R.AGENTS.

Enclosures:

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A BILL

To amend Section 19 of the Federal Reserve Act.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the first paragraph of Section 19 of the Federal Reserve Act, as amended, be further amended and re-enacted to read as follows:

"Bank Reserves."

"Sec. 19. The term 'demand deposits' within the meaning of this act shall include all deposits of public moneys of the United States, all certified checks, cashier's checks, treasurer's checks, demand letters of credit, and travellers' checks outstanding, and all other deposits except 'time deposits' and 'bank deposits' as hereinafter defined.

"The term 'time deposits' within the meaning of this act shall include all 'savings accounts', 'time certificates of deposit', 'postal savings deposits' and 'open account time deposits' as hereinafter defined, except that whenever, by the lapse of time or the giving of notice of an intended withdrawal, savings accounts, time certificates of deposit, and open account time deposits become payable in less than 30 days, such deposits shall be considered demand deposits.

"The term 'savings accounts' shall mean deposits of individuals and religious, charitable or similar corporations, in respect to which-

(1) A pass book, certificate or other similar form of receipt, delivered to and retained by the depositor or his assignee, must actually be presented to the bank whenever a withdrawal is made;

(2) The depositor or his assignee may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made; and

(3) The bank's printed regulations, accepted by the depositor include the above requirements.

"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 act. The retention of

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the pass book, certificate or other similar form of receipt or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank, or by an officer, agent or employee thereof, shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another or a deposit of a business corporation or firm shall not in any case be considered a 'savings account' within the meaning of this act.

"The term 'time certificate of deposit' shall mean a deposit evidenced by written instrument delivered to and retained by the depositor evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate, payable in whole or in part to the depositor or on his order-

(1) On a certain date, specified on the certificate, more than thirty days after the date of the deposit; or

(2) After the lapse of a certain time subsequent to the date of the certificate, in no case less than thirty days; or

(3) After written notice which the bank may at its option require to be given a certain specified number of days, not less than thirty days before the date of repayment; and

(4) In all cases only upon the actual presentation of the certificate at each withdrawal for proper endorsement or surrender.

"The retention of the certificate, or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank or by an officer, agent or employee thereof shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another shall not in any case be considered a 'time certificate of deposit' within the meaning of this act.

"The term 'postal savings deposits' as used in this act shall mean deposits of postal savings funds in banks under the terms of the postal savings act approved June 25, 1919, as amended.

"The term 'open account time deposits' as used in this act shall mean deposits not evidenced by certificates of deposits or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made providing that neither the whole or any part of such deposit may be

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withdrawn, by check or otherwise, except on a given date, more than thirty days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than thirty days. In order for deposits to be classified as 'open account time deposits' the bank in which such deposits are made must actually require such written notice before permitting withdrawals to be made.

"The term 'bank deposits' shall include all deposit balances due to other banks, bankers, and trust companies in the United States and foreign countries.

"Every bank, banking association, and trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain a reserve consisting of an actual net balance with the Federal reserve bank of its district equal to not less than thirteen per centum of the aggregate amount of its bank deposits, three per centum of the aggregate amount of its time deposits, and the following per centum of the aggregate amount of its net demand deposits:

Banks in central reserve cities, 13 per centum;

Banks in reserve cities, 9 per centum; and

Other banks, 7 per centum;

"PROVIDED, HOWEVER, That, upon the affirmative vote of five members of the Federal Reserve Board, any bank located in an outlying district of a central reserve city may be permitted to maintain a reserve balance equal to not less than seven or nine per centum of its net demand deposits, and any bank located in an outlying district of a reserve city may be permitted to maintain a reserve balance equal to not less than seven per centum of its net demand deposits; AND PROVIDED FURTHER, That, in computing the amounts of net demand deposits against which reserves must be maintained, all member banks may deduct from the amount of their gross demand deposits, all balances due to them from other banks (except Federal reserve banks and foreign banks), all cash items deposited by them with Federal reserve banks and other banks in process of collection, all exchanges for the clearing house, and all checks in other banks in the same place.

"The Federal Reserve Board shall have authority to prescribe regulations governing the maintenance of the reserves required by this section and further defining the various classes of deposits herein mentioned.

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"No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

"The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: PROVIDED, HOWEVER, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act."

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X-6032

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. May 5, 1928.
3 o'clock p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Dallas has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective May 7, 1928.

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Federal Reserve Bank of St. Louis

X-16033 431

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

May 5, 1928.

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 from April 10 to April 30, 1928, amounting to $65,675, as follows:

Federal Reserve Notes, Series 1914

	$5	$10	$20	Total
New York	500,000	250,000	-	750,000
Philadelphia	-	50,000	-	50,000
Cleveland	50,000	75,000	50,000	175,000
Richmond	25,000	25,000	-	50,000
Atlanta	50,000	75,000	25,000	150,000
Chicago	150,000	100,000	25,000	275,000
St. Louis	25,000	50,000	25,000	100,000
Minneapolis	25,000	25,000	25,000	75,000
Kansas City	25,000	50,000	-	75,000
San Francisco	50,000	50,000	50,000	150,000
	900,000	750,000	200,000	1,850,000

1,850,000 sheets @ $35.50 per M.....$65,675.00

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

New York	$26,625.00
Philadelphia	1,775.00
Cleveland	6,212.50
Richmond	1,775.00
Atlanta	5,325.00
Chicago	9,762.50
St. Louis	3,550.00
Minneapolis	2,662.50
Kansas City	2,662.50
San Francisco	5,325.00
	$65,675.00

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

Respectfully,
S. R. Jacobs,
Deputy Commissioner.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

L 432

X-6036

May 16, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, April, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6036-a and X-6036-b, covering in detail operations of the main line, Leased Wire System, during the month of April, 1928.

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.

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1928.

X-6036-a

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal Reserve Bank business	Percent of total bank business (*)
Boston	29,624	1,163	30,787	3.40
New York	146,265	-	146,265	16.13
Philadelphia	34,630	1,212	35,842	3.95
Cleveland	81,718	2,375	84,093	9.28
Richmond	53,280	2,738	56,018	6.18
Atlanta	54,207	6,028	60,235	6.64
Chicago	110,487	2,690	113,177	12.48
St. Louis	76,751	1,666	78,417	8.65
Minneapolis	29,598	2,648	32,246	3.56
Kansas City	78,636	3,189	81,825	9.03
Dallas	65,081	6,457	71,538	7.89
San Francisco	112,809	3,282	116,091	12.81
Total	873,086	33,448	906,534	100.00%

F. R. Board business	275,271	1,182,805
Treasury Department business - Incoming and Outgoing		86,022
Total words transmitted over main lines		1,268,827

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6036-b).

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

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REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, APRIL, 1928.

X-6036-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	$ 5.00	-	$ 265.00	$ 722.13	$ 265.00	$ 457.13
New York	995.78	2.00	-	997.78	3,425.87	997.78	2,428.09
Philadelphia	225.00	-	-	225.00	838.95	225.00	613.95
Cleveland	296.66	-	-	296.66	1,970.99	296.66	1,674.33
Richmond	190.00	-	230.00 (&)	420.00	1,312.58	420.00	892.58
Atlanta	270.00	-	-	270.00	1,410.28	270.00	1,140.28
Chicago	3,863.81 (#)	-	-	3,863.81	2,650.64	3,863.81	1,213.17 (*)
St. Louis	205.00	-	-	205.00	1,837.19	205.00	1,632.19
Minneapolis	181.28	-	-	181.28	756.11	181.28	574.83
Kansas City	275.64	-	-	275.64	1,917.89	275.64	1,642.25
Dallas	251.00	-	-	251.00	1,675.77	251.00	1,424.77
San Francisco	370.00	-	-	370.00	2,720.73	370.00	2,350.73
Federal Reserve Board	-	-	15,162.62	15,162.62	-	-	-
Total	$ 7,384.17	$ 7.00	$15,392.62	$ 22,783.79	$21,239.13	$7,621.17	$14,831.13
				1,544.66(a)			1,213.17(b)
				$ 21,239.13			$13,617.96

(&) Main line rental, Richmond - Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,544.66 from Treasury Department covering business for the month of April, 1928.
(b) Amount reimbursable to Chicago.

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Federal Reserve Bank of St. Louis

[435

X-6037

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. May 16, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of 4-1/2 per cent on all classes of paper of all maturities, effective May 17, 1928.

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Federal Reserve Bank of St. Louis

L. 430

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6038

May 16, 1928.

SUBJECT: Holidays during June, 1928.

Dear Sir:

The Federal Reserve Banks and Branches listed below will be closed on Monday, June 4th, in observance of the birthday of Jefferson Davis, and therefore will not participate in either the Gold Fund Clearing or the Federal Reserve note clearing:

Richmond	Memphis
Atlanta	Dallas
Birmingham	El Paso
Nashville	Houston
Jacksonville	San Antonio

Please include credits of June 4th in the Gold Fund Clearing with your credits for June 5th for the offices affected, and make no shipments of Federal Reserve notes, fit or unfit, on June 4th, for account of the head offices mentioned.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

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Federal Reserve Bank of St. Louis

X-6039

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

STATEMENT FOR THE PRESS

For immediate release. May 17, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 4-1/2 per cent on all classes of paper of all maturities, effective May 18, 1928.

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Federal Reserve Bank of St. Louis

L 438

X-6040

FEDERAL RESERVE BOARD

OFFICE CORRESPONDENCE

Date May 17, 1928.

To Mr. Wyatt

Subject: J. F. Jarvis, et al, v. Otto Kepp, et al.

From Mr. Wingfield

This is an action in equity brought by general depositors of the Neoga National Bank of Neoga, Illinois, against the officers and directors of that bank and against the Federal Reserve Bank of Chicago. It is charged that the officers and directors of the Neoga National Bank carelessly and negligently conducted the bank and mismanaged its affairs and that such officers and directors knew or should have known that the bank was insolvent on January 1, 1924, and continued to be insolvent until it was closed on January 12, 1925, but that they kept the bank open during this period and received deposits from the complainants. It is also charged that the Federal Reserve Bank of Chicago of which the Neoga National Bank was a member, is charged by law with the duty of supervising its member banks and that the Federal Reserve Bank knew or should have known that the Neoga National Bank was insolvent on January 1, 1924, and that it should have caused the Neoga National Bank to be closed or to have refused to make any rediscounts for this bank subsequent to January 1, 1924. The bill asks a judgment against the officers and directors for loss occasioned to the depositors by reason of the negligent management of the Neoga National Bank and asks that the Federal Reserve Bank be required to return all the notes and bills in its hands on the date of the closing of the bank which it had received from the Neoga National Bank and to have the Federal Reserve Bank put on the same basis as any other creditor with reference to its claims against the Neoga National Bank.

It appears that the theory upon which this suit is directed at the Federal Reserve Bank is that the Federal Reserve Bank is charged by law with the duty of examination and supervision of its member banks. Accordingly the Federal Reserve Bank knew or should have known of the insolvency of the Neoga National Bank; any assets received from the national bank thereafter were received as trustee; and in equity and good conscience the Federal Reserve Bank should be required to turn back such assets for the benefit of the depositors and should not occupy the position of a preferred creditor.

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X-6041

Address delivered by

Governor Roy A. Young

before the

Oklahoma Bankers Association

at its

Annual Convention

held in the Mayo Hotel

at Tulsa, Oklahoma

on

May 15, 1928.

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Representatives of Federal reserve banks have talked before audiences so many times on the various beneficial functions of the Federal Reserve System, that today I am going to attemot to refrain from referring to such functions, except incidentally, and talk upon a subject which I believe affects all of us who are associated with fiduciary institutions more than any other single factor. I, therefore, am going to confine my remarks to gold movements.

Gold is the basis of our credit structure and while the gold standard perhaps has some faults, it is the best basis for a credit structure that has yet been devised, and evidence of its efficiency has been demonstrated conclusively during the past five years by the willingness and eagerness with which many countries have returned to some form of gold standard.

Prior to 1914, gold movements between countries were to some extent under the control of central banks, as exercised almost entirely by changes in their discount rates; that is, if a country was increasing its gold supply, it could, by reducing its rate, retard the import movement or even go so far as to move the gold out of the country, and conversely, if a country was losing gold too rapidly, because of adverse trade balances, it was able to attract it back again by raising the rate.

The World War so upset the normal state of finances that practically all countries, with the exception of the United States, had to abandon the gold standard and it is interesting to note what happened to gold movements in the United States from then on. The movements can be divided into five periods:

(1) In June, 1914 our stock of monetary gold in the United States aggregated $1,890,000,000. Between that date and April, 1917, the date the United States joined the Allies in the war, there was a net import movement of gold amounting to $1,080,000,000. This gold came to the United States because European belligerents were in need of war supplies from America and sent gold to pay for

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them and to support the exchanges. In the United States this gold became the basis for a considerable expansion of bank credit and gave rise to a condition of ease in the money market at a time when industrial activity was rapidly increasing to meet war demands.

(2) Between April, 1917 and June, 1919, gold movements in and out of the country were relatively small, since during most of this time there was an embargo on gold exports. The gold of the country in this period was mobilized by being concentrated at the Federal reserve banks, where it became the basis for a further growth of bank credit used primarily to finance the war.

(3) Between June, 1919 and September, 1920, there was an export of gold aggregating more than $380,000,000 to countries that had accumulated balances in the United States during the embargo and withdrew them when the embargo was lifted.

(4) Between September, 1920 and December, 1924, gold flowed continuously into the United States, the net import movement for the period aggregating $1,660,000,000. This inflow of gold was due largely to the fact that Europe needed supplies of food and raw materials from this country for purposes of reconstruction and was able to pay for them only in gold.

(5) Since December, 1924, gold movements have been on a much smaller scale. For the period as a whole to the end of April, 1928, there was a net loss of gold amounting to $230,000,000. This period may be broadly characterized as one of gold movements in response to central bank policies. Of gold movements, since 1922, it might be said that gold came to the United States during most of the period chiefly because this was the only completely unrestricted gold market and the only country that could afford to receive gold rather than goods in part payment for its exports. In 1925 and again in 1927, when gold in excess of available new gold was needed for monetary reconstruction,

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it was taken largely from the United States, because this was the only country that was in a position to lose gold without suffering a contraction of credit.

To summarize, from June, 1914 to April, 1928 our stock of monetary gold increased to $2,380,000,000; in other words, from $1,890,000,000 to $4,270,000,000 a volume of gold so large that by resorting to the inverted pyramid principal of credit, our banking structure has been able to expand tremendously.

Out of this much good has come and, at the same time, some trouble has developed. As we look back on the picture, it seems as though the period in which real harm was done was between 1914 and 1919 when our banking structure really developed too rapidly on inflation values. However, it is hard to see how such a situation could have been avoided. War conditions existed. There was competition for goods and labor to such an extent that many businesses that ordinarily pursued conservative policies were compelled to deal with values that were highly inflated. However, the farmer could not stop farming, the livestock man could not stop raising cattle and sheep, the retailer could not stop selling, the jobber and wholesaler could not stop distributing, the manufacturer could not stop manufacturing, and the producer could not stop producing raw materials. Business had to go on and every effort had to be exerted toward winning the war, even though many unsound business practices had to be resorted to.

The banker's position was not unlike that of the others I have mentioned. He had to "carry on" even though he was continuously dealing with a credit which he knew was based upon inflated values. When bankers are compelled to deal with credit that is extended or based upon inflated values, a certain hazard must be assumed, and during this period many mistakes were made, even by some of our most conservative people. I again repeat, however, that it was

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a situation that could not have been avoided because of World War conditions.

The next important period was between June 1919 and September 1920 when contraction, the inevitable after-effect of expansion took place; a situation that was no doubt aggravated to a considerable extent by the loss of approximately $380,000,000 of gold.

It, perhaps, is just as well not to refer to the hardships that came to many of our people in too much detail because we are here today to hear the pleasant things and not the unpleasant ones. It is sufficient to say that our bankers had many sleepless nights, but during this period they gained more information as to the difference between poor credit and good credit than in any other period that I know of.

It was during this period that the Reserve System demonstrated its real value and while I am not of that school that believes that the Reserve System alone can create this or prevent that, still I am convinced that the action taken by the Federal Reserve System in lending liberally during this period contributed in no small way toward an orderly adjustment rather than a drastic and violent one.

From the autumn of 1920 to the spring of 1922 the gold that was received from abroad was used largely by member banks to reduce their borrowings from Federal reserve banks and thus improve the general banking situation. Gold received during this period did not, therefore, become a part of the reserves of member banks and did not form the basis of credit expansion. Between 1922 and the spring of 1927 gold imports were sufficient to meet the country's growing demand for currency and in addition to increase the reserves of the member banks which were thus enabled to expand their loans and investments without increasing their borrowings at the reserve banks.

With the plethora of credit that has been available we have seen invest-

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ment credit take the place of much of our commercial credit and expand at an unprecedented rate; we have seen the development of installment buying; we have seen the development of the investment trust which has contributed in no small way to the chain banking idea in its many forms; we have witnessed a tremendous growth in the branch banking idea; we have experienced speculation, not alone in commodities, but in land and building booms, and if I remember correctly, it seems to me that of late we have heard some rumors about the broker's loan. At times we have had the exhilarating sensation of expansion and again the depressing effect of contraction. We have seen gold movements in and out of our country in larger proportions than ever before in the history of the world, and we have learned of the ability of our credit structure to meet those movements without serious interference with commerce and industry.

So much for the gold movements as far as the United States is concerned, and I want to digress just for a moment and cite some figures as to what has been happening with some of our foreign friends.

As early as 1923 plans for returning to a gold basis, gold bullion basis, or a gold exchange basis, were discussed by many foreign nations, but it was not until the end of 1924 that such plans were of special interest and importance to us. Since 1924 our foreign friends, through their various methods of providing a gold basis for their currencies, have increased their gold holdings approximately $950,000,000, while the decrease in the gold stock of the United States has been only $230,000,000. This increase in gold holdings of foreign countries has come largely from new production rather than demands upon the gold stock of the United States. Thus the period has been characterized by substantial growth in the gold holdings of foreign countries without the accompaniment of much reduction in the large holdings of gold that

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accumulated in the United States in consequence of the war.

The present situation is an extremely interesting one, because since August of last year this country has lost in exports and earmarks approximately $320,000,000 in gold and there is indication that further shipments will be made. Fortunately, we are in a position to lose a reasonable amount of gold and while it is extremely difficult to even attempt to predict in advance how our own situation will be handled, nevertheless, it is opportune to remind you of the foresightedness of the framers of the Federal Reserve Act when in Section 13 and 14 they gave the Federal reserve banks the power to deal in open market operations. While these operations cover gold, bankers bills, notes and warrants of our political subdivisions, so far the System, except at the outset, has confined its operations almost entirely to U. S. Government obligations.

Several years ago the System learned that by buying in the market it could relieve, at least temporarily, any strained credit situation at any particular point or all points. It also learned that by selling to the market it could tighten, at least temporarily, any credit situation that had the earmarks of being too easy. Later it learned that by either buying or selling, it was possible to make a rediscount rate more quickly effective; also, that gold movements could be offset either by buying or selling so as not to disturb a credit situation that was apparently normal, and since 1923 the System has been functioning quite extensively through its open market operations, largely because of its inability to produce entirely satisfactory results by the rate alone.

The time may come when open market operations can be abandoned and credit situations controlled by the rate alone as formerly, but in my opinion that time has not yet arrived. I would not want you to gather from what I have

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said that the Federal Reserve System is a cure-all for all credit problems, nor that the System has been able to accomplish these financial adjustments alone or single handed. Finances have run along smoothly because of the splendid cooperation given the System by the bankers, both member and non-member. Nor could any policy of the Federal Reserve System possibly make poor loans good loans, long time loans short time loans, frozen assets liquid assets, or make the market absorb at satisfactory prices, securities, the liquidity of which depends upon market conditions. The American public will have to depend almost entirely upon the banking fraternity of the United States for the successful conduct of that part of our credit structure. The bankers of America have handled such situations successfully in the past under more adverse conditions than we now have or may see, and I have every reason to believe that those safe, conservative policies will be followed in the future.

If the credit situation should become disturbed, you can rely upon the Federal Reserve System to do everything within its power to adjust.

In conclusion, let me appeal to you to continue in the future the splendid cooperation given the Federal Reserve System in the past, on credit problems. While we shall have to continue to watch all factors that may affect the credit situation, in my humble opinion, a little extra time can be devoted by everyone to gold movements, because I believe such movements, for some time to come, will have a greater effect upon our credit structure than any other one factor that I know of.

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L 447

COPY

X-6042

FEDERAL RESERVE BANK

OF SAN FRANCISCO

May 7, 1928.

In re: Earl Forest v. Federal Bank of San Francisco, et al.

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

Dear Mr. Wyatt:

For your information I am transmitting herewith copy of summons and complaint recently served upon this bank in the above entitled matter.

The complaint, as you will note, is in the usual form, charging the First National Bank of Portland with negligence in having routed the item in question for collection through the Federal Reserve Bank instead of presenting it direct, and charging the Federal Reserve Bank of San Francisco with negligence in having accepted a draft in settlement, rather than cash.

The facts in this case are a little out of the ordinary in that the Bank of Kenton, by which the draft was drawn, is located within the corporate limits of the city of Portland, but at a distance from the center of population which rendered the collection of checks by direct presentation, impossible. The Bank of Kenton was not a member of the clearing house, and it had been the universal custom not only of the Federal Reserve Bank but of all other local banks collecting checks to do so by mail.

The draft issued by the Kenton Bank in settlement of the cash letter containing the item in question, was drawn on December 2, placed by the President of the Bank in his pocket and carried around by him until December 3, when he mailed it in Portland so that it reached our Portland Branch on December 4, the day after the Bank of Kenton failed.

I am preparing to plead to the complaint and shall do so first by way of demurrer. The State of Oregon is committed to neither the New York nor the Massachusetts rule. I shall endeavor to have the New York rule adopted. I shall also claim a misjoinder of parties defendant. If I do not succeed in having the Federal Reserve Bank dismissed on the demurrer, I shall, of course, answer, pleading the usual

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defenses, including custom.

I shall be very glad to receive your observations on the case and those of any of counsel to the Federal Reserve Banks who may care to discuss it with me.

Yours very truly,

(S) Albert C. Agnew

Counsel.

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COPY

449
X-6042-a

IN THE CIRCUIT COURT OF THE STATE OF OREGON

FOR MULTNOMAH COUNTY

Earl Forest, Plaintiff, -vs- First National Bank of Portland, Oregon, a National Banking Association, and Federal Reserve Bank of San Francisco, a corporation, Defendants.	SUMMONS

To First National Bank of Portland, Oregon, a National Banking Association, and Federal Reserve Bank of San Francisco, a corporation, above named defendants:

IN THE NAME OF THE STATE OF OREGON

You and each of you are hereby commanded to appear and answer the complaint filed in the above entitled Court and cause against you, within ten days from the date of the service of this summons upon you, if served within Multnomah County, or within twenty days from the date of the service of this summons upon you if service is made within any other county of the above named State, and if you fail to so appear and answer or otherwise plead, for want thereof, the plaintiff will take judgment against you and each of you for the sum of $3267.85 with interest thereon at the rate of 6% per annum from December 1st, 1926, and for his costs and disbursements herein.

ELTON WATKINS
ADDRESS Failing Building,
Portland, Oregon.

Denton G. Burdick,
Address Redmond, Oregon

Attorneys for Plaintiff.

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COPY X-6042-a

IN THE CIRCUIT COURT OF THE STATE OF OREGON

FOR MULTNOMAH COUNTY.

L 450

Earl Forest,

Plaintiff,

vs

First National Bank of Portland, Oregon, a National Banking Association, and Federal Reserve Bank of San Francisco, a Corporation,

Defendants.

COMPLAINT

Comes now the plaintiff and for cause of action states:

I.

That at all times mentioned herein, the defendant First National Bank of Portland, Oregon, has been, and now is a National Banking Association, organized and existing under the banking laws of the United States of America, with its principal place of business in the City of Portland, Multnomah County, Oregon;

II.

That at all times mentioned herein the defendant, Federal Reserve Bank of San Francisco has been, and now is a corporation organized and existing under the laws of the United States of America, with its principal place of business in San Francisco, San Francisco County, State of California; That said defendant maintains and operates a branch bank and office in the City of Portland, Multnomah County, Oregon;

III.

That on or about November 27th, 1926, plaintiff, for value accepted from J. G. Kidwell Company, one certain sight draft, said draft having been drawn on Bank of Kenton, Portland, Multnomah County,

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Federal Reserve Bank of St. Louis

Oregon, for the sum of three thousand two hundred sixty seven dollars and eighty five cents ($3627.85), payable to the said plaintiff, 451 for and in behalf of and to be charged from the account of said J. G. Kidwell Company; That said draft was in words and figures substantially as follows:-

Place, Redmond, Date 11/27/26. No. 136

J. G. KIDWELL CO.

AT SIGHT
PAY TO ORDER OF Earl Forest $3267.85

Thirty two hundred sixty seven 85/100 dollars,

To

BANK OF KENTON
Portland, Oregon signed James Mace

IV

That at the time said draft was so signed and delivered to plaintiff on November 27th, 1926 and at the time it was later presented for payment to said Bank Kenton by the defendant Federal Reserve Bank of San Francisco, as hereinafter set forth, J. G. Kidwell Company, the drawer thereof, had on deposit in said Bank of Kenton an amount of money more than sufficient to pay, and subject to the demand of the said draft:

V

That on Monday, November 29th, 1926, plaintiff endorsed said draft and deposited the same for credit to his account in the First National Bank of Prineville, Oregon; that on said November 29th, 1926 said First National Bank of Prineville, in the usual course of business, likewise endorsed said draft and forwarded the same for the credit of its account with its /Portland, Oregon correspondent, the defendant First National Bank of Portland, Oregon, and that said draft was received by said defendant on November 30th, 1926;

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VI

That at all times mentioned herein the Bank of Kenton was a banking corporation organized and existing under the general laws of the State of Oregon, having its banking house and principal place of business in the City of Portland, Multnomah County, Oregon, and notwithstanding this fact, the defendant First National Bank of Portland, Oregon, negligently and carelessly failed to present said draft for payment promptly and in the due course of business, to said Bank of Kenton, but instead and on December 1st, 1926 transferred and delivered said draft to the Portland branch of defendant Federal Reserve Bank of San Francisco for collection:

VII

That on December 2d, 1926, the defendant Federal Reserve Bank of San Francisco, thru its Portland, Multnomah County, Oregon Branch presented said sight draft for payment to said Bank of Kenton at its banking house in Portland, Multnomah County, Oregon and instead of demanding and receiving cash in payment therefor, negligently without right or authority and at its own risk and responsibility, surrendered said sight draft to said bank, accepting in consideration therefor, a check or draft of the said Bank of Kenton for the sum of $3267.85;

VIII

That at said time the deposit of the drawer of said sight draft in said Bank of Kenton was in an amount more than sufficient to pay said sight draft and the amount was thereupon charged to, and deducted therefrom by said Bank of Kenton;

IX

That on December 3d, 1926, said Bank of Kenton, on account of insolvency, suspended its banking business and was taken in charge by

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the Superintendent of Banks of the State of Oregon and the sight draft set out in paragraph III hereof and the check or draft referred to in paragraph VII hereof have never been paid, in whole or part;

X

That on account of the failure of the defendant First National Bank of Portland, Oregon to present said sight draft for payment to said Bank of Kenton in the due course of business and within twenty four hours after its receipt thereof, and on account of the failure of the defendant Federal Reserve Bank of San Francisco to demand and receive cash in payment therefor, before surrendering said sight draft to said Bank of Kenton, and said defendants carelessness and negligence in accepting the check or draft of said Bank in consideration therefor, the plaintiff has been damaged in the sum of thirty two hundred sixty seven dollars and eighty five cents, ($3267.85), with interest thereon at the rate of six per cent per annum from December 1st, 1926, no part of which has ever been paid.

WHEREFOR -

Plaintiff demands judgment against said defendants and each of them for the sum of $3267.85, with interest thereon at the rate of 6% per annum from December 1st, 1926, and for his costs and disbursements herein.

(Signed) Elton Watkins

(Signed) Denton G. Burdick

Attorneys for plaintiff.

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State of Oregon :
: ss
County of Deschutes :

I, Earl Forest, being first duly sworn, depose and say:

That I am the plaintiff in the above entitled action; that I have carefully read the foregoing complaint, know the contents thereof, and the same is true as I verily believe.

(Signed) Earl Forest

Subscribed and sworn to before me this 17th day of April, 1928.

(Notarial Seal) Nelson A. Burdick

Notary Public for Oregon

My commission expires 6/20/31

State of Oregon :
: ss
County of Multnomah :

I, Denton G. Burdick being of counsel for the plaintiff herein, do hereby certify that I have carefully compared the foregoing copy of the summons and complaint herein, with the originals thereof, and that the same are true and correct transcripts and of the whole thereof.

(Signed) Denton G. Burdick

C O P Y

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FEDERAL RESERVE BOARD

L 455

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6043

May 24, 1928.

SUBJECT: Change in Inter-District
Time Schedule.

Dear Sir:

At the request of the Federal Reserve Bank of St. Louis, the Federal Reserve Board has approved a change in the transit time from Louisville to Cleveland from two days to one day.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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Federal Reserve Bank of St. Louis

L 450

X-6045

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. May 24, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Cleveland has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective May 25, 1928.

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Federal Reserve Bank of St. Louis

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X-6048

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release: May 25, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Atlanta has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective May 26, 1928.

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X-6049

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, May 28, 1928.

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.

Volume of industrial production continued large during April, reflecting chiefly increased output in metal industries, while activity in industries producing food and clothing decreased. Wholesale and retail trade also declined. The general level of wholesale commodity prices increased in April reflecting advances in farm products. There were large exports of gold in April and May, member bank loans and their borrowings at the reserve banks continued to increase, and money rates showed further advances.

Production--Production of manufactures remained in about the same volume in April as in March, while output of minerals declined slightly, owing chiefly to a decrease in production of bituminous coal. Daily average output of iron and steel, copper, and zinc, increased in April, but since the first of May there has been some curtailment in steel-mill activity. Automobile production was maintained in large volume during April and according to preliminary reports also during the first half of May. Textile mill activity, output of boots and shoes, and meat production showed substantial declines during April. Volume of factory employment declined

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slightly, reflecting chiefly decreases in the food, leather, and textile industries. Building contracts awarded in April exceeded those for any previous month, and awards during the first three weeks of May continued in unusually large volume.

Trade--Sales by department stores and by wholesale firms in most lines of trade declined in April and were in smaller volume than a year ago. Average daily sales of department stores, after allowance is made for the earlier date of Easter and the usual seasonal changes, were smaller in April than in March and were also smaller than in April a year ago. This decrease was due largely to unfavorable weather conditions. Stocks of department stores, after adjustment for seasonal changes, were in about the same volume as in March and slightly smaller than a year ago.

Freight car loadings showed an increase between the beginning of April and the middle of May, but continued smaller than a year ago for most classes of commodities.

Prices--The general level of wholesale commodity prices, as indicated by the index of the Bureau of Labor Statistics, increased from 96 per cent of the 1926 average in March to 97.4 per cent in April. This increase reflected sharp advances in the prices of grains, cotton, livestock, and hide and leather products. Rubber prices continued to decline, and most of the other groups of commodities showed little change. During the first three weeks of May there were decreases in the prices of grains, flour, sheep, and hogs, and increases in copper, zinc, and rubber.

Bank credit--At member banks, loans largely for commercial and industrial purposes, following a rapid increase during February and March,

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have shown little change since the early part of April. Loans on securities continued to increase and total loans and investments of reporting member banks in the middle of May were larger than at any previous time.

The outward movement of gold continued in May, the decline in monetary gold stock during the four weeks ending May 23 being nearly $90,000,000. This loss of gold, together with further sales of United States securities by the reserve banks, was reflected in an increase of nearly $140,000,000. in member bank borrowing at the reserve banks.

There were further advances in open-market money rates during May, and discount rates at the Federal Reserve Banks of New York, Philadelphia, Cleveland, Atlanta, and Dallas were raised from 4 to 4 1/2 per cent.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 28,
1928.

SUBJECT: QUESTION WHETHER COURTS TAKE JUDICIAL NOTICE OF REGULATIONS OF FEDERAL RESERVE BOARD

Dear Sir:

Counsel for various Federal reserve banks frequently request this office to furnish them with certified copies of the regulations of the Federal Reserve Board for use in litigation. In view of the decision in Capital Grain and Feed Co. v. Federal Reserve Bank of Atlanta, 3 Fed.(2nd) 614, to the effect that a regulation of the Federal Reserve Board is not such a departmental action as will be judicially noticed without pleading, this undoubtedly is a wise precaution in any case in which a Federal reserve bank relies upon the regulations of the Federal Reserve Board.

For your information, however, I am enclosing herewith an extract from a very able article on "Statutes and Statutory Construction" contained in Federal Statutes Annotated, (2nd Ed.) 21, from which it appears that the courts will take judicial notice of departmental regulations. I personally believe that, in the interest of the entire Federal Reserve System, we should endeavor to establish the principle that the courts should take judicial notice of the regulations of the Federal Reserve Board.

With kindest personal regards, I am,

Very truly yours,

Walter Wyatt,
General Counsel.

Enclosure.

TO ALL FEDERAL RESERVE BANK COUNSEL.

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EXTRACT FROM ARTICLE ON "STATUTES AND STATUTORY CONSTRUCTION".

1 Federal Statutes Annotated (2d Edition) 21.

"Departmental regulations. - The general rule is 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.' (Citing Caha v. U. S., 152 U.S. 222, 14 S. Ct. 513, 38 U.S. (L. ed.) 415, where Mr. Justice Brewer said: 'Without attempting to notice all the cases bearing upon the general question of public notice we may refer to the following: U. S. v. Teschmaker, 22 How. 405, 16 U.S. (L. ed.) 353; Romero v. U.S., 1 Wall. 721, 17 U.S. (L. ed.) 627; Armstrong v. U. S., 13 Wall. 154, 20 U.S. (L. ed.) 614; Jones v. U. S., 137 U.S. 202, 11 S. Ct. 80, 34 U.S. (L. ed.) 691; Knight v. U. S. Land Assoc., 142 U.S. 169, 12 S. Ct. 258, 35 U.S. (L. ed.) 974; Jenkins v. Collard, 145 U.S. 546, 12 S. Ct. 868, 36 U.S. (L. ed.) 812.' To the same point see Bruce v. U.S., (C.C.A.) 202 Fed. 98; U.S. v. Van Wert, 195 Fed. 974; U.S. v. Louisville, etc., R. Co., 165 Fed. 936; U.S. v. Moody, 164 Fed. 269; Numberger v. U.S., (C.C.A.) 156 Fed. 721; U.S. v. Burkett, 150 Fed. 208; Wilkins v. U.S., (C.C.A.) 96 Fed. 837; U.S. v. Flournoy Live-Stock, etc., Co., 71 Fed. 578. See further in the same line The Paquete Habana, 175 U.S. 696, 20 S. Ct. 290, 44 U.S. (L. ed.) 320; Heath v. Wallace, 138 U.S. 584, 11 S. Ct. 380, 34 U.S. (L. ed.) 1063; Southern Pac. R. Co. v. Groeck, 68 Fed. 612.) Such rules and regulations duly prescribed have the force of law. (Citing U.S. v. Eaton, 144 U.S. 688, 12 S. Ct. 764, 36 U.S. (L. ed.) 591; Wilkins v. U.S., (C.C.A.) 96 Fed. 841.)

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6052

May 31, 1928.

SUBJECT: Daily Reserve Balances of Member Banks in Federal Reserve Bank and Branch Cities.

Dear Sir:

In order that the Board may have a general idea of the effect upon reserve balances maintained with the Federal reserve banks of the provision of Regulation D that deficiencies in reserve balances of member banks in Federal reserve bank and branch cities and such other reserve cities as may be designated by the Board shall be computed on the basis of average daily net deposit balances covering semi-weekly instead of weekly periods, it will be appreciated if you will furnish the Board, not later than June 15, with a statement showing required reserves of and reserves actually maintained by member banks in each such city on each day in April 1927 and 1928. It is suggested that the statement be prepared in accordance with the attached form.

Very truly yours,

R. A. Young,
Governor.

TO ALL GOVERNORS:

Enclosure:

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REQUIRED AND ACTUAL RESERVES OF ALL MEMBER BANKS IN (city) _____
DURING APRIL 1927 AND 1928.

(In thousands of dollars)

Date 1927	Reserves required	Reserves carried	Excess (+) or deficiency(-)	Date 1928	Reserves required	Reserves carried	Excess (+) or deficiency(-)
			MONDAYS				
Apr. 4				Apr. 2			
11				9			
18				16			
25				23			
				30			
Average				Average			
			TUESDAYS				
Apr. 5				Apr. 3			
12				10			
19				17			
26				24			
Average				Average			
			WEDNESDAYS				
Apr. 6				Apr. 4			
13				11			
20				18			
27				25			
Average				Average			
			THURSDAYS				
Apr. 7				Apr. 5			
14				12			
21				19			
28				26			
Average				Average			
			FRIDAYS				
Apr. 1				Apr. 6			
8				13			
15				20			
22				27			
29							
Average				Average			
			SATURDAYS				
Apr. 2				Apr. 7			
9				14			
16				21			
23				28			
30							
Average				Average			

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Federal Reserve Bank of St. Louis

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X-6054

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release 6:00 P. M. June 1, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of San Francisco has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective June 2, 1928.

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X-6055

The attached article on "The Federal Reserve System" is by A. C. Miller, Member of the Federal Reserve Board. It has been prepared for publication in the June 30th or Jubilee Number of the London Statist commemorating the Fiftieth Anniversary of the founding of that paper.

It is issued with a release date for American papers not earlier than evening papers of June 30th. Suitable acknowledgment of its preparation for the London Statist should be made by the American papers using the article.

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THE FEDERAL RESERVE SYSTEM.

The fundamentals of central-note-issue and reserve-banking are few and simple. And they are pretty widely recognized. Sometimes dignified by the name of "Principles" they are in fact little more than rules of administrative expediency and working practices developed out of experience in dealing with conditions. As the Bank of England is the prototype of central and reserve banking, the practice developed by it in the course of its long history has naturally supplied the general pattern after which other central and reserve banking institutions have been modeled with greater or less fidelity. Whatever their differences in structure, function and technique, they are merely variants of the mother type. In the last analysis all central and reserve banks are offspring of the Old Lady of Threadneedle Street.

It is nevertheless true that in a survey of central banking institutions it is the variations from type and the differences among them that constitute the chief matter of interest. The problems that present themselves to the management of these institutions may be one in the application of principles but unless the principles are tempered in their application by considerations of latitude and longitude, in brief by the exercise of a sound discretion in dealing with the particular conditions that surround them, the results do not usually prove satisfactory. Central banking is not - certainly not yet - an exact science and the wise practice of the art of central banking calls for larger qualities of mind than the habit

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of imitation. That this is appreciated is shown in differences to be found in the laws under which these institutions are organized in different countries, and these laws differ as do the institutions largely in the nature of the limitations, restrictions, safeguards and guarantees of one kind and another to insure the exercise of judgment in ways that are safe and prudent. There are some that allow great latitude for the play of discretion in many directions, others that allow much in certain directions and little in others, and others still that limit it narrowly in most ways.

The Federal Reserve System is a conspicuous example of an institution permitted the exercise of wide discretion in the handling of its problems and this accounts in large measure for the great flexibility it displays whether in the field of operation or of policy. Young in years it has nevertheless had a large experience. It has already attained something of a distinctive quality or personality. Its characteristic trait is expressive of the genius of American institutions. That genius, above all in the sphere of economic relationships is flexibility and this flexibility has reported itself in the Federal Reserve as flexibility of mind and operation and has given rise to a distinct flexibility of credit-control technique.

Closely associated with this outstanding quality of flexibility is the weighting of the operation of the System at every turn with an active and broad sense of public interest. This result has been achieved partly because of the clear expectation of the law but also and largely because of a self-imposed obligation on the part of those responsible for its operation and administration.

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Looking at some of the variations of the Federal reserve banks from the mother type in the process of adapting its ways to the genius of the American people, it is noteworthy that alone among the central note-issuing and reserve-holding institutions of the leading countries the Federal reserve is not a central bank. The Federal Reserve System consists of twelve banks to each of which is assigned a definite area of territory known as a Federal Reserve District. Each of the twelve banks is autonomous within its province and each is independent of the others. This framework represents an adaptation of the structure of reserve banking to the analogies of the political, social and economic organization of the United States. That organization, as is well known to students of America, has much of a distinctly regional character - more especially on the economic, financial and social sides.

The problem of reserve banking even in a country as large as the United States with different sections of it in different stages of economic and financial development, however, requires attention to more than regional conditions. Ample provision was, therefore, made in the Federal Reserve Act for giving effect to the indispensable viewpoint of the national economic interest and its paramountcy at times in deciding the course of policy and operations of the Federal reserve banks.

In order to give adequate expression to the national viewpoint and to provide a means of coordinating at times the activities of the Federal reserve banks toward the attainment of objectives of national interest an agency, governmental in character and designated The Federal Reserve Board, was set up. Through this means it

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was sought not only to weight the administration of the Reserve System with a sense of national interest but also to give to the attitude of the Federal Reserve System and its larger determinations the aspect and quality of public policy.

It may be claimed for the institution of the Federal Reserve Board that it constitutes a distinctive element in reserve banking. Certainly no understanding and appraisement of the Federal Reserve System can be undertaken without an appreciation of the position, responsibilities, powers, functions and viewpoint of the Board. Standing at the apex of the System it is clothed with general power of supervision of the Federal reserve banks. Their actions are subject to its review and revision; it has the final say in the determination of discount rates; it has a voice in their open market operations and in matters affecting their international relations - to mention only some of the more important matters affecting the current operation of these banks. The Board also has ultimate authority in the matter of Federal reserve note issues; it has the power within limits to change the reserve requirements of its member banks; it has authority to suspend on occasion the legislatively-prescribed minimum reserve requirements both of the Federal reserve banks and of the member banks of the Federal Reserve System. It is, in brief, without carrying the specifications further, the repository of broad and varied discretionary authority such as the framers of the Federal Reserve System believed to be essential to the effective practice of reserve banking in the United States.

It is this vast grant of authority, exercised under the control of a governmentally constituted Board representative of the public

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interest and responsible to the nation, that makes the Federal reserve banks unique among the great banks of the world for flexibility of operation.

The Federal Reserve Board is, however, more than an agency of supervision and administration. It is a symbol - a symbol of the broad public interest and responsibility with which the reserve banks from the American point of view are invested. The dependence of economic well-being upon the manner in which institutions of the central banking type are operated is probably nowhere more keenly appreciated than in the United States; nowhere is more demanded or expected. The institution of the Federal Reserve Board may, therefore, be regarded as the method by which the American legislator at the time the Federal Reserve Act was drawn undertook to surround the operation of the Federal reserve banks with a constant atmosphere of broad public interest and to give to the administration of credit under the auspices of these banks a wider outlook and a truer sense of direction than might have been expected if their management had been more distinctly and exclusively of a "business" type. It is doubtless for this reason that the allegation of selfishness has seldom been made against Federal reserve banks; and, considering how sensitive the American temperament is in matters touching currency and banking, it is also no doubt because of the existence of such an institution as the Federal Reserve Board that hostile criticism of the System has had so little effect.

In consonance with the position of public responsibility thus emphasized by the creation of the Federal Reserve Board the System has from the beginning of its organization pursued to an unusual degree

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a policy of publicity with regard to its affairs. The Board in its Annual Report and even more currently through its monthly publication, the Federal Reserve Bulletin, and the banks through their current Monthly Letters have undertaken to give to the public not only a comprehensive view of current banking and financial developments but also detailed data in scientifically organized form of important movements in the fields of production, trade, agriculture, employment, prices, together with other relevant factors bearing upon the interpretation of the regional and national problems of credit conditions and needs. Through a Division of Research and Statistics the Board has done pioneer work in the organization and development of fact-finding surveys and economic analysis of a highly scientific and interpretive character. Taken in the aggregate this work supplies the basis of the economic rationale of Federal Reserve policy and is largely to be credited with whatever merit may be attributed to it.

In thus preparing and educating itself for the work of credit administration the Federal Reserve has also done much to educate the public. Indeed, its activities in the field of economic research have given impulse to similar undertakings by private agencies and by organized research in some of the leading universities of the United States. Supplemented by the prodigiously expanding work of the United States Department of Commerce in this same general field, the American business and banking public today is probably the most fully informed of any in the world regarding the changing condition of the national economy and its various elements. It would be hard in any estimate of the good working of the Federal Reserve System in recent years to exaggerate the contribution made by the business public through

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its cooperation based upon knowledge and intelligence with regard to the functioning of the System and the underlying conditions affecting its good operation.

Because of all this the policies of the System, particularly in the domain of credit policy, have been more consciously public in character, more widely conceived from the point of view of national economic interest and, on occasion at least, more nearly raised to the level of economic statesmanship. They have also been more confident in character and go far to explain the flexibility which the credit-control technique of the System discloses. It seems doubtful for instance whether the economic potentialities of open market policy would have been as quickly discovered and a technique developed for making it an effective instrument and a leading reliance in credit administration without the fullness of information and understanding requisite in the application of a type of policy requiring such positiveness and definiteness of attitude as does the open market operation on a broad scale. For open market operation is an instrument of initiative in credit administration and can not be undertaken in an atmosphere of doubt or hesitation. To be competent it must be based upon conviction as to its economic justification and its acceptance by at least the intelligent public.

In the post-war history of the Federal Reserve technique no single item is of greater interest than the development of its open market procedure. Such prominence as the open market operation has in recent years attained was probably not anticipated at the time the Federal Reserve System was organized. The Federal reserve banks were

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then conceived of as banks of discount to which member banks would turn as they needed additional supplies of currency or reserve credit - in brief, as institutions in which the initiative in creating new credit would rest with the borrowing member bank, the Federal reserve bank playing its part in the process mainly through the establishment of discount rates designed either to encourage or to discourage the use of its facilities as the situation might seem to require.

Following the disastrous revulsion of 1920 and the depression of 1921 rediscounting with Federal reserve banks fell into some disfavor. The public at least in certain sections of the country showed some misgiving with regard to member banks heavily or continuously in debt to their Reserve banks. In consequence member banks showed reluctance to borrow except under the pressure and justification of seasonal or other transitory requirements. In these circumstances it appeared advisable to the Federal Reserve in order that the recovery of trade might be facilitated and later in order continuously to maintain a favorable economic situation to take the initiative at times in supplying the country with an enlarged basis of credit. Thus was begun in 1922 an open market policy. It was organized and further developed in 1923 as a System matter and in the last five years has been perhaps the most decisive factor in the credit-control technique of the Federal Reserve System.

By an open market operation is, of course, meant the purchase or sale by Federal reserve banks of securities in the open money market

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of the country. The purchase of securities has the effect of enlarging the credit base; the sale of securities of contracting it. The effect so far as the public is aware is very similar to that of an inflow or outflow of gold. Indeed, as open market policy has been operated in the United States, for example in the autumn of 1927 when an outflow of gold was in process the Federal Reserve has sometimes intervened to prevent the firming effects on money rates that might normally be expected from such outflow by making offsetting purchases of securities, thus releasing money to the market. Similarly in the reverse case on one or two occasions sales of securities have been made to offset the effects of gold influx where easing of money conditions to be expected from such influx did not seem at the moment to be desirable.

In reviewing the course of money rates in the United States in recent years, at any rate so far as influenced by Federal Reserve policy, the foremost influence must be assigned to open market operations. While the discount rates of the Federal reserve banks have undergone change from time to time, such changes more frequently than not have been made either in recognition of a credit situation brought about by antecedent open market operations or to accompany and reenforce a change of attitude assumed by the Federal Reserve through its open market policy toward the trend of business and credit conditions and needs.

As revealing the flexibility of the Federal Reserve the history of its open market policy in the last five years constitutes the most interesting chapter of its post-war development. The manner in which this instrument has been used, the general procedure with reference to credit administration of which it constitutes the heart, and the degree of reliance placed in it make of it if not exactly a new expedient in

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the technique of reserve banking at least one of new and enlarged potentialities in situations calling for an authoritative attitude and active initiative toward the money market, such as have obtained more or less constantly during the past five years. The acute transitions and readjustments incident to the economic movement during this period called for a credit-control device less leisurely in character and less openly deliberate than that of the discount rate and gave impetus to the extraordinary development which the open market operation attained.

Whether open market policy will continue to hold its present place of importance in the credit procedure of the Federal Reserve seems doubtful. There have been some indications that it was losing its hold on the esteem of a considerable section of the business and banking public. Its quality of arbitrariness has exposed it to the criticism of being un-American. It seems not improbable, therefore, that with the return of the United States to a more settled economic basis and with the world in general well advanced to complete recovery and the gold standard as an international stabilizing mechanism pretty nearly restored to its old-time efficacy, the primary reliance in the credit-control technique of the Federal Reserve in the future will be the discount rate rather than the open market operation. Not that the open market operation will be discarded but that it will cease to be an habitual expedient and take its place as an occasional expedient in the credit mechanism of the Federal Reserve - an expedient to be resorted to in situations of acuteness where prompt intervention

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is necessary to effective handling. With the probability that such situations will be of less frequent recurrence in the future than in the recent past however the more orderly and less drastic form of credit regulation provided by the discount rate promises to play the role of leading importance in Federal Reserve practice.

An added and more immediate impulse to this shifting of emphasis in Federal Reserve procedure is likely to result from the serious impairment of prestige which the open market policy of the Federal Reserve has recently sustained, because of untoward developments in connection with its adventure in the autumn of last year in undertaking to ease and stabilize the international situation. The American stock market on that occasion took advantage of the Federal Reserve's policy of cheap and easy money. The volume of credit involved in speculative loans grew rapidly and in the early part of the year 1928 attained such magnitude as to awaken widespread concern in the United States and to place the Federal Reserve in a position of uncomfortable responsibility. The lesson of this experience will not soon be forgotten and is likely to register itself in the flexible mind of the Federal Reserve as a change of front. For the circumstances which have occasioned the partial miscarriage of Federal Reserve policy in the course of the last ten months are of the kind that are likely to repeat themselves. The exuberant temper of the American speculative community can usually be counted on to respond to a sufficient stimulus in the way of cheap and easy money. This recent experience suggests the hazard to which a policy of cheap and easy money is always exposed in the United States. Unless and until

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therefore some effective method can be devised for preventing the diversion of the flow of Federal Reserve credit into speculative loans, open market policy will be handicapped and at a disadvantage.

But whatever the outcome of the differences developing between the adherents of discount policy and those of open market policy may be, the future is not likely to see any change of general outlook on the part of the Federal Reserve or its major responsibilities toward the economic and credit situations. Nor any weakening of its faith in the indispensability of the economic approach to its problems. The credit system is envisaged by the Federal Reserve as a vital influence in the economic process. The full capabilities of a wise dispensation of credit, however, have not yet been fully realized in the United States even though conditions here have been so unprecedentedly favorable to their exploitation. That credit is an energizing influence and an integrating force of vast potentialities in the modern economic system is coming to be more and more deeply appreciated on this side of the Atlantic. But the full measure of its economic potency has not yet been taken even in the United States. It remains for the future to vision credit as the élan vital of the modern body politic and economic.

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X-6056

EDWARD J. SMITH
Attorney at Law
Nashville, Tenn.

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

My dear Mr. Wyatt:

After two oral arguments in the Court of Appeals of the case of L and N Railroad Company v. Federal Reserve Bank of Atlanta (Nashville Branch) and American National Bank of Nashville, Tennessee, that Court on May 21, 1928 entered an order transferring the case to the Supreme Court of Tennessee on the ground that a "constitutional question" was involved, and necessary to the decision of the case. The alleged "constitutional question", as stated by the Court of Appeals, was the power of Congress to delegate to the Federal Reserve Board the authority to promulgate rules and regulations governing Federal reserve banks when acting as clearing houses; and, secondly, whether the Federal Reserve Act, as a matter of construction, conferred on the Federal Reserve Board the authority to issue a regulation of the tenor and character of Regulation J, Series of 1924. The second question, standing alone, and involving merely a matter of statutory construction, would not have defeated the jurisdiction of the Court of Appeals, but as that Court, under the Act creating it, Chapter 100, Acts of 1925, has no jurisdiction of cases involving "constitutional questions", the exclusive jurisdiction concerning which is vested in the Supreme Court of Tennessee, the Court of Appeals, stating that a "constitutional question" was raised by the challenged power of Congress to confer upon executive or administrative boards or commissions authority by regulations to change the general commercial law of a state, transferred the case to the Supreme Court of Tennessee.

In the Supreme Court the whole case will be presented and determined, unless indeed that Court should conclude that the challenged power of Congress presents merely a frivolous or colorable Federal question in which event it will remand the case to the Court of Appeals for determination. As the case, however, will undoubtedly be heard by the Supreme Court of Tennessee on the merits, and regardless of the decision of the Court of Appeals, Mr. Vertrees and I have concluded not to make a motion in the Supreme Court to remand for the reason that if the motion was sustained the case would be remanded to the Court of Appeals, and three or four months elapse before it would be decided by that Court, when it would go to the Supreme Court of Tennessee for final determination. With a view of saving time, we have, therefore, decided not to make a formal motion to remand in the Supreme Court.

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We have prepared a supplemental brief which you will understand will be used not as a substitute, but in conjunction with our main printed brief filed in the Court of Appeals when the case is argued before the Supreme Court of Tennessee on June 15, 1928. I enclose herewith a draft of this proposed supplemental brief and invite any suggestions or criticisms which you may feel impelled to make. I will ask you to inform me of any suggestions or criticisms on or before next Wednesday, as this supplemental brief will have to be put in the printer's hands on that date in order that printed copies may be filed in the Supreme Court of Tennessee in accordance with the rules of that Court before June 15, 1928, on which day oral argument will be heard.

I have just received your letter of May twenty-eighth, and agree with you that counsel for Federal reserve banks throughout the United States should, whenever the opportunity presents itself, insist that regulations of the Federal Reserve Board have the force and effect of laws. You will doubtless recall that in the pending case, Mr. Vertrees and I argued and cited authorities in support of this proposition, although as a matter of precaution we pleaded and proved Regulation J as a defence in the pending case.

I thank you for calling my attention to the excerpt from Federal Statutes Annotated dealing with this point.

Please do not hesitate freely to criticize the proposed supplemental brief in any way that may occur to you, for I wish you to be assured in advance that your co-operation, advise and counsel have always been and always will be deeply appreciated by me.

With best regards, I am,

Sincerely yours,

E. J. Smith (signed)

May 30, 1928.

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FEDERAL RESERVE BOARD

WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6057

June 6, 1928.

SUBJECT: Code Words to cover new Issues of Treasury Certificates of Indebtedness, Series TD3-1928, and Series TM2-1929, in Telegraphic Transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks the code word "BESTREWN" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TD3-1928, dated June 15, 1928, due December 15, 1928, and the code word "BESTRIDE" has been designated to cover Series TM2-1929, dated June 15, 1928, due March 15, 1929.

These words should be inserted in the Federal Reserve Telegraphic Code Book following the supplemental code word "BESTOWING" at the bottom of page 26.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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X-6059

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

June 6, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Kansas City has established a rediscount rate of 4 1/2 per cent on all classes of paper of all maturities, effective June 7, 1928.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6060

June 7, 1928.

SUBJECT: Retention of Ballots in Elections of Class A and B Directors.

Dear Sir:

The Federal Reserve Board has been requested by the Chairman of one of the Federal reserve banks for an opinion as to how long ballots cast in elections of Class A and B Directors should be retained after having been counted and certified.

There is no requirement in the Federal Reserve Act nor general requirement of law relating to this question. The Board feels, however, that in order to be able to meet any contingency that might arise, it would be well for the Chairman to retain all ballots and certificate envelopes until the three year term of the Director in whose election they were cast, has expired.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

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X-6062

(OPINION OF THE SUPREME COURT OF MINNESOTA). [484

No. 178 HENNEPIN COUNTY. Olsen, C.

The First State Bank of
Hugo, Minnesota,

Respondent,

Endorsed

26640 -vs- Filed June 8, 1928,

Grace Kaercher Davis, Clerk,

The Federal Reserve Bank
of Minneapolis,

Appellant.

- - - - - - - - - - - - - - - - - - - -

S Y L L A B U S

1. To sustain an action for damages on the ground of coercion there must be some wrongful or unlawful act, acts or conduct, on the part of the defendant, sufficient to constrain the plaintiff, against his will, to do or refrain from doing something which he has a legal right to do or refuse to do, and resulting in damage to him.

2. A Federal reserve bank is required to receive on deposit for collection at par, from member banks of the Federal reserve system, checks payable on presentation drawn upon any member bank in its district. It is authorized but not required to so receive checks upon non-member banks within its district. Federal reserve banks are not authorized to pay exchange on checks collected by them.

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3. State banks, not members of the Federal reserve system, are not affected by the provisions of the Federal Reserve Act against charging exchange, and may continue to demand exchange on remittances made by them.

4. Where a non-member bank declines to remit at par, the Federal Reserve bank may present checks for payment at the counter of such bank and employ proper agencies for so doing, subject to the limitations that it may not delay presentation so as to accumulate checks in a body in a large amount for presentation at one time for the purpose of coercing or injuring the bank, or employ other unreasonable and oppressive means or threats in the collection thereof.

The publication of a list, known as a par list, stating that defendant reserve bank will receive for credit and collection checks upon all banks in Minnesota, held not wrongful or oppressive, although not all banks in the state had consented to remit at par.

5. Held, that there is no evidence to sustain a finding of coercion in the present case.

Reversed.

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O P I N I O N

Defendant appeals from an order denying its alternative motion for judgment or a new trial.

The action was brought to recover damages from the defendant for the alleged coercion of plaintiff thereby compelling

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and forcing plaintiff against its will to agree to and remit to defendant for all checks sent to plaintiff by mail, drawn upon plaintiff bank, without making any exchange charge.

The defendant is a Federal Reserve bank located at Minneapolis, in this state. Plaintiff is a small state bank with a capital of $10,000.00, located in the village of Hugo about 25 miles from Minneapolis, and the only bank in that village. It is not a member of the Federal reserve system, but is located in defendant's district.

Plaintiff recovered a verdict. Defendant contends that there was no evidence presented justifying the submission of the question of coercion to the jury; that there was no evidence of any wrongful or unlawful conduct on its part; and no evidence that plaintiff acted under coercion or duress in the matter, hence defendant was entitled to a verdict and judgment in its favor.

1. The term "coercion" is somewhat difficult to define with sufficient exactness to apply to all cases. It is said to be compulsion, force or duress. It is said to exist where one, by the unlawful act of another, is induced to do or perform some act under circumstances which deprive him of the exercise of his free will. 11 C. J. 946, 947. This definition is adopted in State ex rel Young v. Ladeon, 104 Minn. 252, 116 N. W. 486. In State ex rel Smith v. Daniels, 118 Minn. 155, 136 N. W. 584, coercion is stated to be either physical force, used to compel a person to act against his will, or implied

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legal force, where one is so under subjection of another that he is constrained to do what his free will would refuse, and that coercion is usually accomplished by indirect means, such as threats or intimidation. Coercion, as a misdemeanor, is defined by Sec. 10431, G. S. 1923, which provides that every person who, with intent to compel another to do or abstain from doing an act which such other person has a legal right to do, or abstain from doing, shall wrongfully and unlawfully attempt to intimidate such person by threats or force, shall be guilty of a misdemeanor.

To sustain an action for damages on the ground of coercion, there must be some wrongful or unlawful act, acts or conduct, on the part of the defendant sufficient to constrain the plaintiff, against his will, to do or refrain from doing something which he has a legal right to do or refuse to do, and resulting in damage to him. The acts or conduct complained of need not be unlawful in the technical sense of that term. It is sufficient if same is wrongful in the sense that it is so oppressive under given circumstances as to constrain one to do what his free will would refuse.

2. Federal reserve banks are required to receive on deposit at par from member banks and reserve banks checks and drafts upon any of its member banks. They are authorized to so receive checks, payable on presentation, upon any bank within their respective districts, whether such bank is a member bank or not. No exchange charge can be made against the re-

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serve banks by member banks, and the reserve banks are not to pay exchange. The result is a system of par clearance of checks and items among member banks and between such banks and the reserve banks.

3. These provisions as to exchange are held not to apply to non-member state banks, and such banks are not compelled to forego any rights they may have under state laws and may continue to charge exchange. Where checks on a non-member bank were presented to a reserve bank for deposit and collection, the reserve bank could not accept or clear such checks unless either the non-member bank agreed to remit therefor at par, without charging exchange, or the reserve bank, at its own expense, employed other agencies to collect same by presentation for payment at the banking house of the non-member bank. In this situation the Federal Reserve Board and reserve banks sought to have a system of par clearance agreed to and adopted by the non-member state banks so as to include all banks and banking institutions in the United States. Letters and circulars were sent out by the Board and the reserve banks explaining the system and urging nonmember banks to agree to remit to reserve banks without exchange charge. Many state banks agreed; others refused. Par lists were prepared and sent out by the Board through the reserve banks, showing towns and cities where all banks remitted at par, and, where not all so remitted, the names of banks not so doing were given. Where all banks in a state so remitted, the name of the state was given.

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4. Negotiations were carried on by defendant, by correspondence, with plaintiff in the matter. On July 31, 1919, defendant sent plaintiff a circular letter, stating that it was making a final appeal and that, if no reply was received, it would be assumed that plaintiff preferred to have checks drawn on it and received by defendant presented at plaintiff's counter for payment in cash. On March 30, 1920, defendant wrote to plaintiff stating that, as it had received no reply to a letter of March 10th, it assumed that plaintiff would remit at par, and that on April 15th it would commence sending regular remittances with the understanding that plaintiff would remit in payment without exchange charges. A par list was issued by the Reserve Board under date of April 1, 1920, stating that the reserve bank would receive for collection and credit items on all banks in Minnesota. Upon receipt of defendant's letter of March 30th, plaintiff wrote on the bottom thereof the statement that it did not wish to be on the par list and would continue to charge exchange, and return such letter and statement to defendant. The exact date when this was received by defendant does not appear. On April 12th, the defendant wrote to plaintiff acknowledging receipt and expressing regrets. In this letter defendant called attention to the fact that the reserve bank was prohibited from paying exchange, and stated that where a nonmember bank refused to remit at par the reserve bank would be forced to seek some other method and through some agency present checks and drafts at the bank's counter for payment in cash. The letter

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further stated that it had been said that it was defendant's practice to hold back items until they amounted to a considerable sum and then, for the purpose of embarrassing the bank, present them on one day. It assured plaintiff that this was not the case and that it had no desire to cause any unnecessary inconvenience; that it might be possible, if it received items amounting to less than $100 on one day, that it would hold such items for a day or two to save unnecessary expense. The defendant then, on or about April 17th, adopted the method of turning over checks in its hands on the plaintiff bank to the American Railway Express Company for collection. That company, as part of its business, collects and transmits money for compensation. A few days later, on or about April 28th, it changed agencies and employed the postmaster at Hugo to collect and transmit such collections by mail. These two agencies presented checks on plaintiff bank, coming into defendant's hands, daily at plaintiff's counter from April 17th to 30th inclusive, and received payment therefor in cash. The evidence tends to show that defendant was willing to receive drafts on plaintiff's correspondent bank instead of cash, if plaintiff had so requested. Plaintiff's correspondent bank, at the time, was the First National Bank of St. Paul, located adjacent to Minneapolis and somewhat nearer to plaintiff's place of business than Minneapolis. The amount of checks so presented varied from day to day and ran in amounts from $100 to $1,200. On April 30th plaintiff wrote to defendant that it might discontinue sending checks to be cashed over the counter; that plaintiff had decided to remit at par by draft, and that defend-

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ant might send the checks by mail in the usual way. Thereafter plaintiff continued to remit to defendant at par, by draft on its correspondent, for checks and items sent to it by defendant by mail from day to day until October 1, 1924. On September 25, 1924, plaintiff informed defendant, by letter, that on October 1st it intended to again charge exchange. Thereupon dedendant ceased to accept for collection checks on plaintiff bank and, on the par list issued under date of October 1st, plaintiff was listed as withdrawn from the list. During the ten days that defendant had its checks presented for payment in cash at plaintiff's banking house, no difficulty arose. The presentation was courteous and orderly; so far as appears plaintiff suffered no injury or embarrassment; relations were apparently friendly.

There is evidence that the reserve banks were conducting what is called a campaign to induce nonmember banks to agree to remit at par; that placing Minnesota banks on the par list resulted in bringing to defendant bank a large number of checks drawn on nonmember banks and on this plaintiff; that the gathering of such checks in defendant's hands and presentation thereof at plaintiff's counter for payment required plaintiff to keep a larger cash reserve on hand than otherwise necessary and resulted in the loss of interest which it could have earned by keeping more of its reserve in its correspondent bank. It is urged also that plaintiff feared and had cause to fear that on some days so large an aggregate amount of checks might come to the reserve bank and be presented for payment in cash that the plaintiff would be

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unable to pay them and be forced to suspend. As evidence of that, it is shown that during the four and a half years that plaintiff remitted to defendant at par there were two days on which checks aggregating slightly over $8,000 each day were mailed to it by defendant for payment by draft on plaintiff's correspondent; and on a number of other days checks aggregating over $3,000 were so received. The answer to that is the uncontradicted evidence of defendant's officer that it would readily have accepted drafts on plaintiff's correspondent bank instead of cash at any time if inconvenient for plaintiff to pay in cash. It is further to be noted that plaintiff's place of business is not over twenty miles distant from its correspondent bank in St. Paul, where it carried its reserve, and funds available from that source within an hour, if needed.

The case of American Bank & Trust Co. v. Federal Reserve Bank of Atlanta, 262 U. S. 643, 67 L. ed. 1153, is of interest. In that case a number of state banks in Georgia brought suit to enjoin the reserve bank from publishing their names in the par list and to enjoin it from collecting checks on them by presenting such checks by its agents for payment at the counter of these banks in cash, or collecting such checks otherwise than in the usual way, which was alleged to be by mailing them to the bank upon which drawn and accepting remittance therefor by draft, less exchange. We infer there was the usual prayer for other and further relief. The Federal district court dismissed the case for insufficiency of the complaint and

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the decision was affirmed by the Circuit Court of Appeals. The case then came before the United States Supreme Court, reported in 256 U. S. 350, 65 L. ed. 983. It was there held that the complaint stated a cause of action in that it alleged that defendant intended to accumulate checks in large amounts and present them at one time in a body for the purpose of injuring and coercing the plaintiff and breaking down its business, and the decree of dismissal was reversed. The case was then tried in the district court and is reported in 280 Federal 940. The trial court granted an injunction restraining the defendant from including the names of plaintiffs in the par list and denied any other relief. It was held that the reserve bank, in the exercise of its clearing house functions, was authorized to accept any and all checks payable on presentation, when deposited with it for collection; that checks so accepted must be collected by it at par; that it was not permitted to accept less than full face value; that it was authorized to adopt any reasonable measure for these purposes; that, if the drawee bank refused to remit without exchange charge, the reserve bank had power to employ any proper agency to collect the checks from the drawee bank and to pay the necessary cost of such service; that the daily collection of such checks did not constitute any accumulation thereof and was lawful; that it was proper for such bank to publish a par clearance list, but not to place thereon the name of a nonmember bank without its consent. The court further found that there was no evidence to sustain any charge that the reserve bank had acted il-

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legally or exercised any of its rights so as to oppress or injure the plaintiffs. This decision was affirmed by the Circuit Court of Appeals, 284 Federal 424. It came again before the United States Supreme Court, 262 U. S. 643, 67 L. ed. 1155, and was affirmed. In that decision it is stated that the decree left the reserve bank free to publish in its par list that it would collect at par checks on all banks in any town, that is, it might name the town or city as one wherein it collected checks at par, although there were banks in that town or city which would not permit at par, so long as it did not publish the names of such banks. Here, in our present case, the par list complained of did not even name the town in which plaintiff bank is located, but named merely the state of Minnesota as a district in which defendant would collect checks at par. The court further states that Federal reserve banks are authorized to collect for member banks and affiliated nonmember banks checks on any banks within their respective districts, if the checks are payable on presentation and can in fact be collected consistently with the legal rights of the drawee without paying an exchange charge; that, within these limits, reserve banks have ordinarily the same right to present checks to the drawee bank for payment over the counter as any other bank, state or national, would have. The limitations referred to are that the reserve bank may not accumulate checks for presentation or make other unreasonable or oppressive demands or threats in connection with the collection for the purpose of injuring the drawee bank or compelling it to agree to remit without exchange. The court

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states that the advantages offerred by the reserve banks have created a steady flow in increased volume of checks on country banks to the reserve banks, and that collecting such checks over the counter will subject the country banks to certain losses of exchange and interest, but that country banks are not entitled to protection against legitimate competition and such losses are of the kind to which business concerns are commonly subjected when improved facilities are introduced by others, or a more efficient competitor enters the field.

It is urged that the reserve banks had adopted a plan to coerce and compel country banks to remit at par and that defendant, in what it did, was engaged in carrying out such unlawful purpose, and that plaintiff was thereby coerced and compelled to act against its free will. A wrongful purpose or intent alone cannot constitute coercion. There must be threats or oppressive acts or conduct sufficient to overcome the will and constrain the one coerced to go against his free will. There were here no threats, wrongful publication of par lists, accumulation of checks, or other oppressive conduct.

Brookings State Bank v. Federal Reserve Bank of San Francisco, 277 Fed. 430, 281 Fed. 222, was a case where the reserve bank treated checks as dishonored where plaintiff refused to remit at par by mail, and so informed its clients. This was held wrongful and defendant enjoined from sending letters to its clients advising them that they must look to plaintiff bank for protection for its failure to protest the

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checks.

Farmers & Merchants Bank of Catlettsburg v. Federal Reserve Bank of Cleveland, 286 Fed. 810, is cited. A mere reading of the statement of facts in that case shows that the collection of checks there was accompanied by such disturbance, threats, armed messenger, interference with the bank's customers and business, public display of checks and claims against the bank, espionage and such words and acts of oppression as to clearly render the defendant's conduct wrongful and unlawful. The holdings of the Federal district court that defendant should be enjoined from continuing to so collect checks drawn on plaintiff bank and from advertising that it would collect such checks free of charge, must be held to be limited to the facts in the case. That case was decided by the district court before the final decision by the Supreme Court in the Atlanta Bank case.

The case of Farmers & Merchants Bank of Monroe v. Federal Reserve Bank of Richmond, 262 U. S. 649, 67 L. ed. 1157, was decided at the same time and the opinion written by the same justice as in the Atlanta Bank case. It does not change or modify the holdings in that case. The question there decided was the constitutionality of a state statute authorizing state banks to pay their checks, when presented by a Federal reserve bank or its agents, in exchange drawn on the reserve deposits of the drawee bank. This permitted the state banks to deduct exchange. The law was held constitutional. While the Federal Reserve Act

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is construed as applied to that situation, it is so construed in harmony with the Atlanta Bank case.

Primarily the benefit from having checks cleared at par goes to the makers of such checks, the customers of the bank upon which they are drawn. If such a customer can send his check to another city or place in payment of his debts or purchases and have the check cleared at par, he saves money and inconvenience, saves purchasing a draft and paying the exchange thereon. He cannot compel his debtor or obligee at the other end to accept his check subject to exchange charges. His bank is, to that extent, favoring him and incidentally attracting customers to itself.

5. This case has been fully and fairly tried. Our conclusion is that there is no evidence justifying the jury in finding that there was coercion. Defendant, therefore, was entitled to a directed verdict and to judgment notwithstanding the verdict.

The order appealed from is reversed with direction to have judgment entered for defendant.

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C O P Y

LOUISVILLE & NASHVILLE RAILROAD :
COMPANY. :

V. : DAVIDSON CHANCERY

NASHVILLE BRANCH OF THE FEDERAL :
RESERVE BANK OF ATLANTA ET AL :

COURT OF APPEALS,

MIDDLE SECTION.

APPEAL FROM THE CHANCERY COURT OF DAVIDSON COUNTY, PART 2;

HONORABLE JAMES B. NEWMAN, CHANCELLOR.

. . . . . .

A. W. STOCKELL AND JNO. B. KEEBLE, OF NASHVILLE, FOR APPELLANT RAILROAD COMPANY.

JOHN J. VERTREES AND E. J. SMITH, OF NASHVILLE, AND RANDOLPH & PARKER, OF ATLANTA, GA., FOR APPELLEE NASHVILLE BRANCH OF THE FEDERAL RESERVE BANK.

BASS, BERRY & SIMS, OF NASHVILLE, FOR APPELLEE AMERICAN NATIONAL BANK.

W. W. FAW: P. J.

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LOUISVILLE & NASHVILLE RAILROAD COMPANY :

V. : DAVIDSON CHANCERY

NASHVILLE BRANCH OF THE FEDERAL RESERVE BANK OF ATLANTA ET AL :

MEMO. OPINION.

The Louisville & Nashville Railroad Company filed the bill in this case against Nashville Branch of Federal Reserve Bank of Atlanta and American National Bank, seeking to recover of the defendants the amount of three cashier's checks drawn by the Peoples Bank of Springfield, Tennessee, aggregating $3,995, which, it is alleged and admitted, were deposited by complainant with the defendant American National Bank for collection, and were by the American National Bank indorsed and forwarded to the defendant Nashville Branch of the Federal Reserve Bank of Atlanta, and by the latter bank forwarded directly to the bank on which they were drawn, the Peoples Bank of Springfield, which was closed by the State Bank Examiner as an insolvent bank shortly after said checks were received by it and while they were in its possession.

Complinant alleges in its bill that the bank which is to pay a check is not a suitable agent for its collection; that

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there were several other banks at Springfield, which were reliable and solvent, to either of which these checks could have been forwarded for collection, and any one of which would have, in due course, presented the same for collection to the Peoples Bank of Springfield, and collected the same before the Peoples Bank went into the hands of an examiner, and before payment of checks on that institution wasstopped by the examiner.

The complainant further avers in its bill that the defendant American National Bank was negligent in selecting an improper agency through which to clear or collect these checks, in that, the American National Bank knew, or in the exercise of ordinary care should have known, that the Nashville Branch of the Federal Reserve Bank of Atlanta was not handling items of this character on Springfield banks in the proper manner; that the defendant Nashville Branch of the Federal Reserve Bank of Atlanta was negligent in not forwarding said checks promptly to some bank at Springfield, other than the Peoples Bank on which these checks were drawn; that when said checks were not paid the day following the forwarding of same to the Peoples Bank, complainant should have been immediately advised that the same had not been paid; that the defendants were negligent in permitting the Peoples Bank to hold said checks without remitting thereon; that the negligence of the defendant Nashville Branch of the Federal Reserve Bank of Atlanta in forwarding these checks direct to the bank on which they

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were drawn, proximately resulted in complainant losing the opportunity of making collection thereon and occasioned the complainant to lose the entire amount represented by said checks; that after the Peoples Bank was taken over by the Bank Examiner and closed, it developed that said bank was wholly insolvent, having paid out practically all of its available funds to other persons presenting checks for payment at said bank prior to the day on which it was closed, viz: July 15, 1924: That said checks would have been paid promptly if presented through any other bank at Springfield, of which there were several, on any date prior to July 15, 1924.

In their answer, the defendants deny that they were negligent in handling the checks in question, and they rely upon a certain "regulation" adopted and promulgated by the Federal Reserve Board, known as "Regulation J", which, if valid, authorizes Federal Reserve Banks to "send such checks for collection direct to the bank on which they are drawn or at which they are payable", or to "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", and which Regulation J also provides that "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".

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Conceding that, under the law prevailing in this State as repeatedly declared by our Supreme Court, the party who is to pay a check is not a suitable agent for its collection, and a bank receiving a check for collection is negligent in sending the same directly to the drawee bank for collection, and that each successive bank handling an item for collection is agent of the owner, and liable to him for the discharge of the duties incumbent on collecting agents, (Milling Co. v. Bank, 120 Tenn. 225, 111 S. W. 248), the learned chancellor held in the present case, in substance, that the above stated rules of law had been superseded (insofar as they might otherwise affect Federal Reserve Banks) by the aforesaid Regulation J, and therefore "the collections involved were not handled by the defendants in a negligent manner". The bill was thereupon dismissed at the cost of complainant, and the complainant appealed to this court.

The learned chancellor was of the opinion, and, in effect, adjudged, that by the Act of December 23, 1913, creating the Federal Reserve System, the Federal Reserve Board was authorized and empowered to make and promulgate the aforesaid Regulation J, and that said Regulation had the force and effect of a Federal statute.

This ruling of the chancellor is challenged by the appellant, through its assignments of error, brief and oral argument of counsel at the bar, and it is contended that a so-called "Regulation" which, if given effect, supersedes and

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annuls as an established general rule of law is an exercise of legislative power, and that, (for lack of constitutional authority), "Congress cannot delegate the power to make laws" to a board or commission, such as the Federal Reserve Board. (Cooley's Constitutional Limitations, 8th Ed., Vol. 1, p. 231).

As we see it, the decision of the question thus presented involves an interpretation or construction of the Constitution of the United States, and by the Tennessee Act of 1925, Chapter 100, Sec. 10, exclusive appellate jurisdiction of all civil cases "involving constitutional questions" is reserved to the Supreme Court.

In order to give the Supreme Court jurisdiction, it is essential that a constitutional question shall be "directly involved - not as an abstract, theoretical or merely incidental issue, but as an issue presented in good faith, substantially determinative of the rights asserted, or the defense relied on". (152 Tenn. 162, 165).

We think that the constitutional question above stated is directly involved, as a determinative question, in the issues presented by the pleadings in this case, and it was squarely decided by the chancellor.

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It is not necessary, in order to give the Supreme Court jurisdiction, that the constitutional question be the only issue in the case. State ex rel v. Hefferman, 243 Mo. 442, 449, 148 S. W. 90; State ex rel v. Scott County Macadamized Road Co., 207 Mo. 54, 13 Anno. Cas. 656, 659, Memphis St. Ry. Co. vs. Rapid Transit Co. 133 Tenn. 99, 105, 179 S. W. 635.

An order will be entered transferring this cause to the Supreme Court.

FAW

P. J.

Judges Crownover and
Devitt concur.

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X-6064 505

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE

EASTERN DISTRICT OF SOUTH CAROLINA

AT LAW.

Thos. A. Early, as Receiver of the Farmers and Merchants National Bank of Lake City, S. C., a national banking association, Plaintiff,

vs.

The Federal Reserve Bank of Richmond, a banking corporation duly organized under the Federal Reserve Act, Defendant.

Order of Judgment.

This action was tried under an agreement waiving jury, upon a stipulation of facts. Certain exhibits are attached to, or referred to, in the stipulation. The matters set forth in paragraphs one to sixteen in the stipulation and agreed statement of facts are found to be true and are hereby adopted as the special findings of the court and made a part of this judgment.

Two causes of action are set out in the complaint;

(1) For the recovery of the deposit account of $22,-088.48 standing on the books of the Federal Reserve Bank of Richmond when the Farmers and Merchants National Bank of Lake City closed its doors;

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(2) For the surrender value of 78 shares of stock in the Reserve Bank, amounting, on May 20, 1927, to $4115.15.

The Reserve Bank, "as trustee for various of its depositors", has filed a claim against the insolvent bank for $12,982.85. The amount of this claim is made a counter-claim in the answer of defendant.

From the examination of pertinent authorities submitted to me, and considering the facts and circumstances appearing in the stipulation of facts, together with the statutes, regulations and circulars governing the banking and clearing house operations of the Reserve Bank, I find that when the Farmers and Merchants National Bank of Lake City closed its doors on October 9th, 1926, the said bank then had a credit on the books of the Reserve Bank, after making all proper allowances and de-
(14) ductions, in the amount of $22,088.48. The charges made on account of the outstanding cash letters against the insolvent bank, I do not regard as proper allowances or deductions. The right of the Reserve Bank to make the charges terminated with the insolvency of the member bank. Demand for $7187.86 was made on the Reserve Bank by the Receiver on February 19th, 1927. Demand for $14,900.62 was made on May 11, 1927. These demands were refused. Interest therefore becomes calculable at the legal rate prevailing in Virginia, - 6% per annum, - on $7187.86 from February 19, 1927 and on

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$14,900.62 from May 11, 1927. The surrender value of the stock in the Reserve Bank as of date May 20th, 1927, was $4115.15.

The counter-claim of defendant is based on items in transit that were being handled by the Reserve Bank for collection. They were received for deferred credit, under regulations and check collection circulars which provide that the Reserve Bank will act only as agent for the bank from which it receives such checks. The items cannot be regarded as the property of the Reserve Bank. The circumstances shown in respect to the counter-claim make it clearly apparent that the claims upon which the suit is brought, and the claim set out by defendant in its counter-claim, do not arise between the parties in the same capacity. The Reserve Bank has the right to file a general claim, as agent of the owners of the collection items in such amount as it may be advised; and it will be entitled, as such agent, to dividends on the claim established, in the same manner as dividends may be paid by the receiver on other claims filed against the insolvent bank.

It is therefore

ORDERED AND ADJUDGED, That defendant's counter-claim be dismissed, and that plaintiff have judgment against and do recover from the defendant: (1) On the first cause

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of action; The sum of $22,088.48, with interest $1417.38, aggregating in amount $23,505.86; (2) (15) On the second cause of action; The sum of $4115.15, with interest $239.34, aggregating in amount $4354.49.

ERNEST F. COCHRAN,

U. S. District Judge.

Charleston, S. C.

May 9th, 1928.

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X-6065

TREASURY DEPARTMENT
Office of the Secretary
Washington

June 11, 1928.

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 11 to May 31, 1928, amounting to $47,960.50, as follows:

Federal Reserve Notes, Series 1914.

	$5	$10	$20	Total
Boston	66,000	-	-	66,000
New York	225,000	90,000	-	315,000
Philadelphia	130,000	90,000	-	220,000
Cleveland	250,000	25,000	25,000	300,000
Richmond	130,000	-	-	130,000
Chicago	230,000	90,000	-	320,000
	1,031,000	295,000	25,000	1,351,000

1,351,000 sheets at $35.50 per M $47,960.50

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

Boston	$ 2,343.00
New York	11,182.50
Philadelphia	7,810.00
Cleveland	10,650.00
Richmond	4,615.00
Chicago	11,360.00
	$47,960.50

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.

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FEDERAL RESERVE BOARD

WASHINGTON

L 510

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6066

June 13, 1928.

SUBJECT: Recommendations of Governors' Conference.

Dear Sir:

There is enclosed herewith for your information copy of a letter addressed by the Governor of the Board to the Secretary of the Governors' Conference, advising of the action taken by the Board on the various actions and recommendations which were referred to the Board by the recent Governors' Conference.

Very truly yours,

J. C. Noell,
Assistant Secretary.

GOVERNORS OF ALL FEDERAL RESERVE BANKS.

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COPY

X-6066-a

511

June 12, 1928.

Dear Mr. Harrison:

Your letter of May 22nd, calling particular attention to the action of the recent Governors Conference on matters referred to it by the Board or which the Conference submitted to the Board for its advice or approval, was given special consideration at the meeting of the Board today.

As you may know, the several questions referred to the Conference by the Board, relating to possible changes under the present law affecting the reserve requirements of member banks and possible amendments to Section 19, have also been discussed by the Board with the Federal Advisory Council. It is not probable that any action on these questions will be taken by the Board in the near future, but it is hoped that during the summer some program can be worked out by the Board and gotten in shape for submission to the Conference of Governors and Federal Reserve Agents which will be held in the fall. The Board will, I think, undoubtedly communicate with the Federal Reserve Banks regarding these matters from time to time.

Upon consideration of the action of the Governors' Conference relating to the amendment of Regulation J, the Board is of the opinion that the slight change recommended would not result in sufficient improvement in the legal situation to which attention was called by the Conference of Counsel to justify an amendment to the Regulation. The Board voted, therefore, that this topic should be placed on the program for the next Governors' Conference with a request that the Conference advise the Board definitely whether: (a) In order to eliminate the legal difficulties pointed out by the Conference of Counsel, the authority for Federal reserve banks to reserve the right to charge checks to the reserve account of member banks should be eliminated entirely; or (b) whether this authority is of sufficient practical value to justify its retention in the regulations notwithstanding the legal difficulties to which it may give rise.

The Board has voted to adopt the recommendation of the recent Conference of Counsel, approved by the Governors' Conference, that a change be made in the standard form of bankers' acceptance so as to eliminate any question as to eligibility growing out of the decision of the Supreme Court of Texas, in the case of Lane and Company v. Crum. The necessary formal ruling of the Board will be transmitted to all Federal Reserve Banks within a few days.

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The report submitted to the Governors' Conference by the subcommittee of the General Committee on Bankers' Acceptances which was approved by the Governors' Conference has been noted with interest by the Federal Reserve Board but requires no action by the Board except in so far as it calls attention to the fact that no action has been taken by the Board with reference to the recommendations of the General Committee on Bankers' Acceptances submitted to the Conference of March, 1926.

After careful consideration of the report submitted to the Governors' Conference in March, 1926, by the General Committee on Bankers' Acceptances, the Federal Reserve Board adopted the following statement with reference thereto:

> "In so far as this report contains a statement of the broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, it is approved by the Federal Reserve Board. Such approval is given, however, with the distinct understanding that it shall not be construed as revoking or qualifying any of the Board's existing rulings, and that all acceptances issued by national banks or rediscounted by Federal reserve banks must continue to comply with all of the pertinent provisions of the law and with the existing regulations and rulings of the Federal Reserve Board.
>
> "The Board believes that most of the broadening in the use of domestic bankers' acceptances which is contemplated by the Committee's report can be accomplished without any material modification of the Board's existing rulings on this subject; but the Board cannot undertake to modify any of its existing rulings through the approval of this report, because the Board's rulings are based upon specific facts and cannot safely be modified through the approval of general academic statements such as are contained in the Committee's report.
>
> "If it is found that the broadened use of domestic bankers' acceptances which is contemplated by the Committee's report is hampered by any of the existing rulings of the Federal Reserve Board, the Board will consider the question of revoking or modifying such rulings upon the request of any Federal reserve bank, provided that such request is based upon a statement of specific facts arising in an actual case."

The other actions of the Governors' Conference were all noted by the Board, but none of them appear to require any particular action at this time. A copy of this letter is being sent to each Governor for his information.

Very truly yours,

R. A. Young,
Governor.

Mr. George L. Harrison, Secretary,
Governors' Conference,
care of Federal Reserve Bank,
New York, N. Y.

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FEDERAL RESERVE BOARD

WASHINGTON

X-6067

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 12, 1928.

SUBJECT: Necessity for new application for membership in consolidations of member banks with nonmember banks.

Dear Sir:

The Federal Reserve Board recently considered the question whether a new application for membership should be required of a bank formed as a result of a consolidation of a member bank with a nonmember bank. The case to which the Board gave consideration arose under a statute of Pennsylvania which provides that all the rights, franchises and interests of the constituent institutions shall be transferred to and vested in the consolidated bank and which contemplates that the consolidated bank shall be a new institution. The consolidated bank desired to be a member of the Federal Reserve System. After a careful consideration of the question the Board decided that an application for membership should be required of the new consolidated bank. This is in accordance with the position which the Board has taken in several cases where this question has arisen heretofore.

This information is submitted to you for your guidance in future cases of a similar character which may arise in your district. In such cases an application for membership should be filed, but unless expressly otherwise required by the Board or unless the Federal reserve agent thinks additional information desirable in a particular case it will be sufficient to file the formal application itself on Form 83(a), accompanied by copies of the consolidation papers, but without the other customary exhibits and supplemental information.

It is to be noted, however, that the Board's action applies only in those cases of consolidations of member banks with nonmember banks under a State statute which provides that all the rights, franchises and interests of the constituent banks pass to the consolidated bank and which contemplates that the consolidated bank shall be a new institution and not merely a continuation of the corporate entity of one of the constituent banks. The situation is different in cases where there is a consolidation of a member bank with a nonmember bank under a statute which provides for the merger of the corporate existence of one of the constituent banks into the other and the continuation of the corporate existence of the latter without interruption and unaffected by the consolidation. In such cases if the consolidation takes place under the charter of the member bank it will retain its membership as a consolidated institution without a new application for membership, but if the consolidation takes place under the charter

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of the nonmember bank the consolidated institution must file an application if it desires to become a member of the Federal Reserve System.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO AGENTS OF ALL FEDERAL RESERVE BANKS.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6069

June 14, 1928.

SUBJECT: Extended leave of absence with pay.

Dear Sir:

About a year ago the Board authorized one of the Federal reserve banks to grant in excess of 30 days leave of absence with pay to employees on account of sickness without the Board's prior approval, with the understanding that a report would be submitted to the Board at the end of each month covering all employees granted sick leave during the month, where the total sick leave taken from January 1 to the end of the current month exceeded 30 days. This plan has worked satisfactorily and the Board feels that it is desirable to adopt a similar procedure at all Federal reserve banks.

Beginning with the month of July, therefore, your board of directors is authorized to follow the above procedure in granting leave to officers and employees of the bank. It is requested that the monthly report be submitted in accordance with the form attached hereto.

In case it is desired to grant any extended annual leave beyond the regular vacation period to an officer or employee, the Board's advance approval should be obtained. Please state in the letter accompanying your July report the number of days annual vacation regularly allowed officers and employees of your bank.

Very truly yours,

Walter L. Eddy,
Secretary.

ALL CHAIRMEN EXCEPT NEW YORK.

Enclosure.

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X-6069-a

OFFICERS AND EMPLOYEES GRANTED LEAVE OF ABSENCE WITH PAY ON ACCOUNT OF SICKNESS DURING MONTH OF_____, WHO HAVE HAD MORE THAN 30 DAYS' SICK LEAVE WITH PAY SINCE JANUARY 1

Federal Reserve Bank of_____

Date employed	Name	Division	Annual salary	Sick leave granted with pay		REMARKS
				Current month	Since Jan. 1	

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

L. 517

X-6070

June 16, 1928.

SUBJECT: Expense, Main Line, Leased Wire System,
May, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6070-a and X-6070-b, covering in detail operations of the main line, Leased Wire System, during the month of May, 1928.

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.

Very truly yours,

Deputy Fiscal Agent.

Enclosures.

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

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REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1928.

X-6070-a

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal Reserve Bank business	Percent of total bank business (*)
Boston	31,359	1,675	33,034	3.51
New York	147,924	-	147,924	15.73
Philadelphia	36,037	1,414	37,451	3.98
Cleveland	87,261	2,864	90,125	9.59
Richmond	55,984	2,815	58,799	6.25
Atlanta	62,802	6,583	69,385	7.38
Chicago	104,278	3,083	107,361	11.42
St. Louis	82,748	1,220	83,968	8.93
Minneapolis	32,425	2,765	35,190	3.74
Kansas City	78,490	3,219	81,709	8.69
Dallas	70,738	6,759	77,497	8.24
San Francisco	114,209	3,712	117,921	12.54
Total	904,255	36,109	940,364	100.00%

F. R. Board business	296,677	1,237,041
Treasury Department business - Incoming and Outgoing		112,612
Total words transmitted over main lines		1,349,653

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6070-b).

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

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REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, May, 1928.

X-6070-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	$ 739.55	$ 260.00	$ 479.55
New York	998.68	-	-	998.68	3,314.26	998.68	2,315.58
Philadelphia	225.00	-	-	225.00	838.57	225.00	613.57
Cleveland	296.66	-	-	296.66	2,020.58	296.66	1,723.92
Richmond	190.00	-	230.00(&)	420.00	1,316.85	420.00	896.85
Atlanta	270.00	-	-	270.00	1,554.94	270.00	1,284.94
Chicago	3,949.18(#)	-	-	3,949.18	2,406.15	3,949.18	1,543.03(*)
St. Louis	207.00	-	-	207.00	1,881.52	207.00	1,674.52
Minneapolis	277.59	-	-	277.59	788.01	277.59	510.42
Kansas City	275.64	-	-	275.64	1,830.95	275.64	1,555.31
Dallas	251.00	-	-	251.00	1,736.14	251.00	1,485.14
San Francisco	370.00	-	-	370.00	2,642.13	370.00	2,272.13
Federal Reserve Board	-	-	15,186.94	15,186.94	-	-	-
Total	$ 7,570.75	$ -	$15,416.94	$ 22,987.69	$21,069.65	$ 7,800.75	$14,811.93
				1,918.04(a)			1,543.03(b)
				$ 21,069.65			$13,268.90

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,918.04 from Treasury Department covering business for the month of May, 1928.
(b) Amount reimbursable to Chicago.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6071

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD JULY 1, TO DECEMBER 31, 1928.

Dear Sir:

There is enclosed herewith copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks of an amount equal to one hundred six thousandths of one per cent (.00106) of the total paid-in capital stock and surplus of such banks at close of business June 30, 1928, to defray the estimated general expenses of the Board from July 1 to December 31, 1928.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books July 1, 1928, and one-half September 1, 1928, in each instance issuing a C/D for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", assessment for general expenses, and sending duplicate C/D to the Federal Reserve Board. Also please furnish a statement of your capital and surplus used as a basis for the assessment.

Very truly yours,

O. E. FOULK
Deputy Fiscal Agent.

(Enclosure)

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Federal Reserve Bank of St. Louis

521

X-6071-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 six thousandths of one per cent (.00106) 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 six thousandths of one per cent (.00106) of the total paid-in capital and surplus of such banks as of June 30, 1928, 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, 1928, and the second half on September 1, 1928.

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X-6072

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 18, 1928.

SUBJECT: Holidays during July, 1928.

Dear Sir:

On Wednesday, July 4th, 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 banks and branches will also be closed on the dates indicated:

Friday	July 13	Nashville Memphis	Birthday of General Forrest
Tuesday	July 24	Salt Lake City	Pioneer Day
Saturday	July 28	Dallas El Paso Houston San Antonio	Primary Election Day

On the dates indicated, the banks and branches affected will not participate in either the Gold Fund clearing or the Federal Reserve note clearing.

Please include credits for the banks affected on the holidays mentioned, with credits of the following business day, in the Gold Fund clearing, and make no shipment of Federal Reserve notes, fit or unfit, for account of the Federal Reserve Bank of Dallas on Saturday, July 28th.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF
ALL F.R.BANKS.

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FEDERAL RESERVE BOARD

B' 523

WASHINGTON

X-6073

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 19, 1928.

SUBJECT: Expenses of Special Counsel in Hugo Bank Case.

Dear Sir:

The enclosed statement in the amount of $15,243.86 has been received from Hon. Newton D. Baker, covering professional services and expenses in connection with the case of Hugo State Bank v. Federal Reserve Bank of Minneapolis, in which the Supreme Court of Minnesota recently rendered a favorable opinion. This statement has been approved by the Federal Reserve Board and forwarded to the Federal Reserve Bank of Minneapolis for payment.

Mr. Baker's services in this case were authorized by the Board as a System matter and it is therefore requested that each Federal reserve bank remit to the Federal Reserve Bank of Minneapolis its pro rata share of the expense (based on capital and surplus as of June 13, 1928), as follows:

Boston	$1,134.83
New York	4,377.97
Philadelphia	1,465.10
Cleveland	1,565.79
Richmond	759.05
Atlanta	621.14
Chicago	2,079.98
St. Louis	642.71
Minneapolis	411.67
Kansas City	541.74
Dallas	525.23
San Francisco	1,118.65
Total	$15,243.86

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

(Enclosure)

TO GOVERNORS OF ALL FEDERAL
RESERVE BANKS EXCEPT MINNEAPOLIS.

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C
O
P
Y

X-6073-a

BAKER, HOSTETLER & SIDLO

Counsellors at Law

Union Trust Building
Cleveland

Federal Reserve Bank
of Minneapolis

June 12, 1928.

	To professional services in connection with Hugo Bank Case from May 12, 1927 to May 2, 1928 ----------		$15,000.00
1927	Disbursements:		
July 12 13) 14) 15)	Telegram to Minneapolis ----------	$ .92	
	Expenses (Mr.Baker) trip to Minneapolis--	117.94	
1928 Feb. 6	Expenses (Mr.Baker) trip to Washington---	25.00	
Apr. 28- May 2	Expenses (Mr.Baker) trip to St. Paul ----	100.00	243.86
			$15,243.86

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6074

June 20, 1928.

CONFIDENTIAL

SUBJECT: Code Word to be used in advices re transactions in 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, the Federal Reserve Board has approved, effective at once, the following code word to be used in connection with these transactions:

KNABBLE: Please credit us and debit Due from Foreign Banks-Bank of England account $_____ representing additional participation due you as a result of increment from earnings.

This code word should be inserted in the Federal Reserve Telegraph Code book following the supplemental code word "KLICKED" at the bottom of page 131.

There are enclosed herewith a sufficient number of extra copies of this letter to enable you to insert this code word in all of the code books in the possession of your bank.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE GOVERNORS
OF ALL F.R.BANKS.

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Copy

X-6076 520

UNIVERSITY OF THE SOUTH
Complainant

VS

FEDERAL RESERVE BANK OF ATLANTA, NASHVILLE BRANCH.
Defendant.

The defendant, the Federal Reserve Bank of Atlanta, Nashville Branch, for answer to so much and such parts of the original bill heretofore filed against it in the above entitled cause, as it is advised it is material for it to answer, answering says:

-I-

It believes it to be true that the complainant is a charitable corporation, chartered, and existing under the laws of Tennessee, and is an educational institution with its buildings and equipment located at Sewanee in Franklin County, Tennessee.

The Federal Reserve Bank of Atlanta on the day named in the original bill, and for sometime prior thereto, had maintained a branch at Nashville, Tennessee known as the Nashville Branch of the Federal Reserve Bank of Atlanta, but this Branch is not a separate corporation, or in any legal sense a different entity from the Federal Reserve Bank of Atlanta, but on the contrary, is the Nashville office of the Federal Reserve Bank of Atlanta, a body corporate, organized and existing by virtue of the laws of the United States.

-II-

The defendant admits it to be true that the National Bank of Franklin was a corporation, chartered under the laws of the United States, and in September 1926, and for many years prior thereto, was engaged in the banking business in Franklin, Williamson County, Tennessee; and the defendant believes it to be true that E. E. Green was the cashier and Bates L. Green was the assistant cashier of the National Bank of Franklin.

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This defendant is not advised as to whether or not prior to September 1926, the Misses Claybrooke had on deposit in said National Bank of Franklin a considerable sum of money, more than $20,000.00, and also a fund in excess of $8,000.00, which was in the name of Miss Eliza M. Claybrooke, as administratrix of their deceased sister, Miss Annie Claybrooke, The defendant avers that the records of the Bank of Franklin are the best evidence in this regard, and this defendant has no knowledge of what amounts of money were set to the credit of the above named parties in the National Bank of Franklin prior to September 1926.

The defendant is not advised, as to any arrangement or agreement made between the University of the South and the Misses Claybrooke to the effect that the latter intended to make a gift to the University of the South in the sum of $8000 for the purpose of endowing a scholarship at the University of the South.

-III-

The defendant has no knowledge of any conversations, arrangements, or transactions, which may have occurred between the Misses Claybrooke and the cashier of the National Bank of Franklin about September 1, 1926, and this defendant has no knowledge, and is not concerned with any statements that may have been made by the cashier of the National Bank of Franklin to the Misses Claybrooke as to the method to be pursued by depositors in withdrawing funds standing to their credit in the National Bank of Franklin, and the defendant neither admits nor denies the averments in Paragraph III of the Original Bill, and further avers that so far as it is concerned,

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they are immaterial and do not require an answer from it. The defendant admits that the form of check which appears in the original bill as the last paragraph of section III of said bill is a true and correct copy of the original check which afterwards came into its possession, and which it attempted to collect from the Bank of Franklin, but without success, as hereinafter more particularly set out.

The original check had prior to October 7, 1926 been sent to defendant for collection by the Hamilton National Bank of Chattanooga, Tennesee, and the same was, as herinafter more particularly set out, sent by defendant to said National Bank of Franklin for payment and remittance. Said National Bank of Franklin, Tennessee, refused payment of said check, assigning as reason for such dishonor the lack of sufficient funds to the credit of the drawer; after such dishonor, defendant returned said check, to-wit, on October 7, 1926 to said Hamilton National Bank of Chattanooga, Tennessee from which it had been received by defendant.

-IV-

The defendant is not advised as to when the check for $8,000. was sent to the complainant, nor is the defendant advised as to the course of conduct of the Bank of Sewanee in forwarding the item for collection to the Hamilton National Bank of Chattanooga, Tennessee, but it believes the averments of the bill in regard to these matters to be correct.

It is true that on October 5, 1926, the defendant received the check in controversy as well as other items from the Hamilton National Bank of Chattanooga, Tennessee, for collection. On October 5, 1926, the defendant forwarded this $8,000 item together with various other items to the drawee bank, the National Bank of Franklin, and this defendant believes

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it to be true that the $8,000 check, and such other items embraced in its letter of October 5, 1926 reached the National Bank of Franklin on October 6, 1926, but if by the averment that said check was listed by the National Bank of Franklin as a cash item at the close of business hours on October 6, 1926, it is meant to state that said item was paid on October 6, 1926 by the National Bank of Franklin, this averment of the original bill is denied as will more fully appear from a subsequent part of this answer.

The defendant admits that no protest for dishonor was made by the drawee bank, and as no liability of any endorser was to be fixed, and as the check in controversy was drawn and payable in the State of Tennessee, protest thereof for dishonor was unnecessary. Promptly upon the return to defendant by said National Bank of Franklin of said check unpaid, notice by telegram was given the Hamilton National Bank from whom said check had been theretofore received for collection as hereinbefore stated.

Defendant admits that on October 6th, and on October 7th, 1926, the National Bank of Franklin had to its credit in its account with the Federal Reserve Bank of Atlanta more than $20,000.00. Defendant is advised, however, that the averments of the bill in this regard are immaterial, and need not be answered since said check of $8000 purported to have been drawn upon an account in favor of the drawer of said check in said National Bank of Franklin, and not upon funds standing to the credit of said National Bank of Franklin in the Federal Reserve Bank of Atlanta.

V

Defendant is advised that it is true that said National Bank of Franklin opened its doors for business on the morning of October 7, 1926,

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and that before the close of business hours, it suspended payment and closed its doors. It is not advised as to the reasons why said bank became insolvent, nor as to why its doors were closed and a receiver appointed, nor as to the amount which will be paid to depositors by way of dividends. Defendant says, however, that the averments of Paragraph V of the bill in this regard are immaterial, and irrelevant to cause of action in said bill attempted to be set up, and for said reason no answer thereto is required.

-5-

Defendant denies that on October 7, 1926, the defendant sent an employee and agent to Franklin upon any matter related to or arising from or connected with the said $8,000 check. It denies that the said $8,000 check had been paid by said National Bank of Franklin as a cash item or in any other way or in the course of business of that bank on October 6, 1926, or at any other time. It denies that said defendant, through its agent and employee, brought said check back to Nashville, and thereafter returned the same to the Hamilton National Bank, the fact being on the contrary that said National Bank of Franklin itself returned said check to defendant on the morning of October 7, 1926, assigning as a reason for said non-payment the lack of sufficient funds to the credit of the drawer as hereinbefore stated. With such non-payment this defendant was in no way involved, and in nowise concerned. It had nothing to do with the return of said check. Upon its receipt unpaid, as aforesaid, the same was returned to the Hamilton National Bank of Chattanooga, Tennessee, as heretofore stated, along with the information that the drawee bank had refused payment because of the lack of sufficient funds

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to the credit of the drawer.

Defendant admits that on and prior to October 7, 1926, the said National Bank of Franklin was indebted to the defendant in a large amount of money for the payment of which defendant held collateral, but defendant denies that it caused said $8,000 check to be dishonored or that it took the same from the drawee bank to obtain for itself any benefit as alleged in Section VI of said bill. Defendant denies that it had anything to do with the non-payment of said check or with its dishonor, and denies any other averment of Section VI of said bill which is not in this answer admitted.

VII

Defendant denies each and every averment of Section VII of said bill. It denies that any relationship of principal and agent existed between complainant and defendant, that it had anything to do with the return unpaid of said $8000.00 item, or that it was guilty of any breach of trust or violation of any duty, either to complainant or any other person at any time handling or interested in said check. It denies that it is liable to complainant as the holder of said check, or to anyone else because of any matter or thing in said Paragraph VII or elsewhere in said bill alleged.

Defendant is one of the twelve Federal reserve banks, organized and existing under that certain Act of Congress known as the Federal Reserve Act, as from time to time amended. Pursuant to the provisions of said Federal Reserve Act, as amended, the Federal Reserve Board has required each Federal Reserve Bank, including this defendant, to exercise the functions of a clearing house for member banks to the end that such member banks may collect checks deposited with them and drawn on banks in other localities through

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the collection facilities afforded by such Federal reserve banks. The requirement of the Federal Reserve Board in this regard was embodied in a regulation which was in force at the times and upon the dates mentioned, known as Regulation J, Series of 1924, a true copy of which is attached hereto, and made a part hereof, and marked Exhibit A, but the same need not be copied as it will be produced if required at the hearing.

Said Regulation was made and promulgated pursuant to the power and authority vested in said Federal Reserve Board by the Act of Congress aforesaid as will appear by reference to said Regulation. A Federal reserve bank receives checks for collection only from other banks, who are members of, or otherwise affiliated withsaid Federal Reserve System, and in the event of the receipt of such checks for collection will act only as agent of the bank from which same are received. Defendant avers, therefore, that, with respect to said check, its receipt, or the handling thereof, it stood in no contractual relationship with the complainant and that there was and is no privity of contract between complainant and defendant, which would authorize the bringing of maintenance of this action.

This defendant, pursuant to the power and authority vested in it by said Federal Reserve Act, and by Regulation J, which is hereinbefore referred to, issued, promulgated, and sent to each of its member banks a certain circular issued under date of June 1, 1925, and entitled "Check Clearing and Collection - General Conditions under which Cash Items will be Handled." Said check collection circular was in force at all the times and dates mentioned in said bill. A copy of the same is hereto attached marked Exhibit B

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and made a part hereof, but need not be copied as it will be produced if required at the hearing.

The defendant especially pleads and relies upon Regulation J, Series of 1924, and the Circular Letter aforesaid, as defining its liability when acting as a collection agent, and it avers that the terms and conditions prescribed by the Regulation and the Circular Letter constitute the contract entered into by it when acting as agent of the Hamilton National Bank of Chattanooga, Tennessee in collecting the item now in controversy, and the same prescribed the sole and only conditions under which defendant could have undertaken the collection of said $8,000 check.

Defendant avers that on or about the fifth day of October 1926 it received from the said Hamilton National Bank of Chattanooga, Tennessee, the said $8,000 check along with other checks drawn on said National Bank of Franklin, Tennessee. Said checks were placed with defendant to the end that the same might be collected under the conditions and pursuant to the terms of Regulation J and the cognate collection circular of defendant. Said checks so received from said Hamilton National Bank along with other checks drawn on said National Bank of Franklin and received from other banks were enclosed with a cash letter bearing date, October 5, 1926, and sent through the mails by defendant to said drawee bank.

On the morning of October 7, 1926, said National Bank of Franklin sent a messenger to the Federal Reserve Bank, Nashville Branch, with a letter signed by Mr. Thomas B. Johnson, president of the National Bank of Franklin, to which letter were attached the $8,000 check now in controversy and several other small checks which the letter stated were returned by the National Bank

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of Franklin to the Federal Reserve Bank of Atlanta, Nashville Branch, because of insufficient funds standing to the credit of the drawers on the books of the National Bank of Franklin. The defendant on the receipt of said letter from Mr. Johnson wired to it s correspondent, the Hamilton National Bank of Chattanooga, Tennessee, that said $8,000 check had been dishonored by the drawee bank, the National Bank of Franklin, and the defendant on the same day returned said check to its correspondent, the Hamilton National Bank of Chattanooga, Tennessee.

VIII

All other allegations of the original bill, not herein admitted or denied, are generally denied, but with the same particularity as if specifically denied, and now having fully answered, this defendant prays to be hence dismissed with its reasonable costs.

FEDERAL RESERVE BANK OF ATLANTA,
NASHVILLE BRANCH,

By_____

Manager.

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X-6077

Opinion rendered April 26th, 1928. 535

In the Supreme Court of Florida,

January Term, A.D. 1928.

Division B.

The Atlantic National Bank of Jacksonville, a corporation organized and existing under the banking laws of the United States,
Appellant,

v.

Frederick R. Pratt, as Receiver of the Bank of South Jacksonville, a corporation organized and existing under the laws of the State of Florida,
Appellee.

Duval County.

WHITFIELD, P. J.

The amended bill of complaint in effect alleges that the Bank of South Jacksonville was the regular correspondent of the complainant, the Atlantic National Bank; that on January 10, 1927 and January 11, 1927, the complainant sent to the Bank of South Jacksonville "for collection and remittance in accordance with the usual custom between" the two banks, checks and other items payable by and at or drawn on the Florida Southside Bank; that on December 31, 1926, complainant sent to the South Jacksonville Bank for "collection and remittance", a draft due January 10, 1927; that on January 10, 1927, the draft was paid to the Bank of South Jacksonville by

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check on the Florida Southside Bank; that on the 11th and 12th of January, 1927, the Bank of South Jacksonville collected from the Florida Southside Bank all of said items or checks and collected and actually received from the Florida Southside Bank $11,171.70 in payment for said items and checks; that the said Bank of South Jacksonville sent complainant in payment of said items its checks or drafts payable to complainant, drawn on its New York correspondent and on complainant, and at the same time sent complainant its checks or drafts drawn on the Barnett National Bank of Jacksonville, a national banking corporation, on the Peoples Bank of Jacksonville, to make good its check or draft on complainant. That said checks or drafts drawn on the said Barnett National Bank of Jacksonville and on said Peoples Bank of Jacksonville were each dishonored by the said bank refusing to pay the same, and said New York draft was likewise dishonored. The said Bank of South Jacksonville did not have the funds to its credit with complainant to pay the check or draft drawn on complainant unless the checks or drafts drawn on the said Barnett National Bank of Jacksonville and the said Peoples Bank of Jacksonville were paid. That on the 13th day of January, 1927, the said Bank of South Jacksonville closed its doors. Frederick R. Pratt was appointed receiver for said bank. That the said Bank of South Jacksonville is insolvent and was insolvent both at the time it received and at the time it collected the aforesaid checks from the Florida-Southside Bank. And complainant did not know that the said Bank of South Jacksonville was insolvent at said time; that complainant has made demand on the defendant receiver for the said sum of Eleven Thousand One Hundred Seventy-one and 70/100 Dollars ($11,171.70) as preferential claim, payable before the unsecured claims against the said Bank of South Jacksonville are paid. Complainant further claims that it has a preference on the assets of the said Bank

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of South Jacksonville for the payment of the items herein mentioned. But the defendant, as receiver as aforesaid, has refused to allow complainant's claim for said items as a preferential claim and to pay same before paying the unsecured claims. That the claim of complainant has been admitted by the defendant as a lawful and just claim against the assets in his hands, except as to the preference of said claim; that the money received by the Bank of South Jacksonville from the said Florida-Southside Bank was received by said Bank as a trust fund and that title to said checks at no time passed to the said Bank of South Jacksonville; and that the amount of money so collected by the said Bank of South Jacksonville swelled the funds of the said Bank of South Jacksonville; that the relation of debtor and creditor did not arise between complainant and the said Bank of South Jacksonville by reason of said collections.

By amendment it is alleged that the said Bank of South Jacksonville had with complainant a real credit balance of Eleven Hundred Seventeen and 94/100 Dollars ($1117.94) on the 13th day of January, 1927, at the time its affairs were taken over by the Comptroller.

And by further amendment the bill of complaint alleges that it was the custom and understanding between complainant and the said Bank of South Jacksonville at the time the items heretofore mentioned were sent to said Bank of South Jacksonville for collection, that said Bank of South Jacksonville should remit to complainant the amount of money collected each day on the day the same was collected. That there was no understanding by agreement of custom between the said Bank of South Jacksonville and complainant that complainant should give any credit or allow the said Bank of South Jacksonville any latitude in the time of remitting for items sent for collection by complainant. That complainant kept

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no account with the said Bank of South Jacksonville and had no credit balance with said Bank of South Jacksonville; and there were no reciprocal or mutual accounts of any kind between complainant and the said Bank of South Jacksonville.

The prayer is that complainant be decreed a preferential claim over unsecured creditors of the Bank of South Jacksonville and for general relief.

The defendant receiver demurred on grounds that:

1. Said last amendment adds no new matter and is immaterial and irrelevant.

2. The issues attempted to be raised by said amendment has already been decided by this court in this cause adverse to complainant.

3. Said amended bill of complaint shows on its face that complainant is not entitled to a preference.

4. It does not appear that complainant is able to trace and locate any trust fund.

5. It appears from the allegations of said amended bill of complaint that complainant is a general and not a preferred creditor.

6. It appears from the allegations of said amended bill of complaint that title to said check and its proceeds passed to the Bank of South Jacksonville and that the relation of principal and agent had ended.

7. It appears from the allegations of said bill of complaint that said Bank of South Jacksonville was used by the complainant as its collecting agent for many items and was authorized to collect and mingle funds, and that said Bank of South Jacksonville was indebted to the complainant upon a balance of accounts and was under no obligation to for-

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ward to the complainant any specific funds.

8. It appears from the allegations of the amended bill of complaint that complainant accepted from said Bank of South Jacksonville the draft or check of said Bank of South Jacksonville in payment of the items mentioned in the amended bill of complaint.

The court sustained the demurrer on the 3rd, 5th, 6th and 7th grounds.

The complainant appealed.

Where A. bank remits to B. bank several items of negotiable paper "for collection and remittance according to the custom and understanding between" the banks, viz: that B. bank should remit to A. bank "the amount of money collected each day on the day the same was collected", and B. bank collects the several items from other banks or persons and remits to A. bank checks of B. bank on other banks for the amounts of the collections, but such checks are not paid in due course because of the failure of B. bank after making the collections and after remitting its checks therefor, but before the checks of B. bank are paid, and there was no commingling of funds by consent and no reciprocal accounts or deposits between the two banks, B. bank having no account with a balance to its credit with A. bank but A. bank having no account with B. bank, A. bank is entitled to a preference in payment by the receiver of B. bank for the collections made. See State Nat. Bank of Little Rock v. F.N.Bank of Achison Kan. 124 Ark. 531, 187 S.W.Rep. 673; Bank of Poplar Bluff, vs. Mills, Pough, 313 Mo. 412, 281 S.W.Rep. 733, Fed Res. Bk. of Rich. v. Peters 139 Va. 45, 123 S.E.Rep. 379, 42 A.L.R. 742.

Reversed.

Rerrell and Buford J. J., Concur.

Ellis, C. J. and Strum and Brown, J. J., Concur in the opinion and judgment.

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IN THE SUPREME COURT
OF APPEALS
OF VIRGINIA

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X-6078

FEDERAL RESERVE BANK OF RICHMOND, VA.
AND ERIE STEAM SHOVEL COMPANY
)
)
.)
v.)
)
)
)
STATE AND CITY BANK AND TRUST COMPANY, ET AL.

OPINION BY JUDGE R. H. L. CHICHESTER,

Wytheville, Va. June 14, 1928.

CIRCUIT COURT OF HALIFAX COUNTY.

This cause was submitted to the trial court upon an agreed statement of facts, the essential portions of which are set out in the petition for an appeal and the brief of appellees, substantially as follows:
On November 26, 1923, the Federal Reserve Bank of Richmond, Va., forwarded to the Bank of Virgilina at Halifax, Va., for collection and remittance, a certain promissory note made by J. J. Battershill & Son of Virgilina, which belonged to the Erie Steam Shovel Company. The Note was for the principal sum of $875.00 and interest amounting to $39.37, a total of $914.37, and matured on Dec. 6, 1923. On Dec.8, 1923, the Bank of Virgilina presented several items, including the above note, to the Citizens Bank of Virgilina for payment and received payment for the items presented in the form of a check of the Citizens Bank for $922.45, drawn upon the First National Bank of Richmond. On the same day, Dec. 8th, the Virgilina Bank drew and sent its check, in favor of the Federal Reserve Bank, for $914.37, the amount of the above mentioned note, principal and interest. This check was not received by the Federal Reserve Bank until the afternoon of Dec. 11th. The check was drawn upon the State and City Bank and Trust Company with which the Virgilina Bank had, for many years, carried an ordinary commercial checking account. On the morning of the day on which the check in favor of the

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Federal Reserve Bank was drawn and sent the Virgilina Bank had to its credit with the State and City Bank a balance of $11,564.32 and at the close of business on that day a balance of $11,554.27, according to the books of the State and City Bank. When the check in favor of the Federal Reserve Bank was drawn and forwarded the Virgilina Bank credited, on its books, the State and City Bank with the amount of that check, namely $914.37.

On a date, not appearing from the record, the above mentioned check of the Citizens Bank to the Bank of Virgilina for $922.45, which the Virgilina Bank had received in payment of the $914.37 note and of several other smaller items, presented to the Citizens Bank for payment at the same time, was sent as a part of a remittance of nine items, checks, or drafts, drawn upon seven different cities or towns, and aggregating $1,785.88, to the State and City Bank for collection and credit to the account of the Virgilina Bank. This remittance reached the State and City Bank on December 10, 1923, and on the same day various other items were received by the State and City Bank from the Virgilina Bank for collection and credit, the aggregate receipts and deposit of that date amounting to $9,777.61. On the day of the receipt of such deposit, namely, Dec.10, 1923, the State and City Bank presented the check of the Citizens Bank for $922.45 to the First National Bank of Richmond, upon which it was drawn, and received payment thereof. The amount of the remittance from the Virgilina Bank to the State and City Bank was credited to the account of the Virgilina Bank upon its receipt.

The note due the Steam Shovel Company had been forwarded by the Federal Reserve Bank to the Bank of Virgilina pursuant to an agreement whereby the Bank of Virgilina had undertaken to collect for the Reserve Bank notes and other negotiable instruments payable in or near Virgilina. Under that agreement collection remittances from the Bank of Virgilina to the Reserve

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Bank were usually made by means of a draft drawn by the Bank of Virgilina upon some bank in the City of Richmond or other reserve city in which the Bank of Virgilina had funds on deposit.

The Virgilina Bank having a credit balance of $11,564.32 as of the morning of Dec. 8th made the following deposits and withdrawals from that period until the close of business on Dec. 11th, namely, on December 8th it deposited $563.18 and discounted its $10,000 note for the net sum of $9,946.33. On the same day it paid its $10,000 note maturing on that day and checked out $519.54, on December 10, 1923, it deposited in the State and City Bank $9,777.61 (which deposit included the check of the Citizens Bank for $922.45), and on the same day it checked out $8,431.92. On December 11th it deposited $845.24 and on the same day checked out $11,500.07. This left on the books of the State and City Bank a credit balance to the account of the Virgilina Bank of $2,245.15. These details are given to show the usual course of dealing between these banks. They are important in view of the character of the controversy here.

Fed. Bank v. State & C.

On December 11th the Bank of Virgilina was closed and its operations suspended, and thereafter the State and City Bank and Trust Company applied the above balance of $2,245.15 upon the indebtedness of the Virgilina Bank to it, which indebtedness consisted of two notes, one for $15,000 maturing December 27, 1923, and the other for $10,000 maturing January 7, 1924.

On December 12, 1923, at the time of the application of this balance to the notes above mentioned, the State and City Bank had no knowledge of the existence of the check in favor of the Federal Reserve Bank for $914.37, nor did it have any until it was presented for payment, and then the State and City Bank refused payment thereof.

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Thereafter the Federal Reserve Bank filed its petition in the cause then pending in the Circuit Court of Halifax county, wherein a receiver had been appointed for the Virgilina Bank, seeking to impress the funds which had been on deposit with the State and City Bank to the credit of the Virgilina Bank prior to their application to the notes held by the State and City Bank, with a trust in its favor as against which the State and City Bank had no right to apply the balance upon the indebtedness due it by the Bank of Virgilina.

The commissioner in chancery, to whom the question in controversy was referred, reported in favor of the claim of the Federal Reserve Bank, exceptions were duly taken and were sustained by the court, and thereupon a decree was entered establishing the right of the State and City Bank and Trust Company to make the application. From this decree this appeal has been taken.

The issue, therefore, before this court is narrow and well defined and consists only of the question whether, upon the facts shown in this record, the State and City Bank, with which the Virgilina Bank carried an ordinary commercial checking account, had the right to apply to its notes so much of the balance of the Virgilina Bank as equalled that portion of the $922.45 check of the Citizens Bank which represented the proceeds of the note of the Federal Reserve Bank, viz., $914.37.

It may be said that the controversy here presents a case of a conflict of equities as to the $914.37, between the Federal Reserve Bank (acting of course as agent for the Erie Steam Shovel Company) on the one side, and the State and City Bank and Trust Company on the other. The question is narrow and well defined as has been pointed out, but its difficulty consists in determining which has the superior equity.

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The equity of the Federal Reserve Bank arises it is said, out of the fact that the fund of $914.37 collected by the Bank of Virgilina for it and sent along with other funds, for deposit to the latter bank's credit, to the State and City Bank, as set out heretofore, was impressed with a trust, which made the right of the Federal Bank to the fund superior to that of the State and City Bank. The equity of the State and City Bank arises out of the alleged right of a bank generally, without knowledge of the fiduciary character of funds deposited with it, to apply them to obligations due by the depositor to the bank.

There are two lines of authority, apparently as clearly defined as the issue here, one of which is in accord with the contention of the appellants, and the other of which is in accord with the contention of the appellee. These authorities have been presented in impressive array by the learned counsel for both contestants and the case was ably argued orally.

The authorities relied on by the appellant are to the effect that where funds, impressed with a trust, are deposited in a bank to individual credit,and without earmark to indicate they are trust funds, and the bank in which the deposit is made has no notice of the trust character of the funds, yet, before the bank can apply the funds to any indebtedness due by the depositor to the bank, so as to defeat the claim of the real owners of the fund, it must, in addition, have given credit to the depositor or must have suffered balances to remain in its hands on account of the receipt of the deposit.

The authorities relied on by the appellees are to the effect that where a bank has no notice that funds deposited are held by the depositor in trust, it may apply such deposit to the depositor's individual debt to it without becoming liable to the beneficial owner.

It is conceded, in the instant case, that if the rule promulgated

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by the first line of authorities is to prevail, the appellants are entitled to recover, but if the rule of the second line prevails here, the appellee (State and City Bank), is entitled to retain the fund as an offset to the indebtedness due it by the Bank of Virgilina, because it is conceded that the State and City Bank had no notice or knowledge of the trust character of the funds.

We think, on principle, that this latter line of cases has evolved the better rule. It is consistent with the long established general doctrine that the deposit of funds in a bank by a customer creates the relation of debtor and creditor between them, and that the money immediately becomes the property of the bank. Thus in Pennington v. Bank 114 Va.675, it was held: "The general doctrine is settled that the collection of a draft by a bank for a customer in the ordinary course of business and placed to the customer's credit amounts to a general deposit by the latter and creates the relation of debtor and creditor between them. In such case the customer or depositor has the right to demand of the bank an equivalent amount of money, but not the specific coins or other currency deposited."

The same principle is enunciated in Arnold v. Bank, (Cal.) 13 A.L.R., p. 322, where it was said, "It is well settled here that the relation between a general depositor and the bank in which his deposit is made is simply that of debtor and creditor. The moneys deposited immediately become the property of the bank, and the latter becomes debtor of the depositor for the amount of the deposit, the same being payable on demand and on checks of the creditor."

Thus in Ford v. Thornton, 3 Leigh, 753, where one Gregory died insolvent with a bank balance and also indebted to the bank upon his note, this Court said: "According to my view of the case, no part of Gregory's deposit in bank constituted, upon his death, general assets of the estate,

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except the excess above what was sufficient to liquidate the note of Gregory due to the bank. The bank, in fact, was only a debtor for the difference.

The relationship of debtor and creditor with all its incidents, is fully recognized in the decisions relied upon by the appellee, while the rule established by those authorities relied on by the appellant ignores, and is inconsistent with, this relationship. This is apparent from a perusal of the case of Bank of Metropolis v. New England Bank, 6 Howard 212, which is the basis of the decisions relied on by appellants. In that case which was twice before the Supreme Court, Chief Justice Taney, who wrote the opinion for the Court formulated three instructions which he declared to be the law in such cases, for the guidance of the trial court, which seems to have misconstrued the first opinion handed down in the case. These instructions are: -

"1. If, upon the whole evidence before them, the jury should find that the Bank of Metropolis at the time of the mutual dealings between them, had notice that the Commonwealth Bank had no interest in the bills and notes in question, and that it transmitted them for collection merely as agent, then the Bank of the Metropolis was not entitled to retain against the New England Bank for the general balance of the account with the Commonwealth Bank.

"2. And if the Bank of the Metropolis had not notice that the Commonwealth Bank was merely an agent, but regarded and treated it as the owner of the paper transmitted, yet the Bank of the Metropolis is not entitled to retain against the real owners, unless credit was given to the Commonwealth Bank, or balances suffered to remain in its hands to be met by the negotiable paper transmitted or expected to be transmitted in the usual course of the dealings between the two banks.

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"3. But if the jury found that, in the dealings mentioned in 54 the testimony, the Bank of the Metropolis regarded and treated the Commonwealth Bank as the owner of the negotiable paper which it transmitted for collection, and had no notice to the contrary, and upon the credit of such remittances made or anticipated in the usual course of dealing between them balances were from time to time suffered to remain in the hands of the Commonwealth Bank, to be met by the proceeds of such negotiable paper, then the plaintiff in error is entitled to retain against the defendant in error for the balance of account due from the Commonwealth Bank."

This leading case is quoted by practically all of the cases which held that the bank in which the deposit was made must have given some credit to the depositing bank on account of the deposit or suffered balance to remain on its hands on account of the receipt of the deposit, in addition to the requirement that the bank in which the funds are deposited must have had no notice of their trust character.

There is undoubtedly a wealth of authority following this decision, and many of the cases are well reasoned. An especially strong case is that of Shotwell v. Sioux Falls Savings Bank, 34 S. D. 109, 147 N.W.288, L.R.A. 1915-A, p.715, but as heretofore stated all these cases ignore the fundamental principle obtaining in the relationship of debtor and creditor. The weight of authority appears to be largely with those cases which hold that unless the bank had notice of the trust character of the fund it has a lien on the funds deposited, or rather, more properly speaking, a right of set off of any debt due it by the depositor against such deposit.

In First Morse on Banks and Banking, 5th Edition, p. 618, p.618, this is said: "Neither shall the banker have his lien upon non-negotiable property subject to a trust, and improperly left with him or pledged to him by the trustee, though the bank is without notice of the trust; unless,

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indeed, the cestui qui trust shall have done some act or been guilty of some negligence such as to deprive him of his counter rights. And a deposit in the name of A. as agent or trustee, or in the name of A. if the bank has notice that it belongs to another, cannot be applied by the bank to A.'s debt to itself, nor will it have any lien on a fiduciary deposit. If the trust property is traceable into the debt now due from the bank to the depositor, the true owner can claim the fund.

"But if the trust properly consists of bills or notes, payable to bearer, or other property transferable by delivery merely, and be not earmarked as trust property, if the customer deposit them as if they were his own, and the banker receives them in due course, bona fide and with no notice of the trust, he shall hold them under his lien.

"In the case of money, or any negotiable securities, it has been frequently held that where the bank has no notice that they do not belong to the depositor, it acquires a valid lien for his indebtedness."

In 7 C.J. at p. 659 the rule is stated thus: "Where a bank has no notice that funds deposited are held by the depositor in trust, it may apply such deposit to the depositor's debt without becoming liable to the beneficial owner."

In Millhouse v. Citizens Bank of Valdosta, 14 Ga. App. 240, the syllabus by the Court, says: "Nor would the bank's right thus to apply the fund" (to a debt) "be defeated merely because before the application was made a check drawn by the depositor had been presented for payment, which check was given for money previously collected by the depositor for the payee. The right to make the application exists whether the indebtedness of the depositor be that of a principal, or upon an obligation in which he is only secondarily liable."

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Again in Wilson v. Farmers First National Bank (Mo. App. 1914) 162 S.W. 1047, the Supreme Court of Missouri said: "A general deposit in a bank made by, or for the account of, a depositor creates the relationship of debtor and creditor between the bank and the depositor, and there can be no question of the right of the bank to apply such deposit in payment of an indebtedness of the depositor to the bank without his consent. And, further, the rule is well settled that money has no earmarks, but 'passes and may be received from hand to hand without inquiry as to anybody's claim thereto by all who have no notice of its origin.' Bank v. Bank, 102 Mo. App. 357.

"In the case just cited the deposit consisted of money realized by the depositor from cattle he had converted to his own use. In an action by the owner of the cattle against the bank, we held that the status of creditor and debtor had been created between the depositor and the bank, and that the latter, having no knowledge of any informity in its customer's title to the money, was entitled to apply the deposit in extinguishment of a demand it held against him. And so we would hold in this case, if the deposit made by the commission company for the benefit of Grover had been made with his consent, or had received his implied approval after he became informed that it had been made. In such state of facts (as we had before us in the case cited) the relationship of banker and depositor - of debtor and creditor - would exist in law, and the banker would be entitled to apply the deposit on a debt the depositor owed him regardless of the source of the deposit. See authorities reviewed in the cited cases; also Butcher v. Butler, 134 Mo. App. 61, 114 S.W.564." (Opn. pp. 1048-9.)

In McStay Supply Company v. John S. Cook and Company, (Nevada 1913) 132 pac. 545, the Supreme Court of Nevada after a thorough examination of the authorities lays down the following principles affecting the relationship of a bank and its depositors as established by the overwhelming weight

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of authority. 550

"An examination of the authorities will disclose that as a matter of law the following principles affecting the relations of a bank and its depositors as may be involved in this case are established by an overwhelming weight of authority.

"1. The relation between a bank and its depositors is that of debtor and creditor. There can be no doubt of this proposition. Money deposited in a bank becomes part of its general assets, and the bank simply becomes a debtor of the depositor. The absolute title to the money by the mere act of deposit passes to the bank. * * *

"2. The bank has a lien upon all funds belonging to depositors deposited for any indebtedness owing to it by the depositors. * * *

"3. If a principal permits his agent to deposit money in the bank without any notice to the bank that the money belongs to the principal, and the agent checks out the money or subjects it to a lien, on account of any borrowing of money, then the principal and not the bank is the loser." (Citing cases from England, U. S. Supreme Court, Mass., N.Y., Neb., Mo., Iowa, Ga., Kansas, Colo., Pa., and Minn.)

"4. If the principal neglects to give a notice until the bank's lien has attached, then a notice comes too late, and the bank has a right to apply the money to satisfy its lien. * * *

But where, as in the present case, trust funds or securities belonging to others are deposited by a depositor with a bank, and the bank has knowledge of the fact that these funds do not belong to the depositor and that he is merely acting as a collector or agent of another, the bank has no right whatever to apply said funds or securities to any indebtedness of the depositor, nor can the bank acquire any lien upon such funds or securities so deposited by a depositor who may be indebted to the bank."

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See also Sparrow v. State Exchange Bank, 103 Mo. App. 338; Wood v. Boylston National Bank, 129 Mass. 358, 37 Am. Rep. 366, Kimmel v. Bean, 68 Kan. 598.

The case of Kimmel v. Bean, supra, contains a very elaborate discussion of the proposition under consideration. In that opinion among other things the following quotations are made: "The rule has been settled by a long line of cases, that money obtained by fraud or felony cannot be followed by the true owner into the hands of one who has received it bona fide and for a valuable consideration in due course of business.

"It is said that the case is to be governed by the doctrine established in this State that an antecedent debt is not such a consideration as will cut off the equities of third parties in respect of negotiable securities obtained by fraud. But no case has been referred to where this doctrine has been applied to money received in good faith in payment of a debt. It is absolutely necessary for practical business transactions that the payee of money in due course of business shall not be put upon inquiry at his peril as to the title of the payer. Money has no earmark. The purchaser of a chattel or a chose in action may, by inquiry, in most cases, ascertain the right of the person from whom he takes the title. But it is generally impracticable to trace the source from which the possessor of money has derived it. It would introduce great confusion into commercial dealings if the creditor who receives money in payment of a debt is subject to the risk of accounting therefor to a third person who may be able to show that the debtor obtained it from him by a felony or fraud. The law wisely, from considerations of public policy and convenience, and to give security and certainty to business transactions, adjudges that the possession of money vests the title in the holder as to third persons dealing with him and receiving it in due course of business and in good faith upon a valid consideration. If the consideration

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is good as between the parties, it is good as to all the world." Stephens v. Board of Education, 79 N.Y. 183, 186, 187, 35 Am. Rep. 511.

"If a trustee or other fiduciary person, in violation of his own duty, uses trust money to pay an antecedent debt of his own to a creditor who has no notice of the breach of trust, or that the money is subject to the trust, in such a manner that the money is received as a general payment, and not as a distinct and separate fund, then the money becomes free from the trust, and cannot be followed by the beneficiary into the hands of the creditor, although, in general, an antecedent debt does not constitute a valuable consideration." Pom. Eq. Jr., 2nd ed., Sec. 1048.

In the note, p. 424, of 111 Am. S. Rep., in discussing the bankers lien "On General Deposits" where the equities of third parties are involved the annotator says: "Where trust funds are deposited with a bank, and the bank has notice of their trust character, it has no right to appropriate them to the payment of the individual debt of the depositor due from him to it; * * * But if the bank has no notice that the deposit made by a trustee is not his private property, it may, according to the weight of authority, apply the fund to the payment of the depositor's indebtedness to it. * * * Where an agent or factor has deposited his principal's money in a bank, and the bank is chargeable with notice of the true ownership of the funds, it is not entitled to apply such funds to the payment of the individual debt of the agent owing to it. * * * But a bank cannot be held to account to the owner of a fund which has been deposited by an agent in his own name and applied on his overdraft, if the bank has no knowledge of the agency. * * *."

Again on page 419 of the same note, under the caption "On General Deposits - Lien in General," the annotator says: "It is a well settled prin-

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ciple of the law merchant that a bank, without an express agreement therefor, has a general lien on the moneys, funds and securities of a customer coming into its possession in the course of their dealings, for any balance of general account, or other indebtedness due the bank from the customer. This lien does not arise where there is a special agreement or a particular mode of dealing, or other circumstances inconsistent with such a general lien; but ordinarily it attaches to the moneys and securities deposited in the usual course of business, not only against the depositor, but against the unknown equities of all others in interest."

In the note of Arnold v. San Ramon Valley Bank, reported in 13 A.L.R. p. 327, in a note under the caption "Effect of Lack of Knowledge of Fiduciary Character of Funds - General Rule permitting Application," the annotator says: "The decided weight of authority is to the effect that where the bank, in which funds in which third persons have an interest are deposited in the individual name of the depositor, has neither actual knowledge , nor notice of facts sufficient to put it upon enquiry, as to the true character of the deposit, it may apply the deposit to the individual debt of the depositor."

There are three decisions of this court referred to by appellant, viz: Federal Reserve Bank v. Peters, 139 Va. 45: Federal Reserve Bank v. Bohannon, 141 Va. 285, and Webb, Rec'r. v. O'Geary, 145 Va. 356. There is nothing inconsistent in any of these cases with the position we have taken in the instant case. The case of Federal Reserve Bank v. Bohannon, supra, has some application to the facts of the instant case and is entirely consistent with our conclusions here.

Bohannon had been appointed receiver of the Bank of Disputanta on Jan. 23, 1922. On January 20th the Federal Reserve Bank had sent to the Disputanta Bank for collection and immediate remittance certain checks, aggregating $1,416.25. The checks were drawn upon the Disputanta Bank which car-

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ried an account with the Virginia National Bank, of Petersburg, Virginia. The Disputanta Bank received these checks on Jan. 21st, cancelled them, charged them to the accounts of the drawers and remitted to the Federal Reserve Bank by its exchange draft on the Virginia Bank, which was received on January 23rd and sent to the Virginia Bank for payment. The receivership had intervened, however, and the Virginia Bank declined payment of the draft.

When the exchange draft was presented to the Virginia Bank for payment the account of the Disputanta Bank showed a credit balance of $7,340.41, but the Virginia Bank held a note of the Disputanta Bank, not due, for $25,000.00 and held collateral security therefor to the amount of $52,199.63. The Virginia Bank appropriated the balance of $7,340.41 and credited it upon the note.

This court in disposing of the controversy said: "In the instant case the exchange draft was drawn on funds on which there was a preferred lien which was enforced, thus leaving nothing with which to pay said draft."

Upon the whole case we think that the Federal Reserve Bank had no equity, to the extent of $914.37, in the account of the Virgilina Bank on deposit in the State and City Bank which was superior to the equity of the State and City Bank therein. The Virgilina Bank did not seek to segregate the proceeds of this collection but followed the usual course of dealing between the two institutions and made the remittance by means of a draft upon "such bank in the City of Richmond - - - in which the bank of Virgilina had funds on deposit." When the Federal Reserve Bank presented its check from the Virgilina Bank these funds had not only been blended with the other funds credited to the Virgilina Bank in the State and City Bank but they had been credited on the notes then due by the Virgilina Bank to the State and City Bank. It is true the notes were not actually due but it is conceded that upon the insol-

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vency of the Virgilina Bank its obligations to the State and City Bank became due, and the State and City Bank had a right to treat them as past due obligations.

Our opinion therefore is that the decree of the Circuit Court of Halifax County should be affirmed.

A Copy AFFIRMED.

Teste: (sgd) J. M. Kelly, Clerk.

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Federal Reserve Bank of St. Louis

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X-6079

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, June 28, 1928.

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 will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial production continued during May in about the same volume as in the three preceding months. Wholesale and retail trade increased in May and the general level of commodity prices showed a further advance. Security loans of member banks, which were in record volume in May, declined considerably during the first three weeks in June. Conditions in the money market remained firm.

Production--Production of manufactures was slightly smaller in May than in April, when allowance is made for usual seasonal variations, while the output of minerals increased somewhat. Production of steel declined in May from the high level attained in April but was in about the same volume as a year ago. Since the first of June buying of steel products has been light and there have been further decreases in production. Daily average production of automobiles was in about the same volume in May as in April and preliminary reports for the first three weeks in June indicate that factory operations were maintained at practically the same level. Activity of textile mills was somewhat larger in May and there were also increases in the slaughter of livestock and in the production of building materials, nonferrous metals, and coal, while the production of petroleum declined. The value of building contracts awarded during May, as reported by the F. W. Dodge

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Corporation for 37 states east of the Rocky Mountains, was larger than in any previous month, and awards during the first half of June exceeded those for the corresponding period of last year. Indicated production of winter wheat, as reported by the Department of Agriculture on the basis of June 1 condition, amounted to 512,000,000 bushels, 40,000,000 bushels less than the harvested production of 1927.

Trade--Distribution of merchandise, both at wholesale and at retail, was in larger volume in May than in April. Making allowances for customary seasonal influences, sales in all lines of wholesale trade showed increases, although in most lines they continued in smaller volume than a year ago. Department store sales were larger than in April, and at about the same level as a year ago, while sales of chain stores and mail order houses showed increases both over last month and over last year.

Volume of freight-car loadings increased further during May, but continued smaller than during the corresponding month of either of the two previous years. Loadings of miscellaneous commodities, however, which represent largely manufactured products, were larger in May of this year than in that month of any previous year.

Prices--The general level of wholesale commodity prices, as indicated by the Bureau of Labor Statistics index, increased in May by over one per cent to 98.6 per cent of the 1926 average, the highest figure recorded for any month since October 1926. There were increases in most of the principal groups of commodities but the largest advances in May as in April occurred in farm products and foods. Contrary to the general trend, prices of pig iron, hides, raw silk, fertilizer materials, and rubber showed declines during the month. Since the middle of May there have been decreases in prices of grains, hogs, sheep, pig iron, and hides, while prices of raw wool, nonferrous metals,

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lumber, and rubber have advanced.

Bank credit--Loans and investments of member banks in leading cities on June 20 showed a decline from the high point which was reached on May 16. Loans on securities, which had increased by more than $1,200,000,000 since May 1927 declined $200,000,000, while all other loans, including loans for commercial and agricultural purposes, increased somewhat. There was a small increase in total investments.

During the four weeks ending June 20 there were withdrawals of nearly $75,000,000 from the country's stock of gold, and the volume of reserve bank credit outstanding increased somewhat, notwithstanding a decline in member bank reserve requirements. Member bank borrowing at the reserve banks continued to increase and early in June exceeded $1,000,000,000 for the first time in more than six years. Acceptance holdings of the reserve banks declined considerably, while there was little change in their holdings of U. S. securities.

After the middle of May firmer conditions in the money market were reflected in advances in the open market rates to the highest levels since the early part of 1924.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6080

June 26, 1928.

SUBJECT: Forms of certificates evidencing eligibility of bankers' acceptances.

Dear Sir:

The Federal Reserve Board's Regulation A contains the following provision with reference to the rediscount by Federal reserve banks of bankers' acceptances:

> "A Federal reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal reserve bank."

In this connection the Federal Reserve Board in 1921 approved for uniform use by all Federal reserve banks certain forms of certificates evidencing eligibility of bankers' acceptances (a) arising out of domestic shipments; (b) arising out of import and export transactions; and (c) arising out of warehouse secured credits. These certificates were considered at the conference of Counsel of all Federal reserve banks in February of this year and the conference recommended that certain changes be made in the form of the certificates. The recommendations of the conference of Counsel were approved by the Governors' Conference and have now been adopted by the Federal Reserve Board for uniform use by all Federal reserve banks.

The forms of certificates evidencing eligibility of the several types of bankers' acceptances as now approved by the Board are attached hereto. It will be noted that the form of certificate for use in connection with acceptances arising out of domestic shipments has not been changed, but the forms for acceptance arising out of import and export transactions and warehouse secured credits have been materially altered.

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There has been eliminated from the form of certificate evidencing eligibility of acceptances arising out of warehouse secured credits the statement, "and the acceptor will remain secured throughout the life of the bill." The requirement that the acceptor remain secured throughout the life of the bill in such cases, however, is still contained in the Federal Reserve Board's Regulation A and a strict compliance with this requirement of the Regulation will be expected.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

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

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Domestic Shipments:

"At time of acceptance, this bill was accompanied by shipping documents evidencing the domestic shipment of (name of commodity) from (point of shipment) to (place of destination).

(Name of Acceptor)"

Import and Export Transactions:

"The transaction which gives rise to this instrument is the (importation) of (name of com-
(exportation)
modity) from (point of shipment) to (place of destination).

(Name of Acceptor)"

Warehouse Secured Credit:

"This bill was secured at the time of acceptance by independent warehouse, terminal, or other similar receipt conveying security title to (name of readily marketable staple) stored in (country where stored).

(Name of Acceptor)"

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Federal Reserve Bank of St. Louis

X-6081

TREASURY DEPARTMENT
Office of the Secretary
Washington

June 27, 1928.

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 7,1928, to June 27, 1928, amounting to $56,267.50, as follows:

Federal Reserve Notes, Series of 1914.

	$5	$10	$20	Total
Boston	298,000	75,000	-	373,000
New York	192,000	-	-	192,000
Philadelphia	185,000	-	-	185,000
Cleveland	142,000	-	-	142,000
Richmond	75,000	-	-	75,000
Chicago	92,000	-	-	92,000
San Francisco	-	274,000	252,000	526,000
	984,000	349,000	252,000	1,585,000

1,585,000 sheets at $35.50 per M $56,267.50

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

Boston	$13,241.50
New York	6,816.00
Philadelphia	6,567.50
Cleveland.	5,041.00
Richmond	2,662.50
Chicago	3,266.00
San Francisco.	18,673.00
	$56,267.50

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

Respectfully,

(Signed) R. W. Barr
Acting Deputy Commissioner.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

X-6083

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 29, 1928.

Dear Sir:

The Federal Reserve Board has received from the Post Office Department the following communication, which is self explanatory and which I have been directed to bring to the attention of all Federal reserve banks:

"Your attention is invited to the fact that large numbers of the special 'K' series rotary locks used in your service are damaged by postal employees attempting to use postal service rotary keys on certain of these special locks that get away from your service in some unaccountable way and into the post offices.

Recently it has been noted that Federal Reserve Banks at Chicago, Cleveland, and other places attach a tag to damaged locks in the special series, mark said tags 'defective lock' and apparently turn the latter over to the post office for transmission to the Mail Equipment Shops, Washington, D. C.

It is requested that you arrange to keep these special locks in your service so far as possible and have your banks return defective locks through your office at Washington for repair at the Mail Equipment Shops."

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

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FEDERAL RESERVE BOARD

January 4, 1928
St. 5630.

For immediate release

STATEMENT FOR THE PRESS

Gross earnings of the twelve Federal reserve banks for 1927 amounted to $43,020,000 as compared with $47,600,000 in 1926, and current expenses to $27,540,000 as compared with $27,350,000 in 1926. Net earnings for 1927 amounted to $13,050,000 as against $16,610,000 for 1926. The banks set aside from their earnings $2,440,000 as reserves to cover depreciation charges and reserves for losses on discounted paper, etc., and paid dividends to member banks amounting to $7,755,000.

The Federal Reserve Banks of Minneapolis and Kansas City paid a total of $249,591.17 into the Treasury of the United States as a franchise tax. All net earnings of the ten other reserve banks remaining after the payment of dividends were transferred to their surplus accounts as required by law, the surplus accounts of none of these banks at the end of the year being in excess of their subscribed capital. The total subscribed capital of the twelve Federal reserve banks on January 1, 1928, amounted to $264,962,000, and total surplus to $233,319,000.

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.

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FEDERAL RESERVE BOARD

WASHINGTON

January 10, 1928,
St. 5632.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of December and of banks previously 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.

According to our records, the number of bank suspensions and the number of suspended banks reopened during the year 1927, in each state in your district, was as follows:

	Banks Suspended					
State	National	State Mem.	Nonmember	Private	Total	Banks Reopened

It will be appreciated if you will kindly have the above figures checked against your records and advise us whether or not they are in agreement therewith. In notifying us of differences, kindly give the names and locations, etc., of the banks which should be added or eliminated. The names of the banks included in the above statement may be ascertained by referring to the lists of bank suspensions furnished to you for checking purposes each month, as the above figures are based on the monthly statements after taking into consideration the corrections therein which are regularly shown on the last page of the statements.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 11, 1928
St. 5635

SUBJECT: Debits to Individual Accounts.

Dear Sir:

In compiling monthly figures of debits to individual accounts from weekly reports received in 1928, it is proposed, as in the past three 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 1928 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 2, 1928	All states and the District of Columbia
April 26	Alabama, Florida, Georgia, Mississippi, New Hampshire.
May 1	California
June 4	Alabama, Arkansas, Florida, Georgia, Iowa, Mississippi, So. Carolina, Tennessee, Texas, Virginia
July 4	All states and the District of Columbia
July 28	Texas
August 1	Colorado
Sept. 3	All states and the District of Columbia
4	Nevada, Wisconsin
Nov. 29	All states and the District of Columbia
Dec. 28	South Carolina
Jan. 1, 1929	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*

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FEDERAL RESERVE BOARD

567

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 11, 1928
St. 5636

SUBJECT: Data for 1927 Annual Report
of the Federal Reserve Board.

Dear Sir:

Will you kindly furnish us with the following data for use in the Board's forthcoming annual report:

1. Classification of U. S. securities held by your bank (1) under repurchase agreement and (2) in investment account, as at close of business December 31, 1927, giving the kind of securities, interest rate, maturity date, and par value. The total only need be shown for securities bought through the Open Market Investment Committee and held in Special Investment Account.

2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1927.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT NEW YORK*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

January 14, 1928,
St. 5641.

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 weekly condition statement of the Federal reserve banks for 1928, if issued at your bank, there are shown below all corrections made in the weekly Federal reserve bank press statements issued during 1927, which were received too late to be shown in the comparative column of the following week's statement:

		CHANGED	
		From	To
February 16	- Discounts secured by U.S.Government obligations	230,954	229,354
	Other bills discounted	165,516	167,116
March 2	- Discounts secured by U.S.Government obligations	248,505	248,483
	Other bills discounted	186,139	186,161
April 13	- Discounts secured by U.S.Government obligations	248,722	248,744
	Other bills discounted	177,045	177,023
August 3	- Foreign bank deposits	5,201	5,167
	Other deposits	24,823	24,857
September 7	- Discounts secured by U.S.Government obligations	217,817	217,813
	Other bills discounted	182,707	182,711
November 2	- Foreign bank deposits	5,572	5,433
	Other deposits	30,170	30,309
December 28	- Discounts secured by U.S.Government obligations	411,824	410,174
	Other bills discounted	197,385	199,035

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 17, 1928,
St. 5642.

SUBJECT: Forms for use during 1928.

Dear Sir:

There are being forwarded to you today under separate cover a supply of the following forms for use during 1928:

Form 38,	copies
Form E,	copies
Form 95,	copies
Form 96,	copies
Form 97,	copies
Form 171,	copies

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL F. R. BANKS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 15, 1928.

St. 5644.

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, 1927, and as of January 1, 1928, made out in accordance with the form attached hereto. The figures for December 1927, which 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, will be published in the Board's 1927 annual report and should be comparable with corresponding figures for your bank published on page of the Board's 1926 annual report. The figures for January 1, 1928, should represent annual salaries after all changes effective as of January 1 have been made.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL CHAIRMEN*

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Federal Reserve Bank of St. Louis

St. 5644a

FEDERAL RESERVE BANK OF _____

(Including branches)

	Number		Annual Salaries	
	Jan. 1 1928	Dec. 31 1927	Jan. 1 1928	Dec. 31 1927
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.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 27, 1928
St. 5657

SUBJECT: Report of Deficiencies in Reserves of Member Banks.

Dear Sir:

In view of the revision of Regulation D, relating to penalties for deficiencies in reserves of member banks, it has been necessary to revise form St. 974, Monthly Report of Deficiencies in Reserves of Member Banks. You will note from the revised form, a copy of which is enclosed herewith, and a supply of which is being sent you under separate cover, that in the future the report is to be submitted quarterly instead of monthly as heretofore, although provision has been made on the form for showing figures for each month in addition to those for the quarterly period.

On the form heretofore in use the aggregate deficiencies on which penalties were assessed were shown for each reserve computation period, i.e., by weeks for banks in reserve cities, and by semi-monthly periods for country banks. No provision has been made on the new form for showing figures for each reserve computation period, but the total deficiencies on which penalties are assessed, as reported against item 3, should represent the sum of the aggregate net deficiencies for each reserve computation period, calculated in the same manner as at present, i.e., as indicated on page 2 of the Board's letter St. 974a of April 9, 1920.

The first report on the revised form should be rendered for the quarter ending March 31, 1928.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO EACH FEDERAL RESERVE AGENT*

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Federal Reserve Bank of St. Louis

Federal Reserve Board
Form St.974 (Rev.Jan. 1928)

FEDERAL RESERVE BANK OF _____, INCLUDING BRANCHES 573

DEFICIENCIES IN RESERVES OF MEMBER BANKS DURING THE QUARTER ENDING _____ 192__

	Month of			Quarter
1. Number of banks penalized on account of deficient reserves:*				
A. Banks in F. R. Bank and branch cities				
B. Banks in other reserve cities--				
1. Reporting semi-weekly				
2. Reporting weekly				
C. Country banks				
2. Number of banks subject to progressive penalties, or which would have been subject thereto if progressive penalties, as outlined in Regulation D, had been applied:*				
A. Banks in F. R. Bank and branch cities				
B. Banks in other reserve cities--				
1. Reporting semi-weekly				
2. Reporting weekly				
C. Country banks				
3. Aggregate of net deficiencies on which penalties were assessed (see letter of instructions):				
A. Banks in F. R. Bank and branch cities				
B. Banks in other reserve cities--				
1. Reporting semi-weekly				
2. Reporting weekly				
C. Country banks				
4. Period covered, in the case of banks on semi-weekly and weekly basis:				
A. Semi-weekly --				
1. From (date).....				
2. To (date)				
B. Weekly --				
1. From (date).....				
2. To (date)				

*No bank should be counted more than once in any month or in the quarter, regardless of how many times it was penalized during the month or quarter.

NOTE: This report should be mailed to the Federal Reserve Board as soon as practicable after the end of each quarterly period and should be accompanied with a list of member banks which were subject to the maximum progressive penalty of 10 per cent, or which would have been subject to such penalty if progressive rates, as outlined in Regulation D, had been applied. The first date of the reserve computation period in which the maximum penalty became effective, or would have become effective had progressive rates been applied, should be shown after the name of each bank.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 27, 1928,
St. 5662.

SUBJECT: Corrections in Weekly Statements.

Dear Sir:

Referring to our letter St.. 5641 of January 14, I beg to advise that the figures in the statement of condition of Federal reserve banks for September 7, 1927, were correct as originally published, but that through inadvertence the date September 7 was used in our letter instead of August 31, the date to which the changes given actually relate. It will be appreciated if you will change your copy of the January 14 letter accordingly.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL F. R. AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 2, 1928
St. 5663

SUBJECT: Member Banks Borrowing Continuously at Federal Reserve Banks.

Dear Sir:

In continuation of the practice followed for the past two years, will you kindly furnish the Board with a statement listing all of the banks which were borrowing continuously from your bank during 1927, showing their capital and surplus, borrowings, and deposits, in accordance with the attached form.

Will you also accompany your report with a general statement regarding continuous borrowings of those banks, if any, which are not expected to liquidate their indebtedness during 1928 though not considered to be in an unsafe or overextended condition.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO CHAIRMEN OF ALL F. R. BANKS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 10, 1928
St.5678

SUBJECT: Condition of Member Banks
as of December 31, 1927.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of December 31, 1927. The Board's Member Bank Call Report (No. 38) showing detailed figures for all member banks and for State bank members will be ready for distribution in the near future.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

CONDITION OF MEMBER BANKS ON DECEMBER 31, 1927. St. 5678a

Loans and investments of all member banks on December 31 attained the new peak total of $34,679,000,000, showing an increase of $1,228,000,000 since October 10, the preceding call date, and of $2,783,000,000 for the year. Of the total increase since October 10, $969,000,000 was reported by banks in the two central reserve cities, including an increase of $871,000,000 in New York City, $220,000,000 by banks in other reserve cities, and $39,000,000 by country banks. Loans and discounts, including overdrafts, totaled $24,318,000,000, an increase of $827,000,000 since October 10 and of $1,412,000,000 since December 31, 1926, the principal changes in this item since October 10 by Federal reserve districts being increases of $819,000,000 and $38,000,000, respectively, in the New York and Chicago districts, and a decrease of $40,000,000 in the Cleveland district. Investments in U. S. Government securities were $121,000,000 higher than on October 10 and $589,000,000 above the amount held a year earlier, while investments in other securities increased $280,000,000 since October 10 and $782,000,000 during the year. Of the total increase of $401,000,000 in security holdings, $204,000,000 was reported by banks in central reserve cities and $128,000,000 by those in other reserve cities.

Total deposits were $36,635,000,000, an increase of $1,185,000,000 since October 10 and of $2,127,000,000 for the year. Demand deposits were $796,000,000 above October 10, increases of $662,000,000 being shown for the New York district, $66,000,000 for the Chicago district, and $30,000,000 for the San Francisco district, and declines of $25,000,000 and $15,000,000, respectively, for the Cleveland and Minneapolis districts. As compared with December 31, 1926, demand deposits increased $531,000,000, but the increase would have been much larger except for the substantial decrease in the amount of float carried by member banks, uncollected items having declined by $595,000,000 during the year. Time deposits show an increase of $306,000,000 since October 10 and of $1,325,000,000 since December 31, 1926, the New York district showing an increase of $89,000,000 since October 10, Chicago $85,000,000 San Francisco $70,000,000, and Philadelphia $29,000,000, and the Cleveland district a decline of $24,000,000. Amounts due to banks and bankers increased $391,000,000 between October 10 and December 31 and $539,000,000 during the year. Acceptances outstanding aggregated $744,000,000 on December 31, 1927, an increase of $193,000,000 for the year.

In the attached tables are figures by Federal reserve districts for all member banks and System figures for state bank members and for national banks.

Changes in the principal resources and liabilities as compared with figures for October 10, 1927, and December 31, 1926, were as follows:

		Increase (+) decrease (-) since	
	Dec. 31,1927	Oct.10,1927	Dec. 31,1926
Loans & discounts(incl. overdrafts) .	$24,318,361,000	+$826,841,000	+$1,411,811,000
United States securities	3,977,557,000	+ 121,408,000	+ 588,594,000
Other bonds,stocks and securities . .	6,382,962,000	+ 279,843,000	+ 782,254,000
Total loans and investments	34,678,880,000	+1,228,092,000	+ 2,782,659,000
Demand deposits	18,170,140,000	+*795,714,000	+ 531,492,000
Time deposits	12,764,798,000	+ 305,550,000	+ 1,324,939,000
Government deposits	266,981,000	- 168,494,000	+ 32,865,000
Due to banks and bankers	4,593,589,000	+ 390,914,000	+ 539,149,000
Certified and cashiers' checks	839,556,000	- 138,388,000	- 301,546,000
Acceptances outstanding	743,791,000	+ 142,080,000	+ 192,828,000
Bills payable and rediscounts	663,475,000	+ 135,260,000	- 96,391,000

*Demand deposits plus certified and cashiers' checks outstanding and less exchanges and other uncollected items increased $669,000,000.

C.

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Federal Reserve Bank of St. Louis

ALL MEMBER BANKS - CONDITION ON DECEMBER 31 AND OCTOBER 10, 1927

St. 5678b

RESOURCES	State Banks		National Banks	
	December 31	October 10	December 31	October 10
Loans and discounts (including overdrafts)	$9,482,758,000	$9,115,955,000	$14,835,603,000	$14,375,565,000
U. S. securities	1,232,730,000	1,183,685,000	2,744,827,000	2,672,464,000
Other bonds, stocks and securities	2,233,464,000	2,163,713,000	4,149,498,000	3,939,406,000
Total loans and investments	12,948,952,000	12,463,353,000	21,729,928,000	20,987,435,000
Cash in vault	163,299,000	164,943,000	360,071,000	374,194,000
Reserve with F. R. Banks	1,005,212,000	905,944,000	1,509,253,000	1,413,792,000
Items with Federal reserve banks in process of collection	263,992,000	237,835,000	520,399,000	502,036,000
Due from banks and bankers	560,274,000	493,204,000	1,649,557,000	1,584,237,000
Exchanges for clearing house, and checks on other banks in same place	726,881,000	687,920,000	781,537,000	876,876,000
All other resources	1,070,973,000	1,003,228,000	1,597,812,000	1,460,721,000
Total resources	16,739,583,000	15,956,427,000	28,148,557,000	27,199,291,000
LIABILITIES				
Demand deposits	6,946,538,000	6,455,862,000	11,223,602,000	10,918,564,000
Time deposits	4,959,011,000	4,870,816,000	7,805,787,000	7,588,432,000
U. S. deposits	99,667,000	182,749,000	167,314,000	252,726,000
Certified and cashiers' checks	383,437,000	469,419,000	456,119,000	508,525,000
Due to banks and bankers	1,399,524,000	1,195,632,000	3,194,065,000	3,007,043,000
Total deposits	13,788,177,000	13,174,478,000	22,846,887,000	22,275,290,000
Bills payable and rediscounts	182,093,000	211,885,000	481,382,000	316,330,000
Acceptances outstanding	354,433,000	304,300,000	389,358,000	297,411,000
Capital stock paid in	810,071,000	806,124,000	1,527,709,000	1,498,584,000
Surplus fund	810,537,000	777,151,000	1,313,483,000	1,272,174,000
All other liabilities	794,272,000	682,489,000	1,589,738,000	1,539,502,000

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 13, 1928
St. 5680

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 25, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

580

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 20, 1928,
St. 5690.

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, 1927, together with a blank copy of the form on which the condition reports were submitted by the banks. If no call was issued as of December 31, will you kindly advise the date of the last preceding call and furnish the Board with a copy of your abstract as of that date, if not already done.

In submitting the above-mentioned data it is requested that the number of banks (exclusive of branch 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

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 20, 1928,
St. 5690a

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, 1927, together with a blank copy of the form on which the condition reports were submitted by the banks. If no call was issued as of December 31, will you kindly advise the date of the last preceding call and furnish the Board with a copy of your abstract as of that date, if not already done.

In submitting the above-mentioned data it is requested that the number of banks (exclusive of branch 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.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 21, 1928,
St. 5691.

SUBJECT: Branches of Member and Nonmember banks.

Dear Sir:

There is enclosed herewith a copy of a memorandum and accompanying statistical data, recently prepared for the Board's information, on the subject of branches of member and nonmember banks on February 25, 1927 (when the McFadden bill became a law) and on June 30, 1927.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 7, 1928,
St. 5695.

SUBJECT: Functional Expenses
Second Half, 1927.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense exhibit for the half year ending December 31, 1927. 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*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 29, 1928,
St. 5700.

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*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 7, 1928
St. 5709

SUBJECT: Member Bank Call Report showing Condition of All Member Banks on December 31, 1927.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 38, showing the condition of all member banks on December 31, 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,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 12, 1928
St. 5617

SUBJECT: Rediscounted Paper Secured by Collateral.

Dear Sir:

Will you kindly have prepared and furnish the Board a statement as of March 14, 1928, showing the amount of rediscounted paper held under discount by your bank which is secured by collateral and the amount which is not secured by collateral, also the marginal collateral held as additional security. I would suggest that the figures be submitted against the following captions:

	March 14, 1928
Customers' paper:	
With collateral	_____
Without collateral	_____
Member Bank collateral notes ...	_____
Total bills discounted	_____
Marginal collateral held	_____

Very truly yours,

Walter L. Eddy,
Secretary.

To GOVERNORS OF ALL FEDERAL RESERVE BANKS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 14, 1928,
St. 5719.

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 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 13. 1928
St. 5745.

SUBJECT: Condition of Member Banks
as of February 28, 1928.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of February 28, 1928. The Board's Member Bank Call Report (No. 39) 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. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 13, 1928,
St. 5749.

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,

J. C. Noell,
Assistant Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 13, 1928
St. 5750

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a copy of a memorandum and accompanying statistical data, recently prepared for the Board's information, on the subject of bank suspensions during the year 1927 and during the 7-year period 1921-1927.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 13, 1928.
St. 5753

SUBJECT: Marginal or excess collateral.

Dear Sir:

With further reference to the Board's letter St. 5617 of March 12, subject "Rediscounted Paper Secured by Collateral," it will be appreciated if you will kindly furnish us with additional information regarding marginal or excess collateral held by your bank on March 14 as follows:

	Total discounted bills held on March 14, 1928	Marginal or excess collateral held on March 14, 1928	
		Amount required by F. R. bank	Amount voluntarily pledged by member bank, i.e., not required by F.R.bank
Rediscounted customers' paper			
Member bank collateral notes:			
Secured by eligible paper			
Secured by U. S. Government obligations			
Total			

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 24, 1928
St. 5759

SUBJECT: Revision of Member Bank Quarterly Condition Report and Semi-Annual Earnings, Expenses, and Dividends Report.

Dear Sir:

At the conference of the Federal reserve agents held in Washington on October 31 to November 3, 1927, the Committee on Bank Examinations, consisting of Mr. Hoxton, Chairman, Mr. Mitchell and Mr. DeCamp, was requested to confer, if agreeable to the Federal Reserve Board, with the Chief of the Board's Division of Bank Operations with regard to possible changes in the quarterly condition and semi-annual earnings and dividends reports of state bank members of the Federal Reserve System, forms 105 and 107.

The Committee held a meeting in Washington March 22 and 23, at which were present, in addition to the members of the Committee, Messrs. Pole, Gough and Kane of the office of the Comptroller of the Currency, Mr. Fry and Mr. Bailey, Assistant Federal Reserve Agents at Richmond and Minneapolis, respectively, and representatives from the Board's Divisions of Bank Operations, Research and Statistics, and Member Bank Examinations. Prior to the meeting in Washington, a tentative draft of the condition report form 105 was prepared and a copy furnished to each member of the committee. The changes contained in the tentative draft and others suggested at the conference were discussed in detail and all the changes agreed upon at the conference are embodied in the enclosed proof copy of the form, as are a few minor changes made after the conference by the Division of Bank Operations after consultation with the office of the Comptroller of the Currency. At the conference it was agreed that it is desirable to have the condition report used by the Board for state bank members and that used by the Comptroller's office for national banks as nearly the same as practicable, also that the same form should be used for every call report during the year, instead of having a long form, i.e., with schedules covering loans and discounts and investments, etc., in June and a short form without such schedules for other call dates. It is also hoped that both forms 105 and 107, as approved for use by the banks in submitting their June reports, will remain unchanged for several future calls at least.

Form 107, Semi-Annual Earnings, Expenses and Dividends report, a copy of which is enclosed, was also considered, and it was decided to recommend no substantial changes in this form but merely to amend certain captions so that they would indicate a little more clearly the kind of information to be reported.

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From a comparison of the revised condition report form 105 with that used last June, you will note that the important changes suggested are as follows:

1. "Cash and due from banks" is shown as a single item among resources and a schedule provided to show the detail desired under this heading.

2. The undivided profits item has been changed by omitting the sub-item of current expenses and by showing reserves for dividends and contingencies as a separate item.

3. The item "Letters of credit and travelers' checks sold for cash and outstanding" has been inserted immediately after the item "Certified and cashiers' or treasurers' checks, including dividend checks, outstanding," so that the amount will be included in bank deposits, the same as are cashiers' checks, for reserve calculation purposes.

4. A new item "Mortgage bonds and participation certificates outstanding" has been added on the liability side.

5. The loan and discount schedule has been expanded so as to segregate, so far as practicable, loans to local customers from loans to others and paper bought in the open market.

6. The schedule of domestic securities has been expanded to correspond more closely with the classification heretofore used by the Comptroller of the Currency.

7. The schedule of time deposits has been made to conform largely with the different kinds of time deposits defined in the Board's regulation D.

Before formal action is taken on the forms by the Board and the Comptroller of the Currency, we should like to have the benefit of the views of each Federal reserve agent thereon. It will be appreciated, therefore, if you will examine the proofs of the revised forms and the drafts of the accompanying instructions, and advise the Board of your views with regard thereto at your earliest convenience.

Very truly yours,

R. A. Young,
GOVERNOR.

ALL AGENTS EXCEPT CLEVELAND, RICHMOND AND MINNEAPOLIS
(COPY TO ALL GOVERNORS)

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 25, 1928
St. 5760

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 February 28, 1928. If no call was issued as of February 28, will you kindly advise the date of call nearest thereto and furnish the Board with a copy of your abstract as of that date, if not already done.

In submitting the above-mentioned data it is requested that the number of banks (exclusive of branch 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

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 4, 1928
St.5778

SUBJECT: Member Bank Call Report showing Condition of All Member Banks on February 28, 1928.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 39, showing the condition of all member banks on February 28, 1928. 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,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS.*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 14, 1928,
St. 5783.

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 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 4, 1928,
St. 5803.

SUBJECT: Payment of Dividends on
June 30, 1928.

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
Estimated loss to Federal reserve bank

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL CHAIRMEN*

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

WASHINGTON

June 16, 1928,
St. 5811.

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.

It will be noted that the form is practically the same as used for the February 28 call, except for the addition of the usual June schedules, the adoption of the proposed revised form, a copy of which was sent you on April 24, having been postponed.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL F. R. AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 13, 1928,
St. 5812.

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 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON June 15, 1928,
St. 5820.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

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 for the use of state bank members in submitting their reports of earnings, expenses, and dividend payments for the six months ending June 30, 1928.

In submitting their December 31, 1927 reports some of the banks failed to furnish the detailed information in regard to interest received and paid, which is called for by the form. Please call the attention of the banks to the omission and ask them to use particular care to see that all the information called for by the form is supplied in the June 1928 and subsequent reports. The word "none" should be written or stamped in each space where there is nothing to report.

It will be noted that, except for explanatory words that have been added following certain captions, the form is substantially the same as used for the last report, the adoption of some of the changes indicated on the proof sent you on April 24 having been postponed. The form that is being sent you does, however, give the bank the option of showing in Section 4 total profits since January 1, 1927, or other recent date, instead of from organization, if the latter figures are not readily available.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL F. R. AGENTS*

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 14, 1928
St. 5821

SUBJECT: Operating Efficiency at the
Federal Reserve Banks.

Dear Sir:

Under date of May 19, 1927 the Board forwarded you a statement, St. 5359, bearing on changes in operating efficiency at the head offices of the Federal reserve banks since 1923. The statement covered the twelve expense units for which a measurement of the volume of work performed was available and gave index numbers of the changes in output per employee and output per unit of cost. The Board has brought this statement up to date and is enclosing herewith a copy thereof for your information and for the information of your Board of Directors and the operating officials of the bank. The Board would be glad to have you bring to its attention any comments regarding the statement which you may think desirable.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure

CHAIRMAN OF EACH FEDERAL RESERVE BANK*

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FEDERAL RESERVE BOARD

WASHINGTON

June 15, 1928
St. 5822

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Branch and Chain Banking.

Dear Sir:

In submitting your report covering changes in branches of member and nonmember banks during the 12 months ending June 30, 1928, as requested in the Board's letter St. 5120 of October 10, 1926, modified by letter St. 5620 of December 23, 1927, it will be appreciated if you will call to the Board's attention any errors that may have been found in the memorandum on branches of member and nonmember banks submitted to you with the Board's letter St. 5691 of February 21, 1928.

The Board would also like to have you accompany your report on changes in branch banking with such information as you have or can readily obtain regarding chain banking in your district. While it is difficult to formulate a definition of chain banking, it is generally understood to include those banks over which an individual, company, corporation, or group of individuals exercises some material control or is in a position through stock ownership or otherwise to exercise such control. While the Board would like to have your report on chain banking as complete as practicable, it should not, of course, include banks which may have one or more common directors but in which there is no control or no reasonable expectation that control could be exercised, nor banks with substantially identical ownership but operating in different fields in the same community, such as the affiliation which may exist between a local commercial bank and a local savings bank. It is suggested that your report on chain banking be submitted under the following heads:

1. Location and name of controlling interest or group
2. Location and name of banks in chain
3. Degree of control, i.e.,
   a. Majority of stock
   b. Substantial stock interest less than majority
   c. Inter-locking directorates
   d. Other (specify)

During recent years a number of investment trusts and other financial corporations have been organized for the purpose of specializing in bank stocks, and the operations of these companies are likely to result in chain banking and no doubt in some cases have already done so. In view of the far-reaching influence on the banking situation that these corporations may have, the Board would like to have you furnish it with such data regarding these institutions, if there are any in your district, as it is convenient for you to obtain.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

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