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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 6, 1928.

CHANGES IN STATE BANK MEMBERSHIP:
Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
7.	The Cass City State Bank, Cass City, Mich.	$40,000	$12,000	$510,444	6-27-28.

Absorption of National Bank:

3. The Steelton Trust Company, Steelton, Pa., has absorbed the Steelton National Bank, Steelton, Pa. 6-30-28.

Consolidation of State Members

6. The Marine Bank & Trust Company, New Orleans, La., and the Canal Bank & Trust Co., New Orleans, members, have consolidated under the title of Marine Bank & Trust Company. 6-24-28.

Consolidated with National Bank

5. The Citizens Bank of Norfolk, Virginia, (Consolidated with the Seaboard National Bank under the title The Seaboard Citizens National Bank of Norfolk). 6-30-28.

Change of Titles

8. The Liberty Insurance Bank, Louisville, Ky. has changed its title to Liberty Bank and Trust Company. 7-2-28.

8. The Insurance Bank of St. Louis, Missouri, has changed its title to Guaranty Bank and Trust Company. 7-1-28.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 13, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Voluntary Withdrawal:	
3	Bankers Trust Company, Atlantic City, N. J.	7-12-28.
4	Farmers & Citizens Banking Company, Milan, Ohio.	7-10-28.
	Closed:	
7	Oswego State Bank, Oswego, Ill.	7-9-28.
	Consolidation of State Members:	
	(Correction)	
	The item appearing in weekly announcement of July 6, should read as follows:	
6	The Marine Bank & Trust Company, New Orleans, La., and the Canal Bank & Trust Company, New Orleans, members, have consolidated under the title of the Canal Bank & Trust Company of New Orleans.	7-3-28.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	The Berwick National Bank, Berwick, Pa.	7-9-28.
6	The First National Bank, Cartersville, Ga.	7-9-28.
7	First National Bank, Fort Wayne, Ind. (Supplemental)	7-9-28.
7	Lincoln National Bank & Trust Co., Ft. Wayne, Ind.(Supplemental)	7-9-28.
10	Longmont National Bank, Longmont, Colo.	7-9-28.
11	City National Bank, Beaumont, Texas.	7-9-28.
12	First National Bank, The Dalles, Oreg.	7-9-28.
12	First National Bank of Arizona, Phoenix, Ariz.	7-9-28.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 20, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	None.	

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

2	Interstate Trust Company, New York, N. Y.	7-17-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	American National Bank, Camden, N. J.	7-17-28

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JULY 27, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist.		Capital	Surplus	Total resources	Date
3	Provident Trust Co., Philadelphia, Pa. (Successor to Provident Trust Co., a former member)	$3,197,520	$12,244,996	$41,876,465	7-24-28
3	Dime Bank-Lincoln Trust Co., Scranton, Pa. (Successor to Peoples Savings & Dime Bank & Trust Co., a former member)	1,350,000	1,000,000	17,995,170	7-13-28

Reopened:

7	Oswego State Bank, Oswego, Illinois.	7-24-28

Absorption of National Bank:

12	The First Security Bank, Pocatello, Idaho, has absorbed the First National Bank of Pocatello, Idaho.	7- 7-28

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

6	Citizens & Southern National Bank, Savannah, Ga.	7-27-28
11	United States National Bank, Galveston, Texas.	7-27-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	First-Mechanics National Bank, Trenton, N. J.	(Confirmatory)	7-27-28
5	Seaboard Citizens National Bank, Norfolk, Va.	(Confirmatory)	7-27-28
6	First National Bank, St. Petersburg, Fla.	(Supplemental)	7-27-28
6	Fourth National Bank, Columbus, Ga.		7-27-28
9	Winona National and Savings Bank, Winona, Minn	(Confirmatory)	7-27-28

FEDERAL RESERVE BOARD

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THE FEDERAL RESERVE BOARD

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 3, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorption of Nonmember:	
2	The Franklin Bank and Trust Co., Newark, N. J., has absorbed the Washington Trust Co., Newark, N. J., a nonmember, and changed its title to Franklin-Washington Trust Co.	7-21-28
	Voluntary Withdrawals:	
4	Bellevue Savings & Trust Co., Bellevue, Pa.	6-27-28
5	Nicholson Bank & Trust Co., Union, S. C.	8- 1-28
	Consolidated with National Bank:	
11	First State Bank, White Deer, Texas. (Consolidated with and under title of First National Bank of White Deer, Texas).	8- 1-28

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

6	Merchants National Bank, Mobile, Ala.	8- 3-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Gloucester National Bank, Gloucester, Mass.	8- 3-28
3	Prospect National Bank, Trenton, N. J.	7-30-28
4	City National Bank, Dayton, Ohio.	7-30-28
5	Clifton Forge National Bank, Clifton Forge, Va. (Supplemental)	7-30-28
10	First National Bank, Chanute, Kans.	8- 3-28
10	First National Bank, Osmond, Nebr.	7-30-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 10, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Change of Title:	
3	The Steelton Trust Company, Steelton, Pa., has changed its title to Steelton Bank and Trust Company.	6-26-28
	Voluntary Liquidation:	
7	First State Bank, Divernon, Ill.	8- 1-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Ellenville, N. Y.	8- 9-28
5	First National Bank, Mount Airy, N. C.	8- 9-28
10	First National Bank, Cody, Wyo.	8- 9-28
11	Groos National Bank, San Antonio, Texas	8- 9-28
12	First National Bank, Hoquiam, Wash. (Confirmatory)	8- 9-28

FEDERAL RESERVE BOARD

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THE FEDERAL RESERVE BOARD

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 17, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Voluntary Withdrawal:	
1	Fidelity Trust Company, Portland, Maine.	8-14-28
	Change of Title:	
2	The Municipal Bank of Brooklyn, N. Y., has changed its title to Municipal Bank and Trust Company.	8-15-28
4	The Woodlawn Trust Company of Woodlawn, Pa., is now the Woodlawn Trust Company of Aliquippa, Pa., the name of the town having been changed.	
	Voluntary Liquidation:	
11	American Trust and Savings Bank, El Paso, Texas.	

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

3	Delaware County National Bank, Chester, Pa.(confirmatory)	8-13-28
5	Carolina National Bank, Anderson, S. C.	8-13-28
6	Commercial National Bank, Lafayette, La.	8-16-28

FEDERAL RESERVE BOARD

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ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 24, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorption of National Bank:	
11	The First State Bank & Trust Co., Snyder, Texas, a member, has absorbed the First National Bank of Snyder.	8-15-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Second National Bank, Malden, Mass.	8-23-28
1	Amoskeag National Bank, Manchester, N. H. (Supplemental)	8-20-28
1	National Bank of Chester, Chester, Vt.	8-23-28
2	National Spraker Bank, Canajoharie, N. Y.	8-23-28
9	First National Bank, Yankton, S. Dak.	8-24-28
12	Whittier National Bank, Whittier, Calif.	8-23-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED AUGUST 31, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorption of Nonmember Banks:	
2	The Bank of United States, New York, N. Y., has absorbed the Cosmopolitan Bank and the Bronx Borough Bank, both of New York, N. Y., nonmembers.	8-25-28
	Voluntary Withdrawal:	
7	Huston Banking Company, Blandinsville, Ill.	8-28-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Tuxedo National Bank, Tuxedo, N. Y.	8-29-28
3	Merchants National Bank, Allentown, Pa. (Supplemental)	8-29-28
7	Hyde Park National Bank, Chicago, Ill.	8-28-28
7	First National Bank, Lebanon, Ind.(Confirmatory)	8-29-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 7, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date

Admitted to Membership:

None.

Converted to National Bank:

7	The Hyde Park State Bank, Chicago, Ill., has converted into the Hyde Park National Bank of Chicago.	8-28-28

Absorption of Nonmember Bank:
(Correction)

The item appearing in weekly announcement of August 31 should read as follows:

2	The Bank of United States, New York, N. Y., has absorbed the Cosmopolitan Bank, New York, N. Y., a nonmember.	8-25-28

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

10	American-First National Bank, Oklahoma City, Okla.	9- 5-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 14, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Closed:	
7	Strawberry Point State Bank, Strawberry Point, Iowa.	9-11-28
	Voluntary Withdrawals:	
10	Conqueror Trust Company, Joplin, Mo.	9-13-28
11	Union State Bank, East Bernard, Texas	9- 8-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

5	Marion National Bank, Marion, Va.	9-14-28
6	First National Bank, Columbus, Ga.	9-12-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 21, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	None.	

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Needham National Bank for Savings and Trusts, Needham, Mass.	9-18-28
2	Dunbar National Bank, New York, N. Y.	9-18-28
3	First National Bank, Beverly, N. J.	9-17-28
3	Merchants National Bank, Pottsville, Pa.	9-17-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED SEPTEMBER 28, 1928

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Consolidated with National Bank:	
2	The Guardian Trust Company of New Jersey, Newark, N. J., has consolidated with the Broad & Market National Bank & Trust Co., Newark, N. J., under title of New Jersey National Bank & Trust Company of Newark.	9-27-28
	Voluntary Withdrawal:	
8	Citizens Bank, Gillett, Ark.	9-24-28
9	Joliet State Bank, Joliet, Mont.	9-27-28
	Absorbed by Nonmember:	
8	The Fidelity Bank and Trust Co., Memphis, Tenn., has been absorbed by Manhattan Savings Bank & Trust Co., Memphis, Tenn., a nonmember.	9-22-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First National Bank in Medford, Medford, Mass.	9-27-28
2	Manasquan National Bank, Manasquan, N. J.	9-26-28
5	Citizens National Bank, Alexandria, Va. (Supplemental)	9-27-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 5, 1928

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Capital	Surplus	Total resources	Date
	Admitted to Membership:				
2	The Merchants Bank, New York, N. Y.	$300,000	$100,000	$1,743,429	10- 2-28
3	The Bank of Auburn, Auburn, Pa.	50,000	50,000	777,670	10- 1-28
4	Union Trust Co., Newark, Ohio.	300,000	60,000	7,698,020	10- 1-28
11	Texas Bank & Trust Co., Brownsville, Texas.	75,000	25,000	1,307,501	10- 2-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Port Newark National Bank, Newark, N. J.	10- 1-28
6	First National Bank, Biloxi, Miss. (Supplemental)	10- 1-28
7	Kellogg Citizens National Bank, Green Bay, Wis.	10- 1-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 12, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Change of Title:	
4	The City Deposit Bank, Pittsburgh, Pa., has changed its title to City Deposit Bank and Trust Company.	10- 1-28
	Voluntary Withdrawal:	
6	Southern Bank & Trust Co., Miami, Fla.	10- 8-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

7	Commercial National Bank, Waterloo, Ia.(Supplemental)	10- 9-28
10	First National Bank, Manhattan, Kans.	10- 9-28
10	Producers National Bank, Tulsa, Okla.	10-11-28
12	First National Bank in Chehalis, Chehalis, Wash.	10-12-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 19, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Consolidation of State Members:	
4	The Lake Erie Trust Co., Cleveland, O., and the United Banking & Trust Co., Cleveland, O., both members, have consolidated under the title of the United Banking & Trust Co.	10- 1-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First National Bank, Ipswich, Mass.	10-17-28

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED OCTOBER 26, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Admitted to Membership: Capital	Surplus	Total resources	Date
4	Bank of Commerce & Trust Co., Cincinnati, Ohio	$976,800	$314,860	$8,071,770	10-24-28
	Closed:				
5	Palmetto Bank & Trust Co., Florence, S. C.				10-26-28
	Voluntary Withdrawal:				
7	Alta Vista Savings Bank, Alta Vista, Iowa				10-22-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

7	National Brookville Bank, Brookville, Ind.(Supplemental)	10-24-28
7	City National Bank, Oshkosh, Wis. (Supplemental)	10-24-28
10	Packers National Bank of South Omaha, Omaha, Nebr.	10-24-28
10	Fidelity National Bank, Oklahoma City, Okla.	10-25-28
11	City National Bank, Corpus Christi, Texas	10-25-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 2, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Consolidated with National Bank:	
3	The Oxford Bank & Trust Co., Philadelphia, Pa., has consolidated with and under the charter and title of the Corn Exchange National Bank & Trust Co., Philadelphia, Pa.	10-31-28
	Voluntary Withdrawal:	
8	Bank of Earle, Earle, Ark.	11- 1-28
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
2	Commercial National Bank & Trust Co., New York, N. Y.	11- 2-28
11	Collin County National Bank, McKinney, Texas.	10-31-28

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FEDERAL RESERVE HOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 9, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Voluntary Withdrawal:	
7.	Citizens Savings Bank, Eldora, Iowa	11- 9-28
9	Merchants Bank, Winona, Minn.	7-11-28
9	First State Bank, Philipsburg, Mont.	7-30-28
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
2	Peoples National Bank, Patchogue, N.Y.	11- 7-28
2	Hamilton National Bank, Weekawken, N.J.	11- 7-28
3	First National Bank, Bangor, Pa.	11- 7-28
3	First National Bank, Easton, Pa.	11- 7-28
3	Myerstown National Bank, Myerstown, Pa.(Supplemental)	11- 7-28
3	Bridgeport National Bank, Bridgeport, Pa.	11- 7-28
	AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS.	
2	Bank of America National Association, New York, N.Y.	11- 7-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 16, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	None.	

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

4	Second National Bank of Paintsville, Ky.	11-10-28
7	First National Bank of Plainfield, Ind.	11-12-28
7	First National Bank of Ottumwa, Iowa	11-10-28
8	First National Bank of Paducah, Ky.	11-12-28

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 23, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Voluntary Withdrawals:	
7	Hinckley State Bank, Hinckley, Ill.	11-19-28
7	Mayer State Bank, South Whitley, Ind.	11-17-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED NOVEMBER 30, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorption of Nonmember:	
2	The Bank of Glendale, Glendale, New York City, a nonmember, has been absorbed by the Globe Exchange Bank, Brooklyn, N. Y., a member bank.	11-30-28
	Voluntary Withdrawal:	
3	Gloucester City Trust Co., Gloucester City, N. J.	11-28-28
	Closed:	
7	Farmers Savings Bank, Sac City, Iowa	11-23-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First National Bank, Westfield, Mass.	11-26-28
2	Straus National Bank & Trust Co., New York, N. Y.	11-16-28

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 7, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist.		Date
	None.	

Closed:

7	State Savings Bank, Ute, Iowa	12- 1-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Hampton Bays National Bank, Hampton Bays, N. Y.	12- 4-28
3	First National Bank, Patton, Pa. (Supplementary)	12- 4-28
3	First National Bank, Weatherly, Pa.	12- 4-28
6	Commercial National Bank, Lafayette, La. (Supplementary)	12- 7-28
6	First National Bank, South Pittsburg, Tenn.	12- 4-28
7	National Bank of Pontiac, Pontiac, Ill.	12- 4-28
7	Commercial National Bank, Rockford, Ill.	12- 3-28
7	Merchants National Bank, Detroit, Mich.	12- 3-28
7	Old National Bank, Beaver Dam, Wis.(Supplementary)	12- 7-28
7	First National Bank, Wausau, Wis. (Supplementary)	12- 3-28
8	First National Bank, Petersburg, Ind.	12- 7-28
9	Midway National Bank, St. Paul, Minn.	12- 7-28
10	First National Bank, Norman, Okla.	12- 7-28
11	Citizens National Bank, Denison, Tex. (Confirmatory)	12- 3-28

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 14, 1928

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Merged with Nonmember:	
7	The Security Trust & Savings Bank, Cedar Falls, Iowa, a member, has merged with the Citizens Savings Bank, Cedar Falls, Iowa, nonmember, under title of Citizens-Security Trust and Savings Bank of Cedar Falls, a nonmember.	10-27-28
	Absorption of Nonmember:	
7	The Iowa State Savings Bank, Fairfield, Iowa, member, has absorbed the Farmers State Bank, Fairfield, Iowa, a nonmember.	
	Converted to National Bank:	
8	The South Side Trust Co., St. Louis, Mo., has converted into the South Side National Bank of St. Louis.	12- 7-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Indian Head National Bank, Nashua, N. H. (Supplemental)	12-10-28

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 21, 1928

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorption of National Bank:	
2	The Municipal Bank and Trust Co., Brooklyn, N. Y., has absorbed the Seventh National Bank of New York, N. Y.	12-21-28
	Consolidated with National Bank:	
7	The Second Ward Savings Bank, Milwaukee, Wis., has consolidated with and under charter and title of the First-Wisconsin National Bank, Milwaukee, Wis.	12-15-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

9	Gogebic National Bank, Ironwood, Mich.	12-21-28
10	State National Bank, Shawnee, Okla.	12-21-28

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED DECEMBER 28, 1928.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorbed by Nonmember:	
9	State Savings Bank, Laurium, Mich. (Absorbed by Merchants & Miners Bank, Calumet, Mich., nonmember).	11-27-28
12	Fillmore Commercial & Savings Bank, Fillmore, Utah (Consolidated with and under title of State Bank of Millard County, Fillmore, Utah, nonmember).	12-19-28

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

2	Nassau National Bank, Brooklyn, N. Y.	12-27-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

8	Peoples National Bank & Trust Co., Sullivan, Ind. (Supplemental)	12-27-28

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6084

July 2, 1928.

CONFIDENTIAL.

Dear Sir:

The attached communication from the Assistant Secretary of the Treasury, with reference to the status of the Treasury's program for reducing the size of currency notes in so far as it concerns the Bureau of Engraving and Printing, is self-explanatory. You will note particularly the request contained in the letter that the Board place appropriate printing orders for the new notes. It seems desirable to the Board that this request be complied with, and you are, therefore, requested to consult with the proper officials of your bank and wire the Federal Reserve Board, on or before July 10th, the amount of each denomination of notes of your bank which should be printed during the fiscal year, in order that there may be on hand here at the close of the year sufficient stocks of the smaller notes to take care of your requirements for a ten or twelve months' period.

The question of the issue date or dates for the new Federal reserve note has not yet been determined. As stated in the Treasury's letter, this will depend (1) upon the time which it takes to accumulate in advance sufficient stocks of the new notes, and (2) the extent to which it may seem desirable to make use of existing stocks of Federal reserve notes of the present size. The Board would not be inclined to look with favor upon any suggestion as to the issue date for the new Federal reserve notes which might involve the destruction of too large an amount of the unissued stock of notes of the present size and has so advised the Treasury Department in its reply to the enclosed communication.

The Treasury has requested that the contents of the enclosed letter be treated as strictly confidential.

Very truly yours,

Edmund Platt,
Vice Governor.

TO ALL FEDERAL RESERVE AGENTS.

Enclosure.

COPY

28

TREASURY DEPARTMENT

WASHINGTON

X-6084-a

June 29, 1928.

Dear Governor Platt:

Referring to my discussion with your Board Tuesday morning, relative to the status of the Treasury's program for reducing the size of currency notes, I wish to confirm my statements made at the conference to the effect that the problem immediately confronting the Treasury is to complete adjustments at the Bureau of Engraving and Printing which have been under way for some time past, and particularly, so far as can be done, adjustment of the labor situation for the coming fiscal year, beginning July 1, 1928. Commencing, on or about that date, the Bureau proposes to go into the production of United States notes of the smaller size and along about October or November, 1928, it will be prepared to begin producing Federal reserve notes of the reduced size.

It is essential that the work at the Bureau be laid out over the fiscal year period and in this connection we should know at the earliest practicable date the amount of Federal reserve note printings for the year. Unless unforeseen contingencies arise, new notes of the various Treasury issues will be put into circulation at about the end of the coming fiscal year, and the work at the Bureau of Engraving and Printing during the early months of the year will be directed toward building up adequate stocks of these notes. It is confidently believed that the reserve bank issues, or at least some of those of

the reserve banks, can be put into circulation shortly after the close of the fiscal year, that is, after July 1, 1929, and consequently I submit that the Bureau of Engraving and Printing should be directed to commence as soon as practicable the printing of the new Federal reserve notes, so that by the close of the year there will have been accumulated at the Bureau for each Federal reserve bank sufficient stocks of each denomination to meet requirements for a ten or twelve months' period following the date or dates upon which the new reserve notes are put into circulation. The Treasury would, therefore, appreciate your Board placing appropriate printing orders with the Bureau of Engraving and Printing.

I wish to reiterate my previous advice that the issue date or dates for reduced sized Federal reserve bank currency is dependent (1) upon the time which it takes to accumulate in advance sufficient stocks thereof, and (2) the extent to which it may seem desirable to make use of now existing stocks of Federal reserve notes of the present size.

While it may not be possible to fix a date that will permit of the entire stock of these notes being exhausted prior to the turnover, the Treasury will give consideration to this problem in fixing the issue date, and as I have previously pointed out, the reduction in cost of the new notes will speedily compensate the banks for any balance of notes that it may be found necessary to destroy.

Very truly yours,

Edmund Platt, Esq.,
Vice Governor,
Federal Reserve Board.

(S)
HENRY HERRICK BOND,
Assistant Secretary.

Copy

X-6085

30

FEDERAL RESERVE BANK
of
Kansas City

March 24th
1 9 2 8.

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

My dear Mr. Wyatt:

I have your telegram requesting that I furnish you with my views concerning the proposed uniform bank collection code. I have assumed, although apparently erroneously, that the matter was of no particular urgency, and on account of the considerable time I have been absent from the office and the press of work while here, I have not previously attempted to go into it, as I otherwise would have done. This I regret exceedingly, especially since it appears that in waiting to hear from me you have experienced some delay and inconvenience in getting the work of the committee under way.

In going over the code I have not attempted to formulate suggestions as to changes or additions, which I believe is in accordance with the understanding had at our conference, but have endeavored only to find possible weaknesses in it. What I shall say accordingly shall be somewhat in the nature of a series of interrogatories concerning it.

Section 3.

In the first sentence of this section it is provided that a bank of deposit shall have the right to revoke any credit given for an item deposited before the close of banking hours on the day of deposit, if at the time of deposit the credit to the account of the drawer is insufficient for the payment of the item. In the next sentence it is provided that if sufficient funds are deposited or credited to the account during the same day the item shall be deemed paid at the time of such deposit or credit.

Queries:

1. Does not the first sentence afford all the protection that a bank of deposit requires in accepting items for deposit drawn upon itself?

2. Does the second sentence create a doubt as to its effect as against an attachment or garnishment of the drawers account levied subsequent to the time of the deposit of the item and prior to the time the account is made sufficient, and also does it create a doubt as to the effect of a stop-payment order given during the same interim?

The concluding part of this section is to the effect that a subsequent deposit or credit may not operate as payment of an item previously deposited if "at such time there is an existing indebtedness of such * drawer * the set-off of which would render such deposit or credit insufficient to pay such item.

Queries:

1. Is not the "existing indebtedness" referred to an indebtedness then due or one which may be then set-off, and if so is the recital entirely clear to that effect?

2. What reason is there for making payment contingent upon there being no existing indebtedness, where the account of the drawer is subsequently credited with funds sufficient to pay an item previously deposited, as provided in the last sentence of the section, and not making payment so contingent, where the account of the drawer is ample when the item is deposited, as provided in the first sentence of the section?

Section 6.

In this section there are prescribed "rules of ordinary care in forwarding and presentment".

Queries:

1. Rather than formulate rules which apparently attempt to embrace all acts, the performance of which constitute ordinary care, would it not be preferable to provide simply that collecting agents shall have the authority to do specifically named things? For instance, in subdivision (a) of this Section (Section 6) it is made the exercise of ordinary care to forward items by mail (1) direct to the drawee or payor bank, (2) to another bank collection agent. The right to use other means of transmitting the items than by mail, or to use an agent other than a bank, is not included within the rule of ordinary care that is stated. If the right were conferred as authority to do the things named, without prescribing a rule as to what constitutes ordinary care, the question

of whether other methods of handling would constitute ordinary care would doubtless not be affected, but where a rule of ordinary care in such transactions is prescribed, and the method followed is not within the terms of such rule, the effect of the rule in such a case is a question about which I believe there may be some considerable doubt.

The last clause in subdivision (a) of Section 6 provides that it shall not be deemed ordinary care to forward an item for collection to any bank as to which the forwarding bank has knowledge or reasonable ground to believe that it is not in a sound financial condition, and it is either insolvent or approaching insolvency.

Query:

Is this not a suggestion to contentious holders of items to charge collecting agents with knowledge of the condition of sub-agent banks? The rule which is stated is perhaps the law at this time, but it seems that a concrete statement of it in a statute would result in many unwarranted attempts being made to fix liability under its provisions. Witness the Malloy decision. I observe that the uniform statute which has been passed in many of the states authorizing items to be sent direct to drawee or payor banks confers the right to so handle items upon the condition that the "forwarding bank shall have used due diligence in other respects in connection with the collection of such instrument". Would not the same or similar language preserve to the owners of items the same right that they would have under the above provisions, and at the same time not cause unnecessary embarrasment and annoyance to collecting banks?

The latter part of sub-division (b) of Section 6 contains a provision somewhat similar to that in subdivision (a) which has just been referred to, and what has been said there applies likewise to this subsection.

In subdivision (c) of Section 6 it is provided that where an item is received by mail by the drawee or payor bank it shall be deemed the exercise of ordinary care to collect the item by charging the amount to the account of the drawer in the event the funds to his credit are sufficient, at the first reasonable opportunity.

Queries:

1. What purpose is served in prescribing a rule of ordinary care in this connection?

2. Why should any distinction be made between items received by mail and those deposited by a customer of the drawee bank (Section 3) as to when the items are paid?

3. Should there be a time fixed within which items must be charged by the drawee bank or returned?

It is also provided in subdivision (c) of Section 6 that items first received in the mails shall be charged to the account of the drawer in preference to items later presented or received.

Queries:

1. Does that not place an impracticable duty on the drawee bank in actual operation?

2. Would it prevent items of smaller amounts being charged to the account of the drawer if no additional credits were made to his account and the account were sufficient to pay the smaller items?

Section 8.

With reference to the duty to make inquiry concerning an item for which returns have not been received, within what time must such inquiry be made, and what constitutes "proper inquiry"?

Section 9.

The last sentence of this section refers to the duty of a collecting agent which has knowledge of the approaching insolvency of a drawee bank, or reasonable ground to suspect that it is about to close its doors. The same inquiry is made concerning this provision as has been made concerning similar provisions in subdivisions (a) and (b) of Section 6.

Section 11.

At the commencement of this section it is provided that items which come within the terms of Section 188 of the Negotiable Instruments Act are excepted. Should not an exception also be made as to items which come within the terms of Section 186 of the Negotiable Instruments Act?

The continued liability of the drawer of an item is made dependent not only on condition that "(1) ordinary care has been exercised in forwarding such item to the drawee or payor" but also "(2) in case of an agent presenting such item directly to the drawee or payor there has been no opportunity offered such agent to obtain money or a solvent credit".

Query:

Would not the second condition operate to release the drawer in most all instances where the bank presenting the item and the drawee bank are located in the same place, for what circumstances in such a case other than insufficient money on hand to pay, or lack of a solvent credit in the requisite amount, would constitute a failure of "opportunity" to collect in money or a solvent credit?

In the last sentence of this section a partial release of drawers of items is provided for where the bank or banks presenting the items exchanged the same for items against itself or themselves and the draft of the drawee bank.

Queries:

1. Is this plan workable where clearings are made through a clearing house in which settlements are made between all clearing member banks upon net balances due, and without reference to particular items of credits or debits against individual banks?

2. Would not a proportionate release result in uncertainities, confusion, and controversies?

3. If workable, would not the drawers of items presented by collecting agents against which the drawee bank held items for collection, obtain an advantage over drawers whose items are forwarded by mail for collection, without good reason for such advantage?

4. Could not equality of rights be maintained as between all holders by charging back all items, and as to items received from other banks for which in part items against such other banks were exchanged, require such banks to pay the amount of such items in cash?

5. What effect does charging the items to the account of the drawers have on endorsers and parties secondarily liable?

6. If it is contemplated that endorsers or parties secondarily liable shall be released, is this entirely fair to the owners of items, particularly where such items are accepted on the credit of such persons?

Section 12.

By this section it is made the duty of the receiver or other officer in charge of the assets of a failed bank to return to the presentor thereof all items which are not actually paid for. What provision, if any, should there be as to items which have been returned to the drawers prior to the closing of the bank?

Section 13.

Subdivision (a) of this section provides that upon the closing of a bank preference shall not be given for a draft issued for an item "drawn upon, payable by, or at" such bank.

> Query: Is not this provision too broad? Would it not wrongfully deny a preference in instances where an actual fund came into possession of the bank for payment of an item? For instance, if the maker of a note payable at a bank paid the amount thereof to the bank in cash immediately prior to its closing, would not the owner of the note be rightfully entitled to recover the funds as a preference. The provision, as drafted, however, would appear to deny him this right.

In subdivision (b) of paragraph 13 a preference is provided for as to items which a bank has collected from another bank. The manner in which the collection has been effected from the other bank is not stated.

> Query: Should not the right to preference be dependent upon the existence of trust funds, whether or not the same have become mingled with assets of the bank and some method of relief be provided for the owners of items collected by an insolvent bank, other than at the expense of the depositors and creditors of the failed bank?

I find that I have been more prolix than I had expected, but I trust there may be something in what I have said that may be of value.

Very cordially yours,

(S) H. G. Leedy.

HGL-L

Copy X-6085-a

HERRICK, SMITH, DONALD & FARLEY

First National Building
1 Federal Street

Boston March 22, 1928.

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

Dear Mr. Wyatt:

At the last conference of counsel of the Federal reserve banks there was submitted in draft form Mr. Paton's proposed "Uniform Bank Collection Code." As there was no opportunity to discuss this in detail at the conference, the matter was referred to a sub-committee and all counsel of the reserve banks were invited to send in their comments.

When we returned from Washington, Mr. Carrick took under consideration the experience of the Federal Reserve Bank of Boston in the matter of collections. He also obtained from Mr. Agnew a copy of his letter to Mr. Paton dated December 23 last, in which Mr. Agnew analyzed the code. Mr. Carrick and I have just had an opportunity to go over this matter and here are my comments for what they are worth.

We have never had a single case in court growing out of the collection of checks or other items. Mr. Carrick tells me that there has never been any collection case involving any loss to the Reserve Bank of Boston except in connection with one small item where we misrouted a check and paid up the loss as soon as our negligence became apparent.

Thus, at least so far as our practical experience is concerned, there is nothing in existing conditions to indicate the necessity of formulating any code. Perhaps your committee will take under advisement as to whether a new code is necessary. I think it might be borne in mind that all new legislation, however carefully prepared, turns out almost inevitably to be defective or ambiguous in some respect.

Now as to the code itself, I won't even pretend to analyze the provisions in any comprehensive manner. I will merely call your attention to the following points.

In the first place in the course of my private practice I have had quite a bit to do with branch banking. Mr. Paton defines a "branch" as a "bank". Under his definition is a bank with a branch the equivalent of two banks? Is a check drawn generally on a bank payable at a branch, and conversely is a check made payable at a branch payable at the main office of a bank? I don't think the proposed code is clear on the point.

Again the question of setoff where a bank holds an unmatured note of a depositor and the depositor becomes insolvent is important, particularly where the bank desires to exercise its rights prior to actual receivership or bankruptcy. I don't know that this is a proper subject for the code, but it might be suggested to Mr. Paton as a question to be considered.

In Massachusetts we have a decision (Castaline vs. National City Bank of Chelsea, 249 Mass. 192) holding that where two checks are presented

at the same time and the bank is able to pay one but not both, the Bank owes a duty to pay one. The proposed code is not clear as to the duty of the bank where a number of checks are presented at the same time.

So far as Mr. Agnew's suggestions are concerned, it seems to me that most of his points are well taken. I am particularly impressed by his comments relative to "solvent credits" and relative to responsibility where there is knowledge or reasonable grounds to believe that a bank is insolvent or approaching insolvency.

I trust that the above few points may be of some help to you.

Very truly yours,

(Signed) A. H. Weed.

AHW:M
CC-Mr. Carrick.

SQUIRE, SANDERS & DEMPSEY

Counsellors at Law

The Union Trust Building,

Cleveland

March 21, 1928.

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

Dear Sir:

We regret that it was not possible to mail this letter to you last night in time to reach you in Washington today, and accordingly we wired you this morning advising that our comments on the Uniform Bank Collection Code would not reach you until tomorrow.

The following suggestions have occurred to us in reviewing the draft of the proposed Code prepared by Mr. Paton:

Section 1. Definitions.

Subdivision (a). The concluding sentence should, we think, be changed to read: "A branch of any such institution shall be deemed a bank for the purpose of this act."

Subdivision (b). We do not believe there is a necessity to define the term "Solvent credit" in the Code for the reason that we later express the opinion that the portions thereof in which the term "Solvent credit" is used should be eliminated from the proposed Code.

Section 2. Bank of deposit is agent for collection. Omit in line 3 the words "payee or other" for the reason that they are superfluous.

Section 3. Item on same bank. This Section should, we think, be revised to read as follows:

"Where a bank receives on deposit for credit to the depositor, an item drawn upon it or payable by or at such bank, such item shall be deemed paid at the time of its receipt if at such time there are funds to the credit of the drawer or maker thereof sufficient for its payment after deduction therefrom of any amount as to which such bank has a right of set-off, If at the time of receipt of any such item, such funds are insufficient to pay same and subsequently during the same day sufficient funds are deposited or credited to the account of the drawer, such item shall be deemed paid at the time of such deposit or credit unless at such time such bank has a right of seteff which would render such deposit or credit insufficient to pay such item."

The principal change suggested in the revision of Section 3 is to clarify the provision that payment shall be deemed to be made only in the event at the time the item is received, funds are available for payment exclusive of such amount as may be subject to the right of set-off by the depositor bank. In the original draft specific reference is made to the right of set-off in the concluding portion of the paragraph, but no reservation of this right is made to the bank in the initial portion of the section. Obviously, the funds available for payment should be subject to diminution by the depositor bank's right of set-off upon the receipt of the item, and it seems to us that this reservation should be clearly made in the language of the section.

Section 5. Duty and responsibility of bank collection agents.

It seems to us that this caption should read: "Duty and responsibility of bank collecting agents." The text of this section should, it seems to us, be changed to read:

It shall be the duty of the initial or any subsequent bank collecting agent to exercise ordinary care in the collection of an item and when such duty is performed, such agent bank shall not be responsible if, for any cause, the instrument is not collected. An initial or subsequent bank collecting agent shall be liable for the neglect, misconduct, mistakes,

or defaults of any other agent bank. The drawee or payer shall be deemed a collecting agent of the owner or holder for the purpose of collecting an item from itself, other than a deposited item".

"Bank collecting agent" has been substituted for "Agent collection bank" and for "Agent collecting bank",

Sections 6, 7 and 8. It does not seem to us that the provision of a uniform bank collection code can safely go farther than the provisions of Section 5 in attempting to fix the duty of collecting agents. We believe, therefore, that the provisions of Sections 6, 7, and 8 should be omitted.

The attempt in subdivision (a) of Section 6 to provide what does not constitute ordinary care in forwarding an item for collection to any bank, is dangerous. It is believed that conditions under which items may be properly forwarded are not susceptible of definition and that if the language of this subdivision were enacted as law, the result would be to encourage claims against banks on the ground that the knowledge existed or should have existed that the bank to which the item was forwarded, was not in a sound, financial condition.

In the Federal Reserve System it is frequently true, we understand, that banks are used as collecting agents which are not regarded by the officers of the Federal Reserve Bank of the district as being in a sound, financial condition. In the last analysis, the question of whether a bank is a proper collecting agent is dependent upon so many facts in each particular case that we do not think an attempt should be made by statute to prescribe the conditions which make a bank a proper collecting agent.

Sub-division (b) of Section 6 does not seem to us to add anything to the common law liability of a collecting agent.

Subdivision (c) lacks the reservation of the right to protect the drawee or payor bank on its claims against the drawer of the check recited in Section 3 of the draft. It seems to us that this sub-division should at least be revised to contain the same reservation of right to the drawee or payor bank contained in Section 3, and preferably it should be omitted entirely.

Section 7 seems to us wholly superfluous and unnecessary because the rule prescribed is, we believe, the rule by which the collecting bank would be bound regardless of statute.

Section 8 seems to us to be superfluous and unnecessary because it prescribes a rule of diligence which, we believe, is imposed by common law.

Section 9 seems to us to be an illadvised attempt to prescribe by statute the right to accept payment in a form other than money which is best covered by agreement between the depositor and the depository bank. We do not think it advisable that the statute should attempt to define what constitutes ordinary care for the reasons stated supra. We believe this section should be omitted entirely.

Section 10. Collection of paper taken in payment. This section seems to us to be superfluous and unnecessary. The obligation of using ordinary care obviously applies as to acts done with regard to any purported payment received for items which a bank is attempting to collect.

Inasmuch as we feel that the provisions of Sections 6, 7, and 8 should be eliminated, we do not believe there is any purpose in including Section 10 which relates back to the sections mentioned above covering the standards of care required.

Section 11. Continued liability of drawer. The first portion of this section ending with the words "there has been no opportunity offered such agent to obtain payment in money or a solvent credit" seems to us to be unsound. It is our theory that if an item has been received payable by or at a bank and if the account of the drawer thereof has been charged therewith prior to the closing of the drawee or payor bank, this act on the bank's part should constitute an appropriation of its assets to the payment of the item and the claim should be given preference in accordance with the suggestions hereinafter made with regard to Section 13. The drawer's liability in such event should only be in case the claim so given priority fails to liquidate the drawer's indebtedness to the owner of the item, and then only to the extent of such deficit.

We think the concluding portion of Section 11 commencing "Where the draft of a drawee or payor bank, etc." should be omitted. It seems to us that if a member of aClearing House Association gives its draft in purported payment of a debit balance against it, any loss resulting from the uncollectibility of this draft should not fall upon the drawers or makers of the items received by the drawee bank at clearing.

Section 12. Duty of receiver. We think that this section should be changed to read as follows:

> "It shall be the duty of the receiver or other official in charge of the assets of an insolvent bank, to return to the presentor thereof all items drawn upon or payable by or at such insolvent bank which have not been charged to the respective accounts of the drawers or makers thereof with such insolvent bank prior to the closing thereof."

Our view is that the charging of a check or draft to the account of the drawer thereof on the books of a bank constitutes an appropriation of the bank's assets to the payment of such an item and that if this has been done prior to the closing of the insolvent bank, the claim should be given priority over the claims of general creditors of the bank.

Section 13. Preference in case of insolvency. We believe that subdivision (a) of this section should be changed to read: "In case of an item drawn upon or payable by or at a bank, for which the draft of the drawee or payor has been given but not paid because of its insolvency, the owner of such draft shall be entitled to preference in payment from the assets of the failed bank in preference to all general creditors thereof."

Section 14. Lien of collecting bank. The first sentence in this section should, in our opinion, be revised to read as follows:

> "A depository bank shall have a lien on all items deposited with it for all indebtedness of the depositor thereof, except in case where it appears from the item that the depositor is not the owner."

The concluding portion of this section commencing "A subsequent collecting bank" should, in our opinion, be eliminated. The cases where a subsequent collecting bank can have a lien even under the provisions of this portion of Section 14, are so unusual as not to merit provision therefor in a statute, because substantially all items which are received for collection bear restrictive endorsements.

We regret that owing to the fact that the writer has been away from Cleveland most of the time since the conference of counsel it has not been possible to prepare these comments upon the Uniform Bank Collection

Code more promptly.

For your convenience, we are enclosing two extra copies of this letter.

Yours very truly,

SN:RG (Signed) Squire, Sanders & Dempsey
-enc-

Copy X-6085-c

UELAND & UELAND
401 New York Life Building
Minneapolis

March 21, 1928.

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

Dear Mr. Wyatt:-

We have your wire concerning our comments on the Uniform Bank Collection Code of which we have a tentative draft prepared by Mr. Thomas Paton, General Counsel of the American Bankers' Association. This draft undoubtedly represents an able attempt to codify the law with respect to bank collections. We will give our criticisms dealing with the various sections of the draft in their order.

Section 1 (b) - Query as to the use of the word "solvent" before the word "bank" in this subdivision. If the credit is requested or accepted by the collecting bank it would seem that such a credit ought to be considered final payment whether the bank giving the credit were in fact solvent or not. In fact we question the use of the term "solvent credit" throughout the entire draft. "Authorized credit" would seem better.

Section 2 - Query as to the use of the word "negotiable" in the first line. This prevents the code from being applicable to many instruments which should probably be included. As we all know a large number of items are handled by banks as cash items which for some reason or other would not be negotiable within the meaning of the Negotiable Instruments Law.

Section 3 - In Minnesota the words "or payable by or at such bank of deposit" in the second line of the section would have to be omitted. This is

because our Negotiable Instruments Law provides that the fact that an instrument is made payable at a bank "shall not be" equivalent to an order to the bank to pay the instrument. Sec. 7130 Minn. G. S. 1923. It seems to us that this section imposes too severe a burden on the bank of deposit. If A deposits the check of B for $100.00 on the same bank, the credit given is irrevocable if B at that precise moment of time has a $100.00 balance. As a matter of actual banking practice the check will not be charged to B's account until later in the day. In the meantime B may have drawn out his $100.00 balance. It seems to us that Section 3 should be revised so as to reserve to the bank of deposit the right to charge back such checks "if not found good at the close of business on the date credited".

Section 4 - In respect to this section and also section 11 we question the advisability of enacting legislation which in effect repeals or modifies any part of the Uniform Negotiable Instruments Law. To us it would appear more statesmanlike to attempt to amend the Uniform Negotiable Instruments Law.

We question the use of the words "in blank or in full" in the 9th and 13th lines of this section. The words "by unrestrictive endorsement" should be substituted.

Section 5 - It is not expressly stated that any intermediate bank in the chain of collection is the agent of the owner of the item. This should be made express so as to settle the question whether the owner of the paper can maintain a suit against the intermediate collecting bank.

We suggest that the words "or holder" in the next to the last line of this section be taken out.

Section 6 - We suggest that the proviso at the end of paragraph (a) be struck out and that there be substituted in lieu thereof a proviso to the effect that it shall not be deemed ordinary care to forward an item for collection to any bank as to which the forwarding bank has knowledge that it is unable or is failing to meet its obligations as they mature, or is unable or is failing to handle properly items sent to it for collection. The proviso in its present form seems objectionable to us as encouraging litigation. The words "reasonable ground to believe" enable the plaintiff in many cases to make the collecting bank's negligence a question for the jury with the usual result. Under the proposed legislation direct forwarding would become the normal procedure and the banks ought not to be held liable for following that procedure except in cases where they have definite knowledge that the drawee bank is in bad shape or where they have specific instructions not to forward direct.

Paragraph (c) of Section 6 seems objectionable as imposing too severe a burden on the drawee bank. As a practical matter we have doubt as to whether it would be possible for the drawee bank to charge items received in the mails to the drawer's account in preference to items later presented or received.

Section 8 - It seems to us that this section imposes too severe a standard of care upon the forwarding bank. In the case of the Federal Reserve Bank of Minneapolis remittances are delayed in so many cases that it would be almost impossible to trace immediately all letters as to which remittances are not received "in due course of mail". To follow this procedure would also result in a great deal of confusion. About the best the Federal

Reserve Bank could do would be to send out tracers at the end of the second day after the expiration of the period when returns should have been received. We think Section 8 should be made more moderate as far as the collecting bank is concerned.

Section 9 - Query whether the collecting bank should be permitted to accept in payment a draft drawn on a point distant from the location of the collecting bank. It seems to us that such a permission may encourage careless banking.

Section 12 - This section should not require the return of the items to the presenting bank unless the draft given to the presenting bank is returned.

Section 13 - We believe this section should be omitted altogether. The question of preferred claims is so intricate that we believe Section 13 would add to the confusion rather than simplify matters.

Section 14 - The last clause reading "but such lien may be acquired upon any such item or its proceeds for an indebtedness of the real owner thereof" ought to be omitted. On principle a collecting bank should not have a lien upon items coming into its possession without the consent of its debtor.

In Minnesota there is not the same necessity for the adoption of a uniform bank code as there may be in other states. Chapter 138, Session Laws 1927, while imperfect in many respects, at least has the merit of being short and readily understandable. We are inclined to believe that if a uniform statute is to be agreed upon, such statute should be a simple statement of the Massachusetts rule plus a provision for sending items direct and receiving

drafts in payment. The other matters attempted to be covered by the proposed code we would be willing to leave to judicial decision.

Yours very truly,

(S) A.Ueland.

(S) Sigurd Ueland.

Copy X-6085-d

FEDERAL RESERVE BANK

of Atlanta.

March 20, 1928.

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

Dear Mr. Wyatt:

Criticism of the Uniform Bank Collection Code, as tentatively drafted by Mr. Thomas B. Paton, General Counsel to the American Bankers' Association, has been delayed by reason of absences from Atlanta and court engagements of the writer.

We have now reviewed the proposed draft and submit herein certain comments concerning the same.

We might remark at the outset that we rather doubt both the feasibility and advisability of securing the enactment of anything which might properly be termed a Uniform Collection Code. We believe that it would be very helpful were the several States to enact legislation designed to accomplish certain specific things, namely: (a) the right to send checks direct to drawee or payor banks; (b) the right to accept bank drafts in lieu of cash; (c) exemption from liability on account of the default or omissions of subagents; and (d) the clarification of the law on the subject of preferences in insolvent bank liquidation. We believe, however, that it would be better to limit the activities of the Association to the accomplishment of these particular ends rather than to attempt to have enacted a somewhat ambitious code which runs counter to the common law in a number of respects, and which experience might demonstrate to be defective if not dangerous.

We point out several provisions of the proposed Act which might react unfavorably upon banks, for whose protection the same were framed.

For example, Section 2 of the proposed Act provides that in all cases where there is no express agreement to the contrary a bank, receiving a check on initial deposit is to be regarded merely as the agent of the depositor. Undoubtedly a bank should, as most banks do, enter into an agreement with its own depositors of substantially the same legal tenor as Section 2; but we doubt the wisdom of a statute which would, by law, establish a contractual status of the kind, since such statute might affect the rights of third per-

sons, whereas the latter would not be charged with notice of the private arrangement existing between such bank and its depositors. One of the complications which might result from an enactment of Section 2 is recognized in Section 4, in which last mentioned Section it was thought necessary to provide, in order to protect third persons, for a presumption of ownership in the bank of deposit of items to be collected, although the provisions of Section 2 are directly contrary to the presumption set up in Section 4.

This particular question is of importance to the Federal Reserve Banks since Regulation J establishes, with respect to the collection of checks, an agency relation only as between the Reserve Banks and the banks from which the items are received. We recognize the fact that Regulation J would doubtless create and preserve a contractual status which would not be affected by the enactments of a State; but it seems to us that it would be better, from the standpoint of the Federal Reserve Collection System, were Section 2 omitted from the proposed Act, leaving the relationship between a bank and its depositors to be governed by the law as it now exists or by private contract.

The decisions of the courts have pretty well established the relation between a bank and its depositors and, while there is a conflict in the different jurisdictions, we believe that a statutory declaration or definition of this relationship might lead to consequences not fully anticipated. The question of an agent's authority is always fraught with danger to one dealing with an agent. At the present time bankers quite generally treat items forwarded to them by other banks as being subject to the control, disposition and direction of the forwarding bank and neither look for advice to, nor seek the direction of, the actual owner of the item who would, under the statute, be the principal acting through an agent, whose authority the Act does not purport to define. This is true whether such items are endorsed in full, in blank or "for deposit." It would be unfortunate, it seems to us, for a statute to put the world on notice that anyone taking an item for collection or payment from a forwarding bank is dealing only with an agent of uncertain authority, and the resulting situation would be aggravated by Section 4 of the Act, which undertakes to distinguish the several kinds of endorsements. Under the terms of the last mentioned Section, there is no "presumption" of ownership in the forwarding bank except in cases where there is an endorsement "in blank or in full." Assuming the right of the recipient of a check so forwarded to rely upon the presumption of ownership, despite the inconsistent provisions of Section 2, there would still be no certainty of protection in taking instructions, at least of any unusual kind, from a bank that had originally taken the item endorsed merely "for deposit." In the ordinary case of routine collections the agent might, in any event, be presumed to have sufficient authority to instruct with regard to the collection,

but there would, undoubtedly, develop cases of an unusual nature in which specific instructions would have to be asked of someone. In such unusual cases the forwarding bank as "an agent for collection and not owner of the item" might perhaps not be authorized to give such special instructions, because the same might lie outside of the scope of the agency. The question would be very doubtful in the case of an instrument originally endorsed merely "for deposit".

Section 3 and Subsection (c) of Section 6, as now framed, would, we believe, entail complications as well as dangers in paying checks. No provision is made in either Section to cover the situation which would arise where several checks of the same maker are received on deposit or through the mails during the same banking day and the maker's account is insufficient at the close of the banking day to pay all of such checks. It would be practically impossible for a bank to fix and determine the exact times when separate checks are received on deposit for credit to different payees or other depositors; however, Section 3 provides, in effect, that in the event an account, insufficient at the time deposits are made, is replenished during the same day, items received on deposit "shall be deemed paid at the time of such deposit or credit." Suppose, for example, A deposited a check of B for credit at 9:00 in the morning. At that time the account of B was insufficient to pay the same. At 11:00 in the morning C deposited a check of B. Before the close of business B deposited funds sufficient to justify the payment of either, but not both checks. Under the provisions of Section 3 it would doubtless be the duty of the drawee bank to allow to stand the credit which had been given to A and to revoke the credit which had been given to C. This might be the rule even in the absence of a statute but, generally speaking, it is not feasible to take into account fractions of a day, and the mandatory requirements of the statute would only increase the difficulties under which banks now labor. Subsection (c) of Section 6 would make it encumbent on all banks to take strict account of the actual time of receipt through the mails of every item, and, while this could be done, the chances of loss, due to the failure on the part of a clerk to note the actual time of the receipt of a letter, would be largely increased. In the event a number of items, drawn by the same maker, were received through the mails during the same day a list might have to be made up showing the exact order of receipt and, in the event of a deposit before the close of business, the items would have to be charged to the account of the maker in the order of receipt. In many cases there might arise disputes as to the time of actual receipt and the burden would be upon the bank to explain delays in mails and the like. We recognize, as above stated, that the same questions now perplex bankers and add to the joys of doing business: it seems, however, that no good would be accomplished by statutory provisions which, in terms, impose duties and responsibilities as to priorities and preferences in the payment of items which cannot all be satisfied.

Section 3 places in the same category items drawn upon, payable by or payable at a bank. Obviously, the Section, as drawn, would not be appropriate

for enactment in those States where Section 87 of the Negotiable Instruments Act has not been enacted, or is of a tenor different from that of the "Uniform" Act. In Georgia, for example, the section reads "Where the instrument is made payable at a bank, it is not equivalent to an order to the bank", etc.

If the Code is to be enacted for the legitimate protection of banks, there would seem to be no purpose in inserting in Section 6 the provision that it shall not be ordinary care to forward an item for collection to any bank as to which the forwarding bank has knowledge or reasonable grounds to believe that it is not in a sound financial condition, etc. This provision is, doubtless, merely declaratory of the common law, but to state and restate a liability which would exist independently of the statute would seem to be out of place in a Code which is designed to protect the banking business. This is particularly true inasmuch as the effect of the same might probably be to invite suits, even in cases where the forwarding bank was doing its best under all the circumstances, as, for example, where there was but one bank in the town.

We do not like Subsection (b) of Section 6 for the further reason that it undertakes to make provision, in the event of suspected insolvency, for the obtaining of payment in money or a "solvent credit." After a check has been forwarded to a bank there is usually little that the forwarding bank can do to secure payment if the payee bank is, in fact, insolvent or approaching insolvency. If there was no knowledge of bad conditions when the check was forwarded, the forwarding bank ought not to be subjected to the burden of taking extraordinary steps to secure its payment. It is, furthermore, difficult to see how a bank in extremis would be in a position to furnish to its correspondent a "solvent credit" as defined in the Act, much less actual cash.

Section 6 by implication and Section 9 by express language make negligent the acceptance of a bank draft from a bank in bad circumstances unless the forwarding bank has taken any and all steps which a prudent owner of the item would take to obtain payment in money or a solvent credit. We do not think that the forwarding bank ought to be burdened with such requirements of diligence for reasons which are above stated.

Section 13 embodies an excellent idea and contains provisions which we would like very much to see enacted generally into law.

It is likely that the Federal Reserve Banks, as such, should not oppose the enactment of the suggested Code even though, obviously, any bad effects which might follow the same would be felt the more keenly by the Reserve Banks because of their widespread collection functions and the tremendous volume of the same. It may be that our views as to the proposed Code are somewhat colored by the fact that the Reserve Banks are usually gratuitous agents for collection, doing business at a heavy expense and constantly being

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called to account for alleged negligence where none in fact exists. It may be true that some of the criticisms herein set out are not well-founded. It is our opinion, however, that the Code, at least in its present form, should not be enacted, and, as above stated, we are inclined to doubt the advisability of the effort which is being made to secure this legislation.

The important points for legislation summarized at the beginning of this letter could, we think, be covered very much more simply and without the danger, actual or potential, which we believe would be inherent in the enactment of Mr. Paton's "Code".

Very truly yours,

RANDOLPH & PARKER.

By Robt. S. Parker.
General Counsel.

RSP/w.

Copy X-6085-e

FEDERAL RESERVE BANK OF CHICAGO

Chicago March 17, 1928.

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

Dear Sir: Re: Uniform Bank Collection Code.

I must apologize to you for my seeming neglect in failing to write you at an earlier date my view on the proposed Uniform Collection Code which was on the program as Topic 11 at the conference of counsel of Federal Reserve Banks at Washington, on February 9th,-11th, 1928.

The facts are, that until today I have been unable to give the matter any attention by reason of absence from the office of several of my associates; and even now I have been able to give the matter but a very casual study.

In Sec. 2, occur the words "Until it has received the proceeds"; and it seems to me that the language there contained needs to be clarified. Which bank is "it" in the language quoted?

In Sec. 4, occurs the language, "An endorsement 'pay any bank or banker' shall be deemed a restrictive endorsement". This runs counter to the holdings of many of the courts and I doubt the propriety of attempting to codify the law in that respect. I think the general rule is that such endorsement is not restrictive.

In paragraphs (a) and (b) of Sec. 6, there seems to be an attempt to define what is "ordinary care" by saying what is not ordinary care. These paragraphs, if adopted, would throw a very heavy burden on Federal Reserve Banks, and I doubt the propriety of such language being inserted in the proposed Code.

In Sec. 8 there is language that requires an agent for collection to make immediate inquiry if he does not receive advice in "due course of mail". The language is not clear and it seems likely that a strict construction thereof might place too much responsibility on the collecting bank, in the matter of due care; and as in the other sections above referred to, it singles out a particular thing which shall not be due care.

In Sec. 12, there is an attempt to place a duty on a receiver which he probably could not carry out.

I doubt the soundness of the rule suggested in paragraph (a) of Sec. 13 and I would not like to see such rule adopted.

I am very sure that my comments here can be of little help in considering this matter, but I send them along for what they are worth.

With kind regards,

Yours very truly,

(S) CHAS. L. POWELL,
Counsel.

CLP

Copy

X-6085-f

Law Office Of
LOCKE, LOCKE, STROUD & RANDOLPH,
American Exchange Building
DALLAS, TEXAS.

March 16th 1928.

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

Gentlemen:

We enclose herewith criticism of the first tentative draft of Uniform Bank Collection Code prepared by Thomas B. Paton, Jr., General Counsel of the American Bankers Association.

Yours very truly,

(S) Locke, Locke, Stroud & Randolph.

EBS-s
encl:

Copy X-6085-f

CRITICISM
of
First Tentative Draft of
Uniform Bank Collection Code
prepared by Thomas B. Paton,
Jr., General Counsel of the
American Bankers Association.

- -o-

Section 1. Definitions.

(a) Bank. This definition is broad enough, of course, to include Federal Reserve Banks.

(b) Solvent Credit. The definition of "solvent credit" set out in this sub-paragraph is, in our opinion, inadequate and would give rise to much litigation and uncertainty. This is an important matter in view of the fact that "solvent credit" is used throughout the proposed code. The greatest uncertainty of the definition comes about because of (1) the use of the words "solvent bank" and (2) the use of the words "requested or accepted". The question of whether or not a bank was at any time solvent is always a question of fact and it would follow that where a bank had failed the exact time of its insolvency would be difficult to ascertain, if not wholly impossible, except by a jury's guess, and therefore under the definition used there would always exist a question of fact as to whether or not there was a solvent credit.

The words "requested and accepted" give rise to doubt, particularly the word "accepted". As to whether or not a credit had been requested or accepted would be a question of fact arising in every case and always difficult of determination.

Section 2. Bank of deposit is agent for collection.

This section creates the relationship of principal and agent upon the deposit of every check, in the absence of an expressed agreement to the contrary. The effect of the section may, in given cases, be to change the relation between the parties as evidenced by written instrument. The section is evidently designed to meet the decision of the Supreme Court of the United States in the case of City of Douglas v. The Federal Reserve Bank of Dallas. In our opinion, it is better to let the status of the parties be established by the facts as made rather than to attempt to fix the responsibility by statutory provisions. This section apparently is inconsistent with section 4.

Section 3. Items on same bank.

It is believed that this section will give rise to much confusion and litigation. In the first place, it is to be noted that, by the provisions

of this section, where a bank receives a check drawn on it for deposit or credit, the check is deemed to be paid at the time of its receipt unless at such time the funds of the drawer or maker thereof are insufficient. If banks handled only one check per day of any given depositor, this provision might, theoretically, work all right, but during a day's business any bank will receive numbers of checks issued by the same drawer. There is no provision made by any bank in this district, that we know of, to record the time of the receipt of their several deposits. Accordingly, it would be impossible to determine whether or not a given drawer, the total of whose checks would overdraw his account, had a balance with the drawee bank at the time of its receipt of his check. Likewise, the last portion of the section is subject to a similar criticism, because there is no record made of the time of receipt of checks. For these two reasons, it appears to us that the article would give rise frequently to confusion, resulting in litigation and expense to every bank. Furthermore, checks are commonly received on deposit without careful scrutiny, and frequently the bank receiving same desires to return the check without paying it, because of irregularities. Under the provisions of this article, the bank would probably have no right to return said checks, where the drawer had a deposit. We are of opinion, also, that the last phrase, dealing with set-off, would give rise to much confusion.

Section 4. Legal effect of indorsements.

The definition of the effect of an endorsement "for deposit" is subject to the same criticisms made of section 2. The definition of the legal effect of the endorsements "for collection and remittance" and "for collection and credit" appear to be merely a restatement of the definitions which have universally been accorded these endorsements by the courts of the country. The definition of the legal effect of endorsements "in blank" or "in full", is subject to the same criticisms as section 2, and also furnishes the basis of a hiatus between ownership and presumption of ownership, which gives rise to uncertainty of the rights of various parties. The definition of the legal effect of an endorsement by the bank of deposit or subsequent holder "in blank" or "in full" appears to be in conflict with the provisions of section 2, in that the definition creates a presumption that, where a bank of deposit endorses an item "in blank" or "in full", it is the owner of the item, whereas, under section 2, it would be only an agent to collect. The definition of the legal effect of the endorsements "pay any bank or banker" is merely the definition commonly accorded this phrase. The definition of the legal effect of the endorsement "prior endorsements guaranteed" would at least give some interpretation of the meaning of this endorsement, and, in our opinion, would give the correct interpretation. The section is not clear as to how the presumption could be overcome.

Section 5. Duty and responsibility of bank collection agents.

The effect of this section is merely to render the Massachusetts rule applicable.

Section 6. Rules of ordinary care in forwarding and presentment.

The matters set out in subsection (a), except the proviso contained

in the last clause of the subsection, are, in our opinion, proper. However, the proviso leaves a very dangerous uncertainty, and, while it may express the law as it now exists, in our opinion its incorporation into a statutory law would be most unwise. We are particularly adverse to the words "or reasonable ground to believe". Under this phraseology, a very dangerous question might be raised in connection with every bank failure.

We have no criticism to make of subsection (b), except that the proviso in the last sentence is, in our opinion, subject to the same criticisms as the proviso in subsection (a).

The provisions of subsection (c) are subject to the same criticisms as section 3.

This section apparently approves a circuitous routing and might, therefore, be used as a basis to uphold actual negligence in routing checks in a circuitous manner.

Section 7. Rules of ordinary care upon dishonor.

We see no particular objection to this section. We do not understand however why the exception in case of express instructions or custom. If liability fixed in accordance with Negotiable Instruments Act there would be no damages.

Section 8. Duty of Inquiry.

The duty imposed by this section is more stringent than the custom of Federal Reserve Banks. As we understand it, Federal Reserve Banks do not trace in every instance on the day remittance is due. While the duty here set forth and made compulsory covers matters which are ordinarily done, we see no reason to make the duty mandatory. If incorporated into statutory law, this section might give rise, through court construction, to a liability which, at present, does not exist.

Section 9. Medium of payment.

We see no objection to this section, other than (e). Our objection to this portion of the section is based on our previous criticism of the definition of "solvent credit". The last sentence of this section is, we think, very loosely drawn and would give rise to many questions of liability which do not now exist. We refer praticularly to the words "or reasonable ground to suspect that such drawee or payor is about to close its doors" and the words "without first taking any and all steps which a prudent owner thereof would take", etc.

Section 10. Collection of paper taken in payment.

This section is subject to the same criticisms as section 9.

Section 11. Continued liability of drawer.

We see no objection to this section.

Section 12. Duty of receiver.

We have no objection to this section.

Section 13. Preferences in case of insolvency.

We see no occasion for collection code to deal with the question of preferences. We therefore feel that section 13 is entirely inappropriate.

Section 14. Lien of collecting bank.

We see no occasion for a collection code to deal with the question of a lien which a bank might have, but, on the other hand, we think that this question should be decided by the established law of the respective states of the Union. For these reasons, we feel that the provisions of section 14 have no place in a collection code.

Summarizing the proposed code: We see no occasion, if the code is enacted, for it to go further than to cover the uncriticized portions of sections 6, 9, 10 and 11.

(S) Locke, Locke, Stroud & Randolph.

Copy X-6085-g

FEDERAL RESERVE BANK
of
ST. LOUIS

February 29, 1928.

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

Dear Mr. Wyatt:

Examining the proposed UNIFORM BANK COLLECTION CODE prepared by Mr. Paton from the stand-point of its effect on Federal Reserve Banks as Collection Agents, I can find no objection until Section 6, caption - RULES OF ORDINARY CARE IN FORWARDING AND PRESENTMENT is considered. I believe that part of paragraph (a) section 6 - hereinbelow quoted - unduly broadens the Federal Reserve Banks' liability in its Clearing House operations:

> "Provided it shall not be deemed ordinary care to forward an item for collection to any bank as to which the forwarding bank has knowledge or reasonable ground to believe that it is not in a sound financial condition and is either insolvent or approaching insolvency."

Under the wording quoted, the liability is extended to cover cases where we have reasonable ground to believe the bank not to be in a sound financial condition or where it is approaching insolvency.

When a bank is insolvent in fact, and, when it is not in a sound financial condition or approaching insolvency - are entirely two different things. We know by experience that a bank may not be in a sound financial condition and there may even be reasonable ground to believe it is bordering on an insolvent condition and yet it may be able to weather the storm and get back on a sound financial basis. It appears to me that a Federal Reserve Bank ought not to be placed in a position where it will at its peril and before it handles an item on a solvent bank have to decide whether there is a reasonable ground to believe that the bank is approaching insolvency.

Under our 'Time Schedule' a day is fixed on which the bank expects to receive remittance on a cash letter theretofore sent out. It has happened in this district (and I suppose in others) that the Federal Reserve Bank may have sent a cash letter to a bank after the schedule date on which it should have received remittance for a former cash letter, and, upon investigation, it was found that the remittance drafts had been mailed in due time, but, because of something that happened between the mailing

date and the receipt date the remittance had not been received on schedule time.

Or, it might happen that a remittance draft covering a previous cash letter had been received, presented, and, protested - for want of funds - under circumstances where the remitting bank had sufficient funds in its vaults and with other solvent correspondents (subject to check) to pay all items presented (including the protested remittance draft,) and, upon 'Notice' of the protesting of the prior draft - for want of funds - the remitting bank would forthwith furnish a draft on a correspondent where it had sufficient funds, and the latter draft collected, NEVERTHELESS, if a loss occurred by reason of the sending of the subsequent cash letter after the dishonor of the first draft - the Court might hold the former unpaid remittance draft was sufficient evidence to constitute a reasonable ground for belief that the remitting bank was approaching insolvency, though it was in fact solvent at the time the remittance draft was dishonored.

Federal Reserve Banks, under the foregoing circumstances, would, in order to safe-guard and thoroughly protect themselves, have to handle the subsequent cash letters either by sending them by a messenger to make collection over the counter; or, by sending them to another bank to make collection; or, refuse to handle the items because of the unremitted for and outstanding cash letters. Either one of these three courses might in fact force a solvent, but weak bank, into an insolvent condition. WHEREAS, if the present method of handling collections were continued, and the remitting bank allowed to correct its mistake and furnish a collectable remittance draft - it would be able to weather the storm, and, eventually get back on a sound financial basis; consequently, the provisions quoted, I believe, would seem to be unnecessarily hard both on the remitting bank and the Federal Reserve Banks, and steps should be taken to have this section so modified as to lessen the liability of a Federal Reserve Bank - if it happens to guess wrong on the solvency of a collecting bank - for, it is possible that if the Federal Reserve Bank were to guess wrong and abruptly adopt a new method of making collections of the items contained in the subsequent cash letters, the change might cause a run on and the closing of a really solvent bank.

SECTION IX - MEDIUM OF PAYMENT

Under the following clause:

"In any case, however, where a bank collection agent has knowledge of the approaching insolvency of the drawee or payor of an item or reasonable ground to suspect that such drawee or payor is about to close its doors, it shall not be the exercise of ordinary care to accept in payment the check or draft of such drawee or payor without first taking any and all steps which a prudent owner of the item would take to obtain payment in money or a solvent credit under like circumstances."

before the Federal Reserve Bank could take the remittance draft of a drawee or payor bank, it would at its peril have to determine whether in fact the payee bank was approaching insolvency or about to close its doors, and, the same questions covered by the objections offered to Paragraph (a) Section 6, hereinabove quoted, should be considered.

Upon my return to St. Louis some pending cases and matters accumulated during my absence prevented earlier attendance to this subject.

Very truly yours,

(Signed) Jas G. McConkey.
Counsel.

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X-6085-h

THE PHILADELPHIA-GIRARD NATIONAL BANK.

Philadelphia December 28, 1927.

Mr. Albert C. Agnew, Counsel,
Federal Reserve Bank,
San Francisco, Cal.

Dear Mr. Agnew:

I am very glad indeed to have your letter of December 23, which gives me the opportunity to see for the first time Judge Paton's Uniform Bank Collection Code, and which I am returning herewith. I talked with Mr. Paton on this subject just a week or so ago while I was in New York, but we were both too busy to go into any detail, nor did he mention the fact that he had actually prepared a code.

I have read the paragraphs over, and also your criticisms, which in my judgment are both sound and pertinent. It was my pleasure and good fortune to work with Judge Paton in the New York offices of the American Bankers Association for a period of four years, from 1911 to 1915, during which time we frequently discussed this subject, as well as others, he from the legal point of view, and I from the practical standpoint. Needless to say, we differed on many points, and my general criticism of Judge Paton's Code is that his views, as formerly, reflect legal experience, whereas yours, on the other hand, show both legal and practical knowledge.

I have one or two suggestions which I would like to bring to your attention in addition to the constructive criticisms you have made. First- in reference to Section 4 - "Legal Effect of Endorsements". My opinion is that we should cut across considerable territory here, and recognize the bank endorsement stamp on the class of item we are discussing as being more than simply an endorsement in the sense that it is covered by the Negotiable Instruments Act. It is primarily a record, and the very presence of the item endorsed in the channel in which we find it is prima facie evidence of its status. I therefore see little point in Judge Paton's fine distinction between items endorsed "For Deposit", "For Collection and Remittance" and "For Collection and Credit". I believe questions arising in connection with items are questions of fact, and not questions of endorsement. Nor do I see any purpose in drawing a distinction between such items which the bank is collecting for a depositor and similar items which the bank itself may own. Always remembering, as I pointed out in Houston, that we are dealing with insolvent or failed banks, I cannot see that it makes any particular difference to anybody, especially to the failed bank or the Receiver thereof, or banks along the line, whether the bank of initial deposit is the agent collecting for a depositor, or whether such bank of initial deposit actually owns the items which it has accepted in payment of a debt due it.

Again taking a short cut, I would be very much in favor of legally providing for an endorsement stamp which would do three things:

1. Make it impossible for a check so endorsed to be negotiated between individuals or between an individual (not a banker) and a bank. In other words, the effect would be somewhat similar to the English crossing of checks.

2. The bank stamp should carry the same warranties and guarantees as are now carried by the endorsement on a negotiable instrument.

3. The stamp should be (as it usually is) simply a record of the bank handling such item, this for economy of space and cost of stamps.

Section 6. "Rules of ordinary care in forwarding and presentment". I believe it should be legally provded that it shall not be deemed ordinary care to forward an item for collection by a circuitous route. This would require some defining, but I think you get my thought. For example, a bank in San Francisco would be deemed careless or negligent should it send a check payable in Arizona to Spokane, Washington, for collection, whether by accident or design.

Your argument as to solvent credits is entirely sound, and is in line, you may recall, with the principles which I tried to lay down in the paper I presented at Houston. In my judgment, a solvent credit should be defined as credit by a bank that continues to accept deposits and make cash payments across its counter for a period two days longer than the ordinary mail time between the bank of original deposit and the place of payment. This is rather crudely put, but I think you will get the idea and the reasons therefor.

I have not taken the time to go into greater detail or elaboration in connection with one or two other minor suggestions, but what I have set down above covers in a general way the points that occurred to me as I read over Judge Paton's draft and your criticisms.

Thanking you for having given me the opportunity to review the correspondence, I am,

Yours very truly,

O. HOWARD WOLFE (sgd.)

Cashier.

X-6085-h

Copy

December 23, 1927.

Thomas B. Paton, Esq.,
General Counsel,
American Bankers Association,
110 East 42nd Street,
New York City, N. Y.

Dear Judge Paton:

I have carefully reviewed with the Deputy Governor and Cashier of this bank the uniform bank collection code, a tentative draft of which you recently sent me.

Many suggestions have occurred to us, both from an operating and a legal standpoint, and these suggestions I take the liberty of setting forth herein. I hope that you will not consider our comments entirely lacking in constructive force. You having set up a target for us to aim at, we have considered that your purpose would be better accomplished by criticism of what you have suggested than by the suggestion of alternatives only.

For the sake of convenience, our comments are segregated to correspond to the sections of the proposed code.

Section I. (b) You define a "solvent credit" as an unconditional credit of money on the books of a solvent bank to the account of another bank, requested or accepted by such other bank.

I believe there is great danger in the use of the word "solvent". Solvency is a relative term depending upon circumstances and conditions often not within the knowledge of the collecting bank, If, after the credit is received or accepted, it later appears that the bank upon the books of which the credit was given was not in fact solvent at the time of the passing of such credit, the responsibility, under the latter sections of the proposed code, is passed to the collecting bank. In many instances banks are going institutions meeting the demands made upon them in the usual course of business, but are not solvent under the generally accepted definition of that term.

The significance of the use of this term has perhaps been more forcibly impressed upon me by the rather disastrous outcome in the case of Federal Reserve Bank of San Francisco vs. Idaho Grimm Seed Growers Association (8 Fed. (2d) 922). In that case, while this bank knew that the Standrod Bank was in a badly extended condition, it did not know that the Standrod Bank was in fact insolvent at the time of the transactions referred to. You can see, however, the serious consequences which resulted from our dealing with the bank in good faith at a time when although a going institution, it was in fact insolvent.

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X-6085-h

FEDERAL RESERVE BANK

of San Francisco

February 28th,
1 9 2 8.

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

Dear Mr. Wyatt:

I am reminded that at the recent conference of Counsel to the Federal Reserve Banks, held in Washington, it was proposed that Counsel for each Federal Reserve Bank should send to you their criticisms and recommendations in relation to the uniform check collection code proposed by Judge Paton, General Counsel to the American Bankers Association.

Having already gone quite thoroughly over the Code, and having written to Judge Paton in regard to it, I do not believe that I can do better than send you a copy of the letter which I wrote to Judge Paton, and which I enclose herewith. This expresses quite fully my criticisms of the proposed code. I did not attempt therein to set forth any constructive suggestions of major import, because I did not consider that I should do so.

I also hand you herewith copy of a letter received by me from Mr. O. Howard Wolfe, Cashier of the Philadelphia-Girard National Bank, in response to a letter written by me to him transmitting a copy of Judge Paton's Code, and my letter of criticism. I believe that Mr. Wolfe's reaction, being that of a practical banker, is worthy of consideration.

If there is anything further that I can do to assist you in sifting down the criticisms in regard to the Code, please let me know.

I still retain most pleasant recollections of my recent visit to Washington, a trip always made so much more enjoyable by reason of the warm hospitality of Mrs. Wyatt and you. I only hope that I may some day have the opportunity and privilege of entertaining you both in California.

Just before my departure from Washington, I ordered a potted plant sent to Mrs. Wyatt. Having obtained your address from the telephone directory in great haste I am curious to know whether the plant reached its destination. After I boarded the train, I felt that I had not given the address correctly.

Cordially yours,

(Signed) Albert C. Agnew,
Counsel

ACA/S
Enc. (2)

I believe that the word "going" should be substituted for the word "solvent", or else the word should be defined by stating that solvency shall be conclusively presumed if the institution in question continues open for business for a specified time following the payment of the item.

Section 2. It is our opinion that the instruments included within the purview of this section should not be restricted to negotiable instruments. It is a fact which the transit manager of any Federal Reserve bank will confirm that there are daily handled as transit items hundreds of instruments which, while they are not strictly negotiable, are in common practice passed through the transit department. Included in such items are pay checks, due bills, and sight drafts of insurance, railroad, and other large corporations so drawn as not to be negotiable. It seems to us that the relation of agency should surround the collection of such items as these as well as items negotiable in form.

Section 3. I believe that you are entering dangerous territory when you attempt, as you have in this section, to fix the definite time at which an item received on deposit for credit to the payee and drawn on the bank of deposit shall be considered paid. In the event of the insolvency of either the paying bank or the depositor, there is involved the question of marshalling of assets, which, if the time for payment is to be definitely set, will become extremely difficult and will lead to litigation. It seems to me that the same purpose could be accomplished and much confusion avoided if this section stated merely that a bank receiving on deposit a check drawn upon itself would have the privilege of returning such check to its depositor the following morning if, at the close of business on the day of deposit the check is found not to be good. This same matter arises under Section 6 (c).

Section 4. I would suggest adding after the words "that the indorsee bank" in the second line of this section the following: "and each subsequent indorser prior to the drawee", so that the first sentence as amended would read:

> "An indorsement of an item by the payee or other depositor 'for deposit' shall indicate that the indorsee bank and each subsequent indorser prior to the drawee is an agent for collection and not the owner of the item."

I also suggest adding after the words "an indorsement 'pay any bank or banker'" in the line fifth from the bottom of the first page, the words "or other analogous indorsement".

I believe that the words "where coupled with the words 'prior indorsements guaranteed'" on the lines second and third from the bottom of the first page, should be eliminated so that this sentence as amended will read: "and shall constitute a guaranty by the indorser to all subsequent holders, etc."

This matter involves a controversial subject upon which there is a serious difference of opinion. I am, and always have been of the opinion that a restrictive indorsement does not relieve the party so indorsing of the usual warranties attaching to a general indorser under Section 66 of the Negotiable Instruments Act. This section provides that every indorser who indorses without qualification makes certain warranties and read with Section 65 of the Act, to my mind, must be construed to mean that every indorser, including a qualified indorser, as defined in Section 38, and including a restrictive indorser, warrants that the instrument is genuine in all respects, and that at the time of his indorsement it is valid and subsisting. It would not be appropriate to argue the matter further here but I call your attention to the following authorities:

Ann. Negotiable Instruments Law, Crawford, page 130,
Quatman v. Superior Court, 42 Cal. App. Dec. 336,
First Nat. Bank v. Bank of Barnesville (Ohio) 41 L.R.A. 584, 586;
Daniel's Negotiable Instruments, 6th Ed. pp. 744 and 746,
9 Corp. Juris, 394,
Interstate Trust Co. v. U. S. Nat. Bank (Colo.) 185 Pac. 260,
In re. Ziegenheim (Mo.) 187 S.W.893.

Section 6 (a). I believe that the last three and one-half lines of this subsection, commencing with the word "provided" should be eliminated. The inclusion of this proviso places a heavy and almost prohibitive responsibility upon the collecting bank. It would, in my opinion, defeat the very purpose for which the direct-sending statute was intended, and would result in endless and vexatious litigation. Under ordinary circumstances the forwarding bank is not in position to judge whether or not the bank to which the item is sent is insolvent or approaching insolvency. If any large collecting bank or any number of banks should come to the conclusion that a given bank was "not in sound financial condition", or was "approaching insolvency", and in order to avoid possible liability adopted extraordinary means for collecting checks, such as presentation over the counter directly or through a local agent, the drawee bank would immediately be forced to close. We have had experience in this district with many banks which were in an extended condition and which might be said to be "approaching insolvency" which have survived, and are now flourishing institutions. The adoption by this bank of unusual means for collecting checks on such banks would have spelled nothing but ruin for such institutions. It seems to me that it is infinitely better to omit the provisio and leave the determination of what shall constitute ordinary care to the circumstances existing in each particular case.

(b) The same observations as those last herein stated apply to the proviso contained in this subsection. I strongly recommend its elimination.

(c) It seems to me that it would be better to either eliminate this subsection or to so alter it as not to confine the payor bank to an exact method or order for the payment of checks. As you know, checks received by the payor bank and drawn upon it are received from four sources: those cashed over the counter, those deposited for credit, those received through the clearing house, and those received through the mails. In large banks it is utterly impossible as an operating detail to determine the order in which such checks drawn upon a given account are received. In many of the larger banks cash letters received through the mail after two p.m. are arbitrarily held over until the next day and in many instances it might happen that after the hour fixed beyond which cash letters would not be functioned, checks would be received and cashed at the counter or received for deposit over the counter. To particularize as closely as this subsection does on the matter of order of payment, it seems to me would accomplish no good purpose and would be productive of controversy.

Section 7. This section merely provides in substance that upon dishonor the drawee, or other agent, may follow the provisions of the Negotiable Instruments Act, and in so doing shall be exempt from liability. It appeals to me as stating a self-evident proposition and I believe should be eliminated.

Section 9. If this section is to be included, it seems to me that it should be provided that the check or draft of the drawee or payor given in settlement or in payment of an item or items must be finally collected in solvent funds. In other words, some restriction on the number of drafts which may be taken in the process of collection should be included. Otherwise, under the code as drafted, a collecting bank would be privileged to accept a remittance draft from the payor and another remittance draft from the drawee of the first draft, and so on ad lib, the parties in interest in the meantime not being in receipt of final credit. The collecting bank should be required to obtain immediately available funds for the first remittance draft.

Section 11. Change the words "ordinary care" in the fifth line of this section to the words "due care as defined herein".

It seems to me that the latter part of this section, commencing with the words "where the draft" might well be combined with the substance of section 12, and subsection "a" of section 13. The object sought to be accomplished, I take it, in the event of the dishonor of a remittance draft through the insolvency of the paying bank, is to place all of the parties to the transaction back in their original position. Might this not be accomplished with more clarity by stating in one section in substance that in the event of the failure of a payor bank before its exchange draft sent in remittance has been collected, such draft shall be returned to the payor bank, which bank shall in turn re-credit its depositor's account with the amount

of the checks covered by the draft in question, the checks to be returned to the bank from which received and by such bank to the original depositor.

It seems to me also that the latter part of section 11 should not be confined to items which have been exchanged "through the clearing" but should apply to all drafts given in payment of transit items.

Section 13. In the event that my suggestions in regard to the latter part of section 11, and section 12, are followed, subsection (a) of section 13 will, of course, become unnecessary. The reversal of entries by the payor bank and the return of the original checks, if obtainable, to the bank from which they were received, will eliminate any possible claim of preference against the insolvent bank. Some provision should be made for giving the original depositor of the checks some evidence of his claim against the drawer of the checks in those cases where the checks have been returned to the drawer with his other cancelled vouchers.

Section 14. I suggest adding after the word "asserted", being the first word in the line second from the last, the following: "or any prior indorser". If the instrument upon its face, or by any previous restrictive indorsement, indicates that the bank against which a lien is asserted is not the owner of the item but an agent merely, no lien should be allowed to the bank in possession of the item. This idea is carried out in the previous part of the section as drafted.

I trust that you will pardon the length of this communication which I do not seem to be able to abridge without slighting the important subject at hand.

Yours very truly,

(Signed) Albert C. Agnew
Counsel

ACA:JH

P.S.: Referring to Section 6 (b), considerable hardship would result in many cases if the collecting bank is restricted, in collecting a check drawn on another bank in the same city, to presenting such check at the counter of the drawee or through the local clearing house. In both Seattle and Los Angeles, for instance, there are a number of small outlying banks within the corporate limits of the cities mentioned which are not members of the clearing house and in relation to which presentation by messenger would consume the major portion of the business day in making the round trip. I have no doubt that this situation exists in many other large cities.

In these cases we have followed the practice of sending the items direct to the drawee by mail and accepting the drawee's draft in settlement through the mail. If the code as drafted should become law, such method of presentation would, of course, not constitute the exercise of ordinary care; this, although there is no practical method of collecting such items other than the one followed. I merely submit this for your consideration.

A.C.A.

COPY

FEDERAL RESERVE BANK

OF RICHMOND

X-6085-i

February 17, 1928.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel.

My dear Mr. Wyatt:

On my return from the Conference of Counsel of Federal Reserve Banks I found it was necessary for me to go to South Carolina on a business trip, and, consequently, I have had no previous opportunity to write you upon the subject of topic No. 11.

I received a copy of the Uniform Bank Collection Code from Mr. Thomas B. Paton and in going over it one or two points occurred to me which I mention below:

Section 3 - This section provides in substance that a check which is deposited in the bank upon which it is drawn may be charged back to the depositor if there are no funds to the credit of the depositor when the check is deposited and if the check is not made good during the business day. The justice of this provision is scarcely open to question, but I am afraid that in operation much uncertainty will arise from the difficulty of determining the order in which one or more checks are deposited. Most banks in large cities have two or more tellers' windows at which checks are received on deposit and the bank has no way of determining with exactness the hour at which a particular deposit was received. Assume for the sake of argument that John Doe has upon deposit the sum of $100.00 and about midday two checks drawn by John Doe to the order of Richard Roe and Charles Coe are deposited and that each of these checks is for $100.00. I assume that the first in time would be reckoned the first in right and that the bank would be obliged to devote the deposit to the payment of the check deposited by Charles Coe if that was first deposited and vice versa, but the bank would be without means of determining which of these two checks had been first received. Indeed, it is theoretically possible that the deposit of the two checks might have been simultaneously made at different windows, and if the two checks had been deposited at about the same time it would nearly always be impractical to determine which had been deposited first.

Section 4 - I believe that this section clarifies the law and establishes a just rule, but it may be the occasion of some loss to some banks. I have found that banks are very anxious to be considered as mere collecting agents when they fail to make a collection but they are equally anxious to be able to use items entrusted to them for collection as a basis for credit. Nearly all banks in sending checks to another bank

use the endorsement: "Pay any bank or banker," but the receiving bank frequently gives immediate credit to the sending bank for checks bearing this, or, indeed, any other form of endorsement. If bank "A" has received a check endorsed in blank and endorses it "Pay any bank or banker," and sends it to bank "B" and bank "B" sends it to bank "C" with a similar endorsement, bank "C" would frequently give immediate credit to bank "B". Therefore, if bank "B" should fail, bank "A" or the holder of the check could reclaim its proceeds in the hands of bank "C" and apparently defeat bank "C's" claim to apply the apparent balance of bank "B" to an indebtedness due by bank "B".

I think that the practice that banks have of giving credit upon uncollected checks is a pernicious practice and a law which discouraged it would be a good law but it might give rise to some dissatisfaction before its effect was generally understood.

Section 6 (c) - The objection which I mentioned as applicable to Section 3 is equally applicable to Section 6 (c). Indeed, it is more difficult to determine whether or not a check received through the mails was received before or after another check received through the mails, or before or after another check deposited at the counter. Any number of checks drawn by the same depositor may be simultaneously received in a single delivery of mail.

Section 8 - This section expresses what is practically admitted to be the duty of a forwarding bank, but it seems to me that some difficulty may arise from the use of the words "in due course of mail." It is difficult to determine with exactness the time which should elapse between the dispatch of a letter and the receipt of a reply as this time frequently depends upon whether or not railroad connections are made at remote junction points. I believe that very few banks attempt to trace items upon the exact day upon which advice of payment or non-payment should have been received, usually allowing some margin of time on account of possible delays in the mails. It seems to me that it would be better to use the words "within a reasonable time" rather than the words "in due course of mail."

It seems to me that Sections 11 and 13 (a) are inconsistent. Section 11 abrogates the rule under which the drawer of a check is released by the surrender and cancellation of that check by the drawee bank if the drawee bank fails to make payment to the collecting bank. Under the rule established by the proposed code it would seem that the holder has no claim against the drawee bank, for the holder would be entitled to the return of his check as if it had been dishonored upon presentation. It seems to me, therefore, that Section 13 (a) is superfluous.

Section 11 changes a long established rule of law and the change will create great uncertainty as to the time which such checks as are declared by Section 11 to be unpaid were dishonored. In other words, it seems to me, therefore, that Section 11 should be elaborated by the insertion of a provision to the effect that items which are cancelled but

upon which the drawers are not discharged should be deemed dishonored when the holder or collecting agent discovered that payment in money or a solvent credit could not be obtained. In other words, the time for giving notice of dishonor should begin to run when the remittance draft was dishonored or when the collecting bank found that the check had been cancelled and no remittance draft sent.

I remain,

Very truly yours,

(S) M. G. Wallace,
Counsel.

MGW L

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

X-6087.

For immediate release. July 10, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective July 11, 1928.

X-6089

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. July 12, 1928.

The Federal Reserve Board announces that the Federal Reserve Banks of New York and Richmond have established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective July 13, 1928.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6090

July 14, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, June, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6090-a and X-6090-b, covering in detail operations of the main line, Leased Wire System, during the month of June, 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,

Fiscal Agent.

Enclosures.

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

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 1928.

X-6090-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	32,406	849	33,255	3.49
New York	151,073	-	151,073	15.88
Philadelphia	36,463	778	37,241	3.91
Cleveland	89,824	1,907	91,731	9.64
Richmond	58,979	1,741	60,720	6.38
Atlanta	61,550	5,700	67,250	7.07
Chicago	112,991	2,014	115,005	12.08
St. Louis	79,703	-	79,703	8.38
Minneapolis	31,160	1,860	33,020	3.47
Kansas City	80,952	2,147	83,099	8.73
Dallas	68,228	5,137	73,365	7.71
San Francisco	123,535	2,636	126,171	13.26
Total	926,864	24,769	951,633	100.00

F. R. Board business 248,847 1,200,480

Treasury Department business - Incoming and Outgoing 230,567

Total words transmitted over main lines 1,431,047

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6090-b).

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

X-6090-b

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, JUNE, 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	$ 675.99	$ 261.00	$ 414.99
New York	1,023.46	-	-	1,023.46	3,075.86	1,023.46	2,052.40
Philadelphia	225.00	-	-	225.00	757.34	225.00	532.34
Cleveland	296.66	-	-	296.66	1,867.21	296.66	1,570.55
Richmond	190.00	-	230.00(&)	420.00	1,235.77	420.00	815.77
Atlanta	270.00	-	-	270.00	1,369.42	270.00	1,099.42
Chicago	3,972.34 (#)	-	-	3,972.34	2,339.82	3,972.34	1,632.52 (*)
St. Louis	355.00	3.00	-	358.00	1,623.16	358.00	1,265.16
Minneapolis	177.90	-	-	177.90	672.12	177.90	494.22
Kansas City	275.64	-	-	275.64	1,690.95	275.64	1,415.31
Dallas	251.00	-	-	251.00	1,493.38	251.00	1,242.38
San Francisco	370.00	-	-	370.00	2,568.38	370.00	2,198.38
Federal Reserve Board	-	-	15,188.53	15,188.53	-	-	-
Total	$7,667.00	$ 4.00	$15,418.53	$23,089.53	$19,369.40	$7,901.00	$13,100.92
				3,720.13(a)			1,632.52(b)
				$19,369.40			$11,468.40

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $3,720.13 from Treasury Department covering business for the month of June, 1928.
(b) Amount reimbursable to Chicago.

X-6091.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For immediate release. July 13, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Atlanta has established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective July 14, 1928.

COPY

X-6092

SUPREME COURT OF ALABAMA,

114 So. Rep. 188.

DUDLEY (
)
VS (
)
PHENIX-GIRARD BANK (

Under an Alabama statute, authorizing a bank receiving negotiable instruments for collection to forward them directly to the drawee bank, a bank receiving checks on an out of town bank for collection and forwarding them direct to the drawee is not guilty of negligence.

Under the rule followed in Alabama a bank receiving paper for collection is required to select a suitable agent to whom to entrust the collection and to exercise care and diligence in doing so, and when the bank does this it is not liable for negligence of the agent selected in making the collection.

Action by H. R. Dudley against the Phenix-Girard Bank. From a judgment for defendant, plaintiff appeals. Affirmed.

B. de G. Waddell, of Seale, and Hill, Hill, Whiting, Thomas & Rives, of Montgomery, for appellant.

Denson & Denson, of Opelika, and Steiner, Crum & Weil, of Montgomery, for appellee.

SAYRE, J. ---- On November 16, 1923, appellant deposited with appellee bank for collection the check of Anderson, Benton & Co. drawn on the First National Bank of Seale for the sum of $1,918.78, and his personal check on the first National Bank of Seale, payable to appellee, for the sum of _$686.64. On December 3,

1923, a national bank examiner took charge of the bank of Seale and its doors were closed, appellant's checks remaining unpaid. Appellant declared in a number of counts---the common counts and others---charging in the special counts that appellee failed to exercise due diligence in presenting the checks to the bank at Seale or failed to give due and timely notice of nonpayment, whereby appellant lost the opportunity to collect. The case being tried by the court without a jury on the general issue, judgment went for appellee.

By accepting the checks for deposit appellee bank became the agent of appellant for their collection. If appellee failed to collect through fault of its own it became liable to the owner and depositor for the loss sustained by him through such failure. Jefferson County Bank v. Hendrix, 147 Ala. 670, 39 S. 295, 1 L. R. A. (N.S.) 246.

As for aught appearing in the record in this case, appellee, proceeding according to the permit of section 9222 of the Code of 1923, might have discharged its duty in the premises by forwarding the checks to the drawee bank at Seale. That section, enacted in 1919, provides as follows:

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

other respects in connection with the collection of such instrument."

Proceeding otherwise, and in accordance with its established usage in such cases, appellee, doing business at Girard, 18 miles distant from Seale, sent the checks to its correspondent at Birmingham, the First National Bank of Birmingham, by which, November 19, they were placed with the Birmingham Branch of the Federal Reserve Bank, by which, on November 20, they were indorsed and forwarded to the Federal Reserve Bank at Atlanta. On the next succeeding day they were sent by mail to the drawee bank at Seale, where they remained unpaid until December 3rd, when, as we have indicated, that bank was closed by an officer of the federal government. From November 16th to and including December 3rd, it is agreed, the books of the drawee bank showed balances in favor of appellant and Anderson, Benton & Co., respectively, in excess of the amount of the checks in question. From November 17th to and including November 30th, it is agreed that the books of the drawee bank showed cash balances ranging, to speak in round numbers, from $3,500 to $2,400; but it is not agreed, nor was it shown, that the bank had on hand during the period actual cash in the amounts shown by the books. December 3rd, the drawee bank had on hand $943.87.

It appears from the foregoing statement that the Federal Reserve Bank of Atlanta did what the appellee bank might have done without incurring liability -- aside from the question of negligent delay to be considered presently -- viz., forwarded the checks to the drawee bank for payment. Code, Sec. 9222. That, as far as

it went, was due diligence in virtue of the statute---about the wisdom of which we are not concerned---and sufficed to absolve the forwarding bank or banks of any charge of negligence in sending the checks directly to the drawee bank. Code, Sec. 9222. Formerly the rule was otherwise. Jefferson County Bank v. Hendrix, 147 Ala. 670, 39 So. 295, 1 L. R. A. (N.S.) 246; Farley Bank v. Pollock, 145 Ala. 321, 39 So. 612, 2 L. R. A. (N.S.) 194, 117 Am. St. Rep. 44, 8 Ann. Cas. 370; Lowenstein v. Bresler, 109 Ala. 326, 19 So. 860. But that rule has been disposed of by the statute supra. Moreover, it appeared in the undisputed evidence that the drawee bank, the First National Bank of Seale, was the only bank located at Seale, as appellant knew. The evidence also warranted the conclusion that appellant was aware of the practice of the appellee bank to deal with collections as in this case. In the case thus presented it could hardly be expected that appellee bank, if it elected to deal with the collections in question otherwise than as the statute permitted, would deal with them otherwise than as it did. Banks accepting for collection drafts upon out of town points, more or less distant, for the accommodation of depositors, cannot be expected to dispatch one of its own officers or a special messenger to obtain payment of the bills. Dorchester Bank v. New England Bank, 1 Cush. (Mass) 186. Banks may get some incidental benefit out of such collections, but the primary purport of such transactions is the accommodation of the depositor. Some counts very clearly proceed upon the theory that appellee should have sent an agent from Girard

to Seale to demand payment at the latter place. On considerations stated, our judgment is that such counts could not be sustained on the evidence.

The common counts could not be sustained for reasons pointed out in Jefferson County Bank v. Hendrix, supra. Appellee received the checks for collection. They were credited to appellant "subject to payment." Nor was any money received from the collections undertaken. If appellee or its agents were guilty of actionable negligence resulting in loss to appellant, a different form of action should have been employed. For like reasons the counts in trover were without support.

Counts 16 and 19, in which appellant sought to charge appellee on the ground that it had failed to give appellant due and timely notice of nonpayment by the drawee bank at Seale, are the only counts affording any reasonable ground for agrument. The proof is that on a number of occasions after the deposit of the checks appellant applied to appellee for information as to whether the checks had been paid and was informed that appellee had no information. That, in the circumstances, meant nothing on which to charge appellee unless indeed the Federal Reserve Bank at Atlanta could be held to have been the agent of appellee and in that capacity should have forwarded information which would have been available to appellant, for, on the undisputed facts, appellant knew as much about the subject of inquiry as did appellee. Conceding, then, for the argument, that the Federal

Reserve Bank was negligent in its dealing with the checks, the question of law presented is whether that bank was the responsible agent of appellant or appellee in the matter of collecting the checks.

As affected by the fact that it sent the checks to its correspondent for collection, there are two lines of decision with respect to the duty and liability of appellee bank in the premises. The substance of the two lines is thus briefly stated in 3 Ruling Case Law, at page 622;

> "One line of authorities holds to the rule that the collecting bank is liable only for the selection of a suitable local agent with whom to intrust the collection, and that the agent so selected becomes the agent of the owner of the paper; while, on the other hand, it is held that the forwarding bank makes the local agent its own subagent, and is liable for any neglect on the part of the subagent."

It is clear on the undisputed facts and the law as heretofore stated that neither the First National Bank of Birmingham nor the Branch of the Federal Reserve Bank at Birmingham were guilty of any negligence. They forwarded the checks promptly according to the custom of banks in such cases and, as it must be inferred from the evidence, in agreement with appellant's understanding of the course the collections were to take, if that is of any consequence, nor was it shown that either of them had any information which, if communicated to appellant, might have given an opportunity for collection in any way. We think it proper, therefore, to treat the case as presenting the question whether the Federal Reserve Bank at Atlanta should be considered as the

agent of appellee or appellant and to treat that question as it would need be treated if the collections had been sent directly by appellee to the bank at Atlanta. The first-stated rule is known in the books as the Massachusetts rule; the second as the New York rule. An impressive majority of the state courts follow the first rule; a very respectable minority of the state courts and the Supreme Court of the United States follow the second.

The decision in Eufaula Grocery Co. v. Missouri National Bank, 118 Ala. 408, 24 So. 389, referred to in the brief, expressly pretermitted a committal of the court to either of the stated doctrines, but for the purposes of that case assumed the rule as first stated above as the applicable law---that being the more favorable to the defendant in that case---for the reason, as the court stated, that the action there was well brought under either rule.

In Stone River Nat. Bank v. Lerman Milling Co., 9 Ala. App. 322, 63 So. 776, the Court of Appeals definitely committed itself to the Massachusetts' doctrine, but did so on the assumption that this court had so done in Eufaula Grocery Co. vs Missouri Bank, supra. We have stated the process followed by the court in the Eufaula Grocery Co. Case.

In Alexander v. Birmingham Trust Co., 206 Ala. 50, 89 So. 66, 16 A. L. R. 1079, the decision in the Stone River Case was cited with the statement that it had been reviewed and approved by this court in 185 Ala. 673, 64 So. 1019. But the last citation shows a memorandum decision, and we have no means of ascertaining just what questions were presented to this court

for decision by the application for certiorari to the Court of Appeals. The relevant decision in Alexander vs Birmingham Trust Co. was simply that the proceeds of a draft in the hands of a correspondent bank were the property of the owner of the draft and subject to garnishment against such owner. It thus appears that there has been no definite committal of this court to the Massachusetts rule.

However, our judgment is that the Massachusetts rule is more consonant with what must be the mutual understanding of the parties in such cases, i. e., that the contract implied on the part of a bank taking paper for collection---for of course the parties by express contract may arrange the matter as they will--is simply an undertaking on the part of the bank to exercise care and diligence in the selection of a proper and suitable subagent and in transmitting the paper, and, if the bank has done that, it is not liable for the default of its correspondent. That rule seems to us to have the support of the better reasoned cases. The question at issue is discussed learnedly and at length in the cases and in the editorial notes to Brown v. People's Bank, 52 L. R. A. (N.S.) 608; Tillman County Bank v. Behringer, 36 A. L. R. 1302; City of Douglas v. Federal Reserve Bank, 44 A. L. R. 1425, controlled, of course, by the decision of the Supreme Court of the United States in Exchange National Bank v. Third National Bank, 112 U. S. 276, 5 S. Ct. 141, 28 L. Ed. 722; Cohen v. Tradesman's National Bank, 262 Pa. 76, 105 A. 43, 4 A. L. R. 518, of which last-named case the

annotator correctly observed that "it seems quite clear that the conclusion in Cohen v. Tradesmen's National Bank is correct under either theory," as was the case in Eufaula Grocery Co. vs. Missouri Bank, supra; and in the texts of 7 C. J. Secs. 262, 263; 1 Morse on Banks and Banking (5th Ed.) Secs. 272, 275; 2 Michie, Banks and Banking, Sec. 162 (2); 3 R. C. L. Sec. 251, p. 622. In 1 Morse on Banks and Banking this question is discussed at some length and the cases are considered. The author gives his unqualified approval to the Massachusetts rule; shows that the authority of Chief Justice Marshall rests on the side of that rule notwithstanding the decision in Exchange Bank v. Third National Bank, supra; and discloses the "invincible reasoning" of the rule stated by the Massachusetts cases, Fabens v. Merchantile Bank, 23 Pick 330, 34 Am. Dec. 59, where Chief Justice Shaw cites Chief Justice Marshall, and Dorchester Bank v. New England Bank, supra. The author says that "in the case of collection, the usage to forward to a subagent is well established, and the parties must be presumed to contract in reference to it," and quotes Story on Agency, Sec. 201, as follows: "If there exists in relation to the business a known and established usage of substitution, the principal would be held to have expected and authorized such substitution," and "a substitute appointed by an agent, who has the power of substitution, becomes the agent of the original principal and may bind him by his acts, and is responsible to him as his agent." In 3 R. C. L. Lubi supra, we think we find the correct rule clearly stated as follows:

> It would seem the more reasonable and just construction of the undertaking of the bank in which the paper is deposited for collection, is that when the paper is payable at another

and distant place the bank so receiving the bill discharges itself of liability by transmitting the same, in due time, to a suitable and reputable bank or other agent at the place of payment."

The case is also well stated by the Supreme Court of Texas in Tillman County Bank v. Behringer, supra, decided so recently as 1923, where the court, freely conceding the desirability of agreement with the rule of the federal courts in questions arising in commercial law, resolves, on what it considers to be "the weight of better reasoning," to follow the doctrine of a majority of the state courts. Without undertaking to state every consideration that appears to have influenced the courts to one decision or the other---for they are easily accessible in the authorities cited---we have stated in brief those considerations which seem to us to be conclusive.

The judgment must be affirmed.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6093

July 17, 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 St. Louis to Cleveland from two days to one day.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6094

July 17, 1928.

SUBJECT: Holidays during August, 1928.

Dear Sir:

The Federal Reserve Banks and Branches listed below will be closed on account of holidays on the dates specified during the month of August, and therefore will not participate in either the Gold Fund or the Federal Reserve note clearing.

Wednesday	August 1	Denver	Colorado Day
Thursday	August 2	Nashville Memphis	(Primary Election and (County Election
Tuesday	August 7	St. Louis Kansas City Oklahoma City	Primary Election
Tuesday	August 28	San Francisco Los Angeles	Primary Election

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.

On Tuesday, August 14th, the Federal Reserve Bank of Cleveland and its Cincinnati Branch will close at 1:00 P.M. account of primary election, but the Federal Reserve Bank of Cleveland will participate as usual in the clearings.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-6095

For immediate release. July 18, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Boston has established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective July 19, 1928.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-6096

For immediate release. July 18, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of St. Louis has established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective July 19, 1928.

X-6098

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

July 25, 1928.

For release at 2:00 p.m.

The Federal Reserve Board announces that the Federal Reserve Bank of Philadelphia has established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective July 26, 1928.

X-6100

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, July 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 June and July, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial production and the distribution of commodities in June were in smaller volume than in May and the general level of wholesale prices, following a sharp advance in April and May also declined. Member bank credit was in record volume early in July and indebtedness at the reserve banks was larger than at any time in the past six years.

Production--Activity of manufacturing industries declined slightly in June, and there was a decrease of about 6 per cent in the output of minerals owing to declines in the production of coal. The manufacture of iron and steel decreased in June by somewhat more than the usual seasonal amount, but there are indications that there were no further declines in July and the industry was somewhat more active than a year ago. Production of flour and activity of cotton and wool mills also declined in June. Automobile production showed considerably less than the usual seasonal decline in June, and weekly employment figures for Detroit indicate that operations of automobile plants were well maintained during the first three weeks of July. The manufacture of agricultural implements and machine tools continued in June at the high level reached last spring. Production of lumber, copper, and shoes, and activity of silk mills increased

in June.

Contracts awarded for new building continued large in June and total awards for the first half of the year exceeded those for any previous corresponding period. There were increases over last year in contracts for residential, industrial, public, and educational building. Awards during the first three weeks in July were in somewhat smaller volume than for the corresponding period of last year.

The July estimates of the Department of Agriculture indicate a yield of wheat of 800,000,000 bushels, a decrease of 8 per cent from the harvested yield of 1927, and a yield of corn of 2,736,000,000 bushels, a reduction of 2 per cent. The production of oats, barley, white potatoes, and tobacco is expected to be larger than last year. The acreage of cotton in cultivation on July 1 was estimated at 46,695,000 acres, an increase of 11 per cent as compared with that of a year ago.

Trade--Merchandise distribution at retail and wholesale was seasonally smaller in June than in May. Sales of department stores declined by about the usual seasonal amount, while the declines in sales of chain stores were smaller. Sales of wholesale firms in most lines of trade showed a more than usual seasonal decline. Compared with a year ago sales of department stores and chain stores were larger and those of wholesale firms were smaller. Stocks of wholesale firms were in about the same volume at the end of June as a year ago and those of department stores were smaller.

Freight-car loadings for practically all classes of commodities declined in June and continued in smaller volume than a year ago. During

the first two weeks of July, however, owing to increases in loadings of grains and miscellaneous commodities, total loadings were larger than in the corresponding period of 1927 but continued below the high level of 1926.

Prices--The general level of wholesale commodity prices declined in June and the Bureau of Labor Statistics index, which had advanced from 96 per cent of the 1926 average in March, the low point for the year, to 98.6 per cent in May, declined in June to 97.6 per cent. The decline in the all-commodities index reflected decreases in those groups which had advanced most rapidly in previous months--farm products, foods, and hides and leather products. Prices of livestock and meats, which are included in these groups, however, showed further advances in June, and there was also an increase in the prices of building materials, while prices of silk and rayon, fertilizer materials, house furnishings, and automobile tires declined. During the first three weeks in July there were declines in the prices of wheat and cotton, and advances in those of cattle and hogs.

Bank credit--Member bank credit, after rising to a record volume early in July, declined somewhat during the two following weeks and on July 18 total loans and investments of reporting banks in leading cities were about $160,000,000 smaller than four weeks earlier. The decrease was largely the result of reduction by about $125,000,000 in the banks' investment holdings, but reflected also a decline in the volume of loans on securities following a temporary increase over the mid-year. Contrary to the usual seasonal trend, loans largely for commercial purposes were in record volume during the period.

Member bank borrowing at the reserve banks showed a decline following the mid-year settlement period, but the volume on July 25, at slightly more than $1,000,000,000, was somewhat larger than five weeks earlier. Holdings of acceptances and United States securities declined during the period.

In July there were further advances in open market rates for commercial paper and bills, and discount rates at seven of the Federal reserve banks were raised from 4½ to 5 per cent.

FEDERAL RESERVE BOARD

X-6101

WASHINGTON

July 27, 1928.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

Upon agreement between the Federal reserve banks involved, the Board has approved the following changes in the inter-district time schedule:

From	Detroit	to	Oklahoma City	From	3	days to	2 days
"	Dallas	to	Cleveland	"	3	" "	2 "
"	"	"	Cincinnati	"	3	" "	2 "
"	"	"	Atlanta	"	3	" "	2 "
"	"	"	Nashville	"	3	" "	2 "
"	"	"	Minneapolis	"	3	" "	2 "
"	El Paso	"	New Orleans	"	3	" "	2 "
"	"	"	St. Louis	"	3	" "	2 "
"	"	"	Memphis	"	3	" "	2 "
"	"	"	Little Rock	"	3	" "	2 "
"	"	"	Cleveland	"	4	" "	3 "
"	"	"	Pittsburgh	"	4	" "	3 "
"	"	"	Atlanta	"	4	" "	3 "
"	"	"	Birmingham	"	4	" "	3 "
"	"	"	Jacksonville	"	4	" "	3 "
"	"	"	Louisville	"	4	" "	3 "
"	"	"	Baltimore	"	5	" "	4 "
"	"	"	Portland	"	5	" "	4 "
"	"	"	Seattle	"	5	" "	4 "
"	Houston	"	Chicago	"	3	" "	2 "
"	"	"	New York	"	4	" "	3 "
"	"	"	Portland	"	6	" "	5 "
"	San Antonio	to	Portland	"	5	" "	4 "

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-6102

July 31, 1928.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Committee on Classification of Personnel at Federal Reserve Banks.

Dear Sir:

After reviewing replies received to the Board's letter X-6011 of April 9, 1928, subject, "Classification of Personnel at Federal reserve banks," the Board is of the opinion that a plan somewhat along the lines outlined in the above letter would prove helpful in handling the personnel problems of the Federal reserve banks and accordingly it proposes to have a committee appointed to give the subject thorough study and to submit a report thereon. In order that the viewpoint of each Federal reserve bank may be represented on the committee, the Board proposes to have it composed of representatives from each Federal reserve bank and from the Federal Reserve Board. It will be appreciated, therefore, if you will designate the person on your staff whom you would like to have the Board place on this committee. After the appointment of this committee, it is the present intention of the Board to have a small sub-committee selected to work up a proposed plan for submission to the full committee.

The Board will furnish the committee with an outline of the plan adopted by the Federal Reserve Bank of New York and also of a plan recently worked out and submitted to the Board by the Federal Reserve Bank of Cleveland, in order that the committee may have the benefit of the experience of those two banks in studying this question. It will probably be necessary to hold a meeting of the full committee sometime during the progress of the study, but no definite plans along this line have been formulated as yet and will not be until after the committees have been appointed.

Very truly yours,

Walter L. Eddy,
Secretary.

ALL GOVERNORS - COPY FOR AGENTS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release at 3:00 p. m. July 31, 1928.

The Federal Reserve Board announces that the Federal Reserve Bank of Cleveland has established a rediscount rate of 5 per cent on all classes of paper of all maturities effective August 1, 1928.

(Public - No. 279 - 69th Congress)

(S. 2606)

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That no bank, banking association, trust company, corporation, association, firm, partnership, or person not organized under the provisions of the Act of July 17, 1916, known as the Federal Farm Loan Act, as amended, shall advertise or represent that it makes Federal farm loans or advertise of offer for sale as Federal farm loan bonds any bond not issued under the provisions of the Federal Farm Loan Act, or make use of the word "Federal" or the words "United States" or any other word or words implying Government ownership, obligation, or supervision in advertising or offering for sale any bond, note, mortgage, or other security not issued by the Government of the United States or under the provisions of the said Federal Farm Loan Act or some other Act of Congress.

SEC. 2. That no bank, banking association, trust company, corporation, association, firm, partnership, or person engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business shall use the word "Federal," the words "United States," or the word "reserve," or any combination of such words, as a portion of its corporate, firm, or trade name or title or of the name under which

it does business: Provided, however, That the provisions of this section shall not apply to the Federal Reserve Board, the Federal Farm Loan Board, the Federal Trade Commission, or any other department, bureau, or independent establishment of the Government of the United States, nor to any Federal reserve bank, Federal land bank, or Federal reserve agent, nor to the Federal Advisory Council, nor to any corporation organized under the laws of the United States, nor to any bank, banking association, trust company, corporation, association, firm, partnership, or person actually engaged in business under such name or title prior to the passage of this Act.

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

SEC. 4. That any bank, banking association, trust company, corporation, association, firm, or partnership violating any of the provisions of this Act shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000. Any person violating any of the provisions of this Act, or any officer of any bank, banking association, trust company, corporation, or association, or member of any firm or partnership violating any of the provisions of this Act who participates in, or knowingly acquiesces in, such violations shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding $1,000 or imprisonment not exceeding one year, or both.

Any such illegal use of such word or words, or any combination of such words, or any other violation of any of the provisions of this Act, may be enjoined by the United States district court having jurisdiction, at the instance of any United States district attorney, any Federal land bank, joint-stock land bank, Federal reserve bank, or the Federal Farm Loan Board or the Federal Reserve Board.

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

Approved, May 24, 1926.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6106

August 3, 1928.

SUBJECT: Amendment to Procedure in the Election of Class A and B Directors.

Dear Sir:

The instructions for the uniform procedure in elections of Class A and B directors which were put into effect pursuant to the Board's letter of March 31, 1927 (X-4820) provide that when the Chairman of the Federal reserve bank receives the sealed envelope on the face of which is the signature of the officer of the voting member bank containing the colored envelope holding the ballot, the Chairman will check the signature on the sealed certificate envelope against his list to see that the proper officer has cast the vote and will mark the envelope on its face "official" or "not official" and immediately pass it through the slot into the locked ballot box.

At the suggestion of one of the chairmen the Federal Reserve Board has reconsidered this particular provision of the instructions for procedure in elections and has decided that it should be amended. The following procedure should be followed in future elections:

When pursuant to the instructions the Chairman checks the signature on the sealed certificate envelope against his list and finds that the signature on the envelope is not that of the officer who has been authorized by the member bank to cast the vote of such bank, or finds that the member bank from which the ballot was received has not filed a resolution authorizing any officer to vote, he should promptly return the sealed certificate envelope, unopened and unmarked, to the member bank from which it was received, in order that the bank may properly cast its vote in accordance with the requirements if this can be done before the closing of the polls. In returning the sealed certificate envelope appropriate explanation should be made and proper forms should be enclosed in order that the member bank may then have its vote cast by the officer authorized for this purpose or may adopt a resolution authorizing one of its officers to cast its vote. If the member bank takes the necessary steps to correct the defect in the casting of its vote and does properly cast its vote in accordance with the requirements so that the ballot is received by the Chairman prior to the closing of the polls, its vote should then be counted.

No ballot or envelope containing a ballot which has been passed through the slot by the Chairman into the locked ballot box should be withdrawn or returned to the member bank for correction.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6107

August 3, 1928.

SUBJECT: Amendment to Section IV, Regulation "K".

Dear Sir:

This is to advise you that Section IV of the Board's Regulation "K", Series of 1928, has been amended so as to read as follows:

"Section IV. TITLE.

"Inasmuch as the name of the Corporation is subject to the approval of the Federal Reserve Board, a preliminary application for that approval should be filed with the Federal Reserve Board on F. R. B. Form 150, which is made a part of this regulation. This application should state merely that the organization of a Corporation under the proposed name is contemplated and may request the approval of that name and its reservation for a period of 30 days. The title of every such Corporation shall include the word 'foreign' or the word 'international'. No Corporation will be permitted to have the word 'bank' as a part of its title. So far as possible the title of the Corporation should indicate the nature or reason of the business contemplated and should in no case resemble the name of any other corporation to the extent that it might result in misleading or deceiving the public as to its identity, purpose, connections, or affiliations."

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6108

August 6, 1928.

SUBJECT: Insurance Rates Covering Shipments of Currency, Coin, Bullion and Securities.

Dear Sir:

For your information, there is enclosed herewith a copy of a letter dated June 29, 1928, from the Treasury Department, advising that the Department under date of June 22, 1928, accepted a proposal submitted by DeLanoy, Kipp and Swan, Incorporated, to furnish policies of insurance of five direct writing companies, covering shipments of currency, coin, bullion and securities, under the Treasury Department, effective July 1, 1928.

Transmitted herewith for your information is a photostatic copy of one of the insurance policies.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6110

August 10, 1928.

Dear Sir:

There is enclosed for your information a copy of a letter addressed to the undersigned by Mr. George L. Harrison, Deputy Governor of the Federal Reserve Bank of New York, transmitting a copy of the summons and complaint in an injunction suit which has been instituted against the Federal Reserve Bank of New York by Mr. Frank G. Raichle, seeking to enjoin the Federal Reserve Bank from engaging in open market operations, raising the rediscount rate, or doing anything else which is "calculated to curtail the credit resources of the United States."

The Federal Reserve Bank of New York has retained Honorable Newton D. Baker to assist in the defense of this suit; and Mr. Harrison suggests that, in view of the fact that the suit raises questions of System importance, it would be appropriate for all Federal reserve banks to share in the expense of Mr. Baker's employment on a pro rata basis, as has been done heretofore in similar cases. You are requested to advise the Board whether your bank concurs in this view and is willing to participate in the employment of Mr. Baker on a System basis, the expense of such employment to be pro rated among all the Federal reserve banks.

Very truly yours,

Roy A. Young,
Governor.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT NEW YORK.

COPY

FEDERAL RESERVE BANK

OF NEW YORK.

X-6110-a

August 7, 1928

Governor Roy A. Young,
Federal Reserve Board,
Washington, D. C.

Dear Governor Young:

I inclose a copy of the summons and complaint in the suit which has been brought against this bank by one Frank G. Raichle. The papers were served on us yesterday afternoon and an answer must be filed in our behalf, or other appropriate action taken, not later than August 27th.

Following my telephone conversation with you yesterday, Mr. Logan telephoned to Mr. Newton D. Baker of Cleveland and asked him to represent this bank in the suit. Mr. Baker said that he would be glad to do so.

The suit raises various questions of System importance. Not the least of these is the question whether a private citizen has the right by such proceeding as this to interfere with the Federal Reserve Banks and the Federal Reserve Board in the exercise of their discretionary powers relating to matters of credit policy. It seems to us that the issues involved in the suit are of such great concern to the Federal Reserve System as a whole that you may wish to take up with all the Federal Reserve Banks the question whether the expenses incident to Mr. Baker's employment should not properly be made a System matter, as has been done in other cases of System interest. For reasons which I

explained to you on the telephone, however, it seemed necessary for us not to delay approaching Mr. Baker pending action by the Board or the other banks. I understood you agreed with this procedure.

Very truly yours,

(S) George L. Harrison,
Deputy Governor.

Inc.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6112

August 17, 1928.

SUBJECT: Survey by Personnel Classification Board.

Dear Sir:

There is enclosed herewith copy of a self explanatory letter, with enclosures, received from the Director of Field Survey of the Personnel Classification Board.

The Federal Reserve Board requests that the Federal reserve banks extend the fullest cooperation to the representatives of the Personnel Classification Board who will call upon them.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosures.

TO THE GOVERNORS OF ALL F. R. BANKS.

COPY

PERSONNEL CLASSIFICATION BOARD
WASHINGTON

X-6112-a

August 9, 1928.

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

My dear Mr. Eddy:

During the closing days of the last session of Congress the so-called Welch Act was passed readjusting the salaries of a large number of federal employees. When the act was passed it was realized that it was an emergency measure only and that a subsequent readjustment would be necessary when more complete and detailed information would be at hand. It therefore provided that this Board should report to Congress a classification of the positions of all the 110,000 federal employees outside the District of Columbia. It also directed the Board, in submitting its recommendations as to pay rates, to give to Congress the benefit of its views as to what principles and procedure should be followed for assuring uniform compensation of like positions under like employment and local economic conditions. It also requested the Board to submit such statistical information as seemed desirable in exposition of its findings.

In carrying out these stipulations the Board is planning to make a nation-wide study of the rates paid by commercial concerns to persons holding positions analogous to those in federal employ. We want to submit data on how the salaries paid to government workers compare with those paid by private enterprise, and are therefore planning to ascertain so far as possible the rates of pay in commercial concerns, municipalities, private research corporations, and schools and colleges.

We are planning to establish offices in each of the larger cities of the country and place in charge men who will assist in gathering the necessary data. The men we have selected are all experienced in the field of salary standardization and job analysis. A number of the schools of business of the larger universities, the National Association of Office Managers,

and the U. S. Chamber of Commerce are cooperating with us in gathering the data.

We would like to know whether your Board would be willing to cooperate with us in gathering this information by informing the several Federal Reserve Banks as to what we are planning to do, the reasons for the survey, and suggest to them that they cooperate with us by furnishing the data which we will require, and which will be explained to them by members of our staff. Such information as we gather will, of course, be confidential, and will be published in such a manner as to prevent any disclosure of the salary rates or the personnel policy of the reporting concerns.

I think you know that no really comprehensive study has ever been made in this field. The information which we gather will be of tremendous importance, we think, not only in determining the salaries which should be paid to persons in public service, but will be most helpful as well to private enterprise in determining its wage policy. We shall be pleased to place at your disposal not only the consolidated statistics which we gather, but also any detailed information which may be of service to you and which is compatible with the confidential character of the information we are obtaining. It might be possible for you to render us a further service by asking the Federal Reserve Banks to explain to any of their member banks the reasons for our survey and the desirability of making available to us such information as they can consistently furnish.

I am enclosing copies of our instructions and a number of other documents which will explain to you more fully what we propose to do. We shall be greatly indebted to you for any assistance you can render.

Yours very truly,

(S)

Wm. H. McReynolds
Director of Field Survey.

Enclosures.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6113

August 20, 1928.

SUBJECT: Holidays, September, 1928.

Dear Sir:

On Monday, September 3rd, Labor Day, there will be no Gold Settlement Fund nor Federal Reserve note clearing, and the books of the Board will be closed.

In addition to the Labor Day holiday, the following banks and branches will observe holidays during the month of September:

Monday	September 10	San Francisco Los Angeles	Admission Day in California
Wednesday	September 12	Baltimore	Defenders' Day in Maryland

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 Gold Settlement Clearing credits for the following business day, and make no shipment of Federal Reserve notes, fit or unfit, for account of the Federal Reserve Bank of San Francisco, on Monday, September 10th.

Kindly notify Branches.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6114

August 22, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, July, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6114-a and X-6114-b, covering in detail operations of the main line, Leased Wire System, during the month of July, 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,

Fiscal Agent.

Enclosures.

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

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 1928.

X-6114-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	30,662	1,243	31,905	3.49
New York	141,999	-	141,999	15.53
Philadelphia	34,939	1,012	35,951	3.93
Cleveland	84,597	2,253	86,850	9.50
Richmond	56,326	2,398	58,724	6.42
Atlanta	60,447	6,319	66,766	7.30
Chicago	108,524	2,530	111,054	12.15
St. Louis	80,894	551	81,445	8.91
Minneapolis	29,406	2,494	31,900	3.49
Kansas City	77,012	2,334	79,346	8.68
Dallas	65,461	5,124	70,585	7.72
San Francisco	115,356	2,351	117,707	12.88
Total	885,623	28,609	914,232	100.00

F. R. Board business 246,231 1,160,463

Treasury Department business - Incoming and Outgoing 224,124

Total words transmitted over main lines 1,384,587

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6114-b).

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

X-6114-b

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, JULY, 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	$ 679.48	$ 261.00	$ 418.48
New York	1,143.46	2.00	-	1,145.46	3,023.61	1,145.46	1,878.15
Philadelphia	225.00	-	-	225.00	765.15	225.00	540.15
Cleveland	296.66	-	-	296.66	1,849.60	296.66	1,552.94
Richmond	190.00	-	230.00(&)	420.00	1,249.94	420.00	829.94
Atlanta	270.00	-	-	270.00	1,421.27	270.00	1,151.27
Chicago	4,103.31(#)	-	-	4,103.31	2,365.54	4,103.31	1,737.77(*)
St. Louis	229.00	-	-	229.00	1,734.73	229.00	1,505.73
Minneapolis	192.15	-	-	192.15	679.48	192.15	487.33
Kansas City	275.64	-	-	275.64	1,689.95	275.64	1,414.31
Dallas	251.00	-	-	251.00	1,503.04	251.00	1,252.04
San Francisco	370.00	-	-	370.00	2,507.67	370.00	2,137.67
Federal Reserve Board	-	-	15,190.44	15,190.44	-	-	-
Total	$7,806.22	$ 3.00	$15,420.44	$23,229.66	$19,469.46	$8,039.22	$13,168.01
				3,760.20(a)			1,737.77(b)
				$19,469.46			$11,430.24

(&) Main Line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $3,760.20 from Treasury Department covering business for the month of July, 1928.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6116

August 23, 1928.

SUBJECT: Employment of Honorable Newton D. Baker in case of Raichle v. Federal Reserve Bank of New York.

Dear Sir:

Referring to the Board's circular letter of August 10, 1928, (X-6110) you are advised that all the Federal reserve banks have signified their willingness to bear a pro rata share of the expense of retaining Honorable Newton D. Baker in connection with the trial of the case of Raichle v. Federal Reserve Bank of New York.

Upon completion of his services Mr. Baker will submit his bill to the Board for approval after which it will be paid by the Federal Reserve Bank of New York and the other Federal reserve banks will be advised by the Board of the amounts which they are to remit to New York.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6117

August 23, 1928.

SUBJECT: Employment of Honorable Newton D. Baker in Neoga National Bank Case.

Dear Sir:

Referring to the Board's telegram of May 18, 1928, you are advised that all Federal reserve banks have signified their willingness to bear a pro rata share of the expense of retaining Honorable Newton D. Baker in connection with the trial of the suit brought by depositors of the insolvent Neoga National Bank of Neoga, Illinois, against the directors of that bank and against the Federal Reserve Bank of Chicago.

Upon completion of his services Mr. Baker will submit his bill to the Federal Reserve Board for approval after which it will be paid by the Federal Reserve Bank of Chicago and the other Federal reserve banks will be advised by the Federal Reserve Board of the amounts which they are to remit to the Federal Reserve Bank of Chicago.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6118

August 24, 1928.

SUBJECT: Topic for Forthcoming Conference of Governors and Federal Reserve Agents.

Dear Sir:

An examination of the June 30 call reports, which call for the amount of paper eligible for rediscount with the Federal reserve bank, indicates that there is a lack of understanding on the part of many member banks as to what constitutes eligible paper. A number of the banks stated they did not know how much of their loans were eligible for rediscount, others left the item blank, while some showed figures either absurdly low or high. In quite a number of cases the banks reported the total amount of their loans and discounts as eligible for rediscount, some showed an amount materially in excess of their time loans, and others showed figures which of necessity must include a considerable amount of real estate loans and loans on securities other than those of the United States Government.

The Board requests that the forthcoming conferences of Governors and Federal Reserve Agents consider whether special effort should not be made (1) to impress upon member banks the desirability of maintaining an adequate portfolio of paper eligible for rediscount at the Federal reserve banks, and (2) to more fully acquaint them with the kind of paper eligible for rediscount.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS AND AGENTS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Monday, August 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 July and August, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial and trade activity was in larger volume in July than is usual in midsummer and the general level of commodity prices advanced slightly. Member bank holdings of securities and loans on securities declined in July and August, while all other loans increased to the highest level on record. Conditions in the money market remained firm.

Production--Production of manufactures and minerals showed a smaller decrease than usual in July, and the index of industrial production, which makes allowance for seasonal variations, advanced. Production of steel, bituminous coal, petroleum, automobiles, and footwear was larger in July than in June, while activity in textile mills, meat packing, and copper and anthracite mines declined. Lumber production showed less than the usual seasonal decrease. Steel mill activity, while during July was at an unusually high level for the summer season, was well maintained during August. Weekly reports from Detroit factories show a larger volume of employment in the middle of August than at any previous date, indicating that automobile production continued large in that month. Building contracts awarded declined by somewhat more than the usual seasonal amount in July, but were larger than in any previous July, the increase over last year being chiefly in residential building . Contracts awarded in the first two weeks in August were slightly smaller than in the same period of last year.

Estimates of the Department of Agriculture as of August 1 indicate considerable improvement in crop conditions during July. Estimated wheat production was 891,000,000 bushels, larger by 91,000,000 than on July 1 and slightly larger than the yield in 1927. The corn crop is expected to be more than 3,000,000,000 bushels, an increase of 750,000,000 bushels from last year. Forecasts for other grain crops were also larger than the July 1 estimates and in most cases exceeded last year's yields. The August 1 forecast of cotton production was 14,290,000, as compared with yields of 12,955,000 bales in 1927 and nearly 18,000,000 bales in 1926.

Trade--Distribution of commodities at wholesale and retail was in large volume in July. Sales of dry goods and shoes at wholesale were larger than in June, and those of other lines were only slightly smaller. Department store sales, after allowance for seasonal changes, increased in July. Compared with July a year ago trade of both wholesale and retail firms was larger. Stocks of department stores and/of wholesale firms continued smaller than a year ago.

Freight-car loadings increased by more than the usual seasonal amount in July and for the first time this year were larger than in the corresponding month of 1927. Increases, compared with last year, were reported in loadings of miscellaneous commodities and of grain, reflecting the early harvesting of the crop this year. The largest decrease, as compared with a year ago, was in livestock shipments. During the first two weeks in August, total loadings were in about the same volume as in the corresponding weeks of last year.

Prices--The general level of wholesale commodity prices increased slightly in July reflecting chiefly advances in the prices of livestock and meats, although there were also small increases in hide and leather products, textiles, petroleum products, and building materials. There was a sharp decline in the price of grains, other than corn, and some decrease in chemicals and drugs, silk, rubber, and automobile tires. During the first half of August there were increases in

the prices of sugar, hogs and pork products, coke, and lumber, and decreases in grains, cotton, wool and hides.

Bank Credit--Between July 18 and August 15 total loans and investments of member banks in leading cities decreased by about $130,000,000. This decline reflected a considerable reduction in investments, chiefly at banks in New York City, and some further decline in loans on securities. All other loans, which include loans for commercial purposes, showed a small seasonal increase and at the middle of August were in the largest volume since early in 1921 and nearly $230,000,000 larger than at the autumn peak of last year. There was a further large decline in net demand deposits, and practically no change in time deposits.

Volume of reserve bank credit outstanding showed little change between July 25 and August 22. Discounts and acceptance holdings increased slightly while United States security holdings were practically unchanged. Increased demand for currency, which is usual at this time of the year, has not resulted in an equivalent growth in reserve bank credit, because it was offset in part by a decline in reserves required by member banks, which reflected the decrease in their deposits.

There were further increases between the middle of July and the middle of August in open-market rates on collateral loans, commercial paper and bankers' acceptances.

S. F. No. 12855. In Bank. August 6, 1928.

WESTLAKE MERCANTILE FINANCE CORPORATION (a Corporation), Plaintiff and Appellant, v. CHAS. A. MERRITT and CHAS. A. PARLIER, individually and as copartners, doing business under the firm name and style of Merritt and Parlier and MERRITT AND PARLIER (a Copartnership), Defendants and Respondents.

(1) Promissory Notes--Trade Acceptance--Sales Agreement--Maturity--Negotiability.--Language in trade acceptance that "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", makes the underlying contract a part of such instruments for the purpose of determining the maturity date thereof, which may be different from that set forth in such instruments, and renders them nonnegotiable.

Appeal by plaintiff from a judgment of the Superior Court of Santa Clara County, P. F. Gosbey, Judge, in an action upon trade acceptances. Affirmed.

On hearing after judgment in District Court of Appeal, First District, Division One (55 Cal. App. Dec. 26), reversing judgment of Superior Court in an action upon trade acceptances. Judgment of Superior Court affirmed.

For Appellant--George H. Woodruff; Woodruff, Musick, Pinney & Hartke.

For Respondents--Elmer D. Jensen; H. A. Blanchard, of Counsel.

On April 30, 1925, under the trade name of Aristocrat Distributing Company, one J. B. Vallen entered into a contract in writing with Chas. A. Merritt and Chas. A. Parlier, a copartnership, doing business under the name of Merritt and Parlier, with reference to

the sale and delivery by the former to the latter of a certain number of dishwashing machines. The contract need not here be set out other than to state that it was never fulfilled on the part of the Aristocrat Distributing Company, and there is no pretense that its covenants were observed. At the time of the making of the contract, and as a part of the transaction, Merritt and Parlier accepted two drafts or trade acceptances drawn by the Aristocrat Distributing Company, payable to themselves, alike except as to date of maturity, for $420 each, and payable 60 and 90 days after date, respectively. The material part of the earliest of these acceptances is here set forth:

"No. _____, Los Angeles, Calif. 4/30, 1925, date of sale. $420 to Merritt & Parlier, San Jose, Calif., on June 30th, 1925. Pay to the order of ourselves at Los Angeles, Calif., the Sum Of Four Hundred Twenty and 00/100 Dollars. The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with original terms of purchase. Accepted at San Jose, Cal. Dealer's Town on 4/30, 1925, Date of Order. Payable thru Security State Bank, San Jose, Cal., Dealer's Bank. Merritt & Parlier, Trade Name of Acceptor. By Chas. A. Merritt, Authorized Acceptor. Aristocrat Distributing Co., J. B. Vallen."

(1) Plaintiff, alleging itself to be a holder in due course (Civ. Code, sec. 3133) of these instruments, sued the defendants as acceptors thereof for the amounts specified therein. Defendant copartnership, pleading the nonnegotiability of said instruments introduced and proved an uncontradicted defense to said obligations

unless plaintiff can be said to be an innocent purchaser thereof for value. Plaintiff showed a payment of $786.90 for said instruments and that it was ignorant of all infirmity in them. The whole question turns upon the negotiability or nonnegotiability of said drafts and this question must be determined from the face of the instruments themselves. (International Finance Co. v. Northwestern Drug Co., 282 Fed. 920.) The question is further refined by the construction to be placed upon the above clause, reading: "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with original terms of purchase." In other words, is said clause the expression of a contingency as to the maturity of the acceptances or does it merely refer to the consideration for which they were given? Particularly, does the expression "maturity being in conformity with original terms of purchase" refer to the date set up in the body of the trade acceptances or does it refer to the underlying contract between the parties? It will be observed that these acceptances were made payable to the drawers themselves. The question further arises: For what reason were these paragraphs inserted? Without them the instruments are perfect trade acceptances, negotiable in form in every respect. If these paragraphs were not intended to make the collateral agreement a part of the instruments, then they are a fraud upon the acceptors, who had a right to believe that they would mature only as in said contract provided.

We are fortunately not without assistance in the proper construction of these instruments, for the identical question was presented to the highest courts in both the states of Minnesota and Texas.

It seems that the representatives of this patented article, the Aristo dishwashing machine, have in other states been long on promises, short on performances and quick on negotiations of the obligations executed by the credulous and unwary merchants. In Minnesota, in the case of Heller v. Cuddy (Minn.), 214 N. W. 924, the court held the above paragraph to be "a statement of the transaction which gives rise to the instrument" (Civ. Code, sec. 3084), saying: "So there is no ground for the contention that this statement in the acceptances put the plaintiffs upon inquiry concerning the terms of the underlying contract of purchase or its status at the time being with respect to performance or breach by the parties thereto. The situation is very different from that presented by an instrument which by reference makes another and underlying contract a part of itself and so becomes subject to its terms. That was the case in King Cattle Co. v. Joseph, 158 Minn. 481, 198 N. W. 798, 199 N. W. 437."

It will be seen from the above quotation that if the instruments here under consideration make the underlying contract a part of themselves, their negotiability is thereby destroyed. As above intimated, we are of the opinion that the said paragraph does make the underlying contract a part of said instruments for the purpose of determining the maturity date thereof, which may be different from that set forth in said instruments themselves. In this connection we are constrained to disagree with the opinion announced in the above-quoted case. We are in accord, however, with the reasoning set forth in Land Co. v. Crum (Texas), 291 S. W. 1084, which is also a case involving the identical language here

under consideration. In that case there was in the Court of Civil Appeals a majority opinion in accord with the Minnesota holding, to which there was a dissenting opinion by Mr. Justice Stanford. The supreme court, however, adopted the reasoning of Mr. Justice Stanford, in the following language:

"We agree with the conclusion reached by Associate Justice Stanford in his dissenting opinion as to the legal effect of the clause just quoted. In our opinion the clause has effect to render the trade acceptances nonnegotiable under the law merchant as well as under the Negotiable Instruments Act (Vernon's Ann. Civ. St. 1925, arts. 5932-5946). The obligation of the acceptor, according to the terms of said clause, arises not from the instruments themselves, but from a collateral transaction. For an instrument to be negotiable, the obligation of the maker must arise exclusively from the instrument. No obligation arising from a collateral transaction can be imported into the terms of the instrument without destroying the negotiability of the instrument. (8 Corpus Juris, pp. 113-114.) A negotiable instrument has been termed 'a courier without luggage', whose countenance is its passport. This apt metaphor does not fit these trade acceptances, for the reason they are laden with the equipment of a wayfarer who does not travel under safe conduct. By their express terms these instruments bear burdens whose nature must be sought for beyond the four corners of the instruments themselves. The clause in question is more than a mere 'statement of the transaction which gives rise to the instrument', as permitted by paragraph 2, section 3, of article 5932 of the Revised Statutes. So far from

being a mere descriptive reference to the transaction which gave rise to the instrument, the clause, in definite terms, points to that transaction as the source of the acceptor's obligation to pay the amount named in the instrument. The legal effect of the clause is to render the paper subject to all the rights and equities of the parties to the collateral transaction from which the obligation of the acceptor arises. (Parker v. American Exchange Bank (Tex. Civ. App.), 27 S. W. 1072; 8 C. J. 124."

A similar case and a similar holding is Continental Bank & Trust Co. v. Times Pub. Co. (La.), 76 So. 612, where the words "as per contract" appearing in an otherwise negotiable promissory note were held to qualify the unconditional promise to pay previously expressed therein. Similar words, however, were held not to destroy the negotiability of an instrument in National Bank v. Wentworth (Mass.), 105 N. E. 626. The courts do not differ as to the legal principle involved, but differ as to the meaning to be assigned to the language then under review. The question has been stated as follows: "Whenever a bill of exchange or a promissory note contains a reference to some extrinsic contract in such a way as to make the bill or note subject to the terms of that contract, as distinguished from a reference importing merely that the extrinsic agreement was the origin of the transaction or constitutes the consideration of the bill or note, the negotiability of the instrument is destroyed." See, to this effect, Northwestern Nat. Ins. Co. v. Southern

States etc. Co. (Ga.), 93 S. E. 157.

The principle has again been stated that by the law merchant one of the principle elements of negotiability is certainty of payment, and any words of the instrument rendering payment conditional or uncertain destroy it as a negotiable instrument. (Greenbrier Valley Bank v. Bair (W. Va.), 77 S. E. 274.) In our own code (sec. 3085, Civil Code) it is provided: "An instrument payable upon a contingency is not negotiable, and the happening of the event does not cure the defect." Somewhat in line with this reasoning is the case of Glendora Bank v. Davis et al., 75 Cal. Dec. 715, where the court held the following language to destroy the negotiability of the instrument: "This note is given in payment of merchandise and is to be liquidated by payments received on account of sale of such merchandise."

The doctrine of such cases as Flood v. Petry, 165 Cal. 309, and Pratt v. Dittmer, 51 Cal. App. 512, which relates to cases of transfer prior to failure of consideration in executory contracts, is, in view of the construction above announced, not here involved. This conclusion renders also unnecessary a discussion of the question of the sufficiency of the evidence to support the finding of the court that plaintiff had actual knowledge of the infirmity of these instruments.

The judgment is affirmed. PRESTON, J.

We Concur:
CURTIS, J.
RICHARDS, J.
SHENK, J.
SEAWELL, J.
WASTE, C. J.
LANGDON, J.

FEDERAL RESERVE BOARD

S T A T E M E N T F O R T H E P R E S S

For release 3 o'clock p.m.
August 29, 1928.

There is quoted below a communication received by the Federal Reserve Board from a clearing house association:

"Referring to loans made member banks secured by United States securities we feel preferential rate of interest should be charged on transactions of this character, rate not to exceed rates borne by securities in accordance with previous ruling. In view of forthcoming financing by Treasury Department we feel this matter should receive the immediate and careful consideration of Federal Reserve Board. Present rates penalize banks assisting in financing."

The following is the Board's reply:

"Gentlemen:

This will acknowledge receipt of your wire of August 27th to Governor Young recommending preferential discount rates by Federal reserve banks on collateral notes secured by Government obligations, the discount rate in each case to be the same as that borne by the security. Your proposal has been laid before the Federal Reserve Board, and, first, the Board feels justified in reminding you that the usual procedure under the law is for the Directors of the reserve banks to initiate rates. When such rates are initiated they are laid before the Board for review and determination. While the Board undoubtedly has the power to fix rates of discount for reserve banks we see nothing in the present situation to require such arbitrary action. At the same time the Board is not attempting to sidestep any responsibility it may have for reserve bank discount rates, and we advise your Association that if any reserve bank should initiate such preferential rates as you suggest the Board would be opposed to such procedure for the following reasons:

(1) It would not care to discriminate against commerce and industry by approving a rediscount rate of as low as three and one quarter percent on collateral notes secured by Government obligations while simultaneously certain reserve banks would be permitted to charge five percent on eligible commercial, agricultural and industrial paper.

(2) There is nothing in the present situation which would justify a lower rate on one class of Government securities over another. The previous action of the reserve banks that you refer to was a wartime measure only.

(3) If your proposal was put into effect at the present time it would permit a member bank to buy United States bonds in the

present market on a yield higher than the bonds bear and the member bank would be prompted to rediscount to make such purchase solely for profit.

(4) Member banks own over four billions of United States Government bonds, and, upon reflection, we believe your Clearing House will agree with us that the invitation for profit would be too great for many of the banks to resist and only result in inflation that eventually would work widespread disaster to our entire financial structure and, indirectly, to the business interests of the country.

(5) The proposed plan would have a strong tendency to appreciate the market value of the outstanding United States obligations bearing low rates and simultaneously depreciate those bearing higher rates, developing artificial and unwarranted prices for the various Government issues.

(6) Under normal peacetime conditions the Treasury Department should and does pay the ordinary market rates for money the same as any other borrowers. Moreover, the credit of the United States Government is so good that there is no occasion whatsoever of attempting by artificial means to place United States Government securities in a favored position as compared with commerce, industry and agriculture.

Very truly yours,

(signed) A. W. Mellon,
Secretary of the Treasury and
Chairman of the Federal Reserve Board."

X-6123

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 30, 1928.

SUBJECT: Amendment to Regulation A, Series of 1928.

Dear Sir:

This is to advise you that Sub-division (d) of Regulation A, Series of 1928, relating to rediscounts by Federal reserve banks for intermediate credit banks, has been amended to read as follows:

> "(d) Discounts for Federal intermediate credit banks.- Any Federal reserve bank may discount agricultural paper for any Federal intermediate credit bank; but no Federal reserve bank shall discount for any Federal intermediate credit bank any such paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal reserve system under the terms of section 9 of the Federal Reserve Act as amended. In discounting such paper each Federal reserve bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks. Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount paper for any Federal intermediate credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation. Except with the permission of the Federal Reserve Board, the aggregate amount of paper discounted by all Federal reserve banks for any one Federal intermediate credit bank shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal intermediate credit bank."

The Federal Reserve Board is desirous that no public or other announcement of this amendment be made at this time.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6124

September 4, 1928.

SUBJECT: Topic for Joint Conference - Minimum maturity on member bank collateral notes.

Dear Sir:

There is enclosed herewith copy of a memorandum from the Board's General Counsel submitting and commenting upon a proposed amendment to the Board's regulations which would fix seven days as the minimum limitation on advances by Federal Reserve banks to member banks on their promissory notes secured by eligible paper or Government securities. Such an amendment has been suggested as a possible means of preventing day to day borrowings by member banks for the making of loans of a speculative character, and the Board has voted, before acting upon the suggestion, to refer it to the forthcoming conference of the Governors and Federal Reserve Agents for discussion and recommendation, as well as to the fall meeting of the Federal Advisory Council.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL GOVERNORS AND
FEDERAL RESERVE AGENTS.

(COPY)

Y-3124-a

FEDERAL RESERVE BOARD

June 21, 1928.

To Federal Reserve Board

From Mr. Vest, Assistant Counsel.

SUBJECT: Minimum maturity of seven days on member banks' collateral notes.

In accordance with the Board's request there has been prepared and is attached hereto a draft of an amendment to the Board's regulations which would fix seven days as the minimum limitation on advances by Federal reserve banks to member banks on their promissory notes secured by paper eligible for rediscount or by bonds or notes of the United States.***

Some question may be raised as to the Board's authority to prescribe a regulation of this kind. In my opinion the Board has the authority under the law to do this if it so desires.

Section 13 of the Federal Reserve Act contains the following paragraph:

> "The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

This provision obviously gives broad authority to the Federal Reserve Board in the matter of regulating the discount and purchase of paper by Federal reserve banks. The term "bills receivable" includes promissory notes, bills of exchange or other instruments for the payment of money. (see WORDS AND PHRASES and Bouvier's LAW DICTIONARY.) This provision of law, therefore, makes the discount of any promissory note by any Federal reserve bank subject to such restrictions, limitations and regulations as may be imposed by the Federal Reserve Board. The broad authority to impose any restrictions and limitations thus given in my opinion empowers the Board to prescribe a minimum limitation on maturity of notes <u>discounted</u> by a Federal reserve bank.

The word "discount" according to the decided cases applies not only to the purchase of a note from one who actually owns the same, i.e., the payee or the holder, but also includes the transaction by which the loan is made to the maker of a note by the payee thereof. See Fleckner v. Bank, 8 Wheat. 338; National Bank v. Johnson, 104 U.S. 271; Esten v. Third National Bank (Ky.), 42 S.W. 1115; and Morris v. Third National Bank (C.C.A.) 142 Fed. 25. In this connection it may be well to mention the fact that the same amendment to the law, that of September 7, 1916, which authorized Federal reserve banks to make advances on member banks' collateral notes, also inserted the words "discount and" in the above quoted paragraph of Section 13. This may be regarded as of some significance as to the intention of Congress.***

I am, therefore, of the opinion that the above quoted paragraph of Section 13 confers upon the Federal Reserve Board the authority to prescribe limitations and restrictions on advances by Federal reserve banks to member banks on their collateral notes and that this authority is broad enough to empower the Board to prescribe seven days as a minimum

limitation for advances of this kind.

It may be regarded as questionable whether this proposed limitation on maturity of member banks' collateral notes is in harmony with the purpose of Congress in providing that Federal reserve banks may make advances to member banks on their promissory notes with maturities up to fifteen days. The following is a quotation from a letter addressed by the Governor of the Federal Reserve Board to Senator Owen in 1916 recommending the passage of this amendment:

> "The Board has recommended in the amendment designed to provide for 15-day loans, that member banks be permitted to put up as collateral paper of the kind they can now rediscount, or Government bonds in which they can now invest, and to obtain very short term loans based thereon. Experience has shown that in many cases where a bank would gladly obtain accommodation for a limited time, it does not care to go to the trouble of rediscounting paper for a specific period of maturity, although it would probably take advantage of an opportunity to obtain temporary accommodation if it could do so without having to borrow for the full period of the note's maturity, or otherwise comply with restrictions or limitations that may be deemed onerous. It is, therefore, recommended that the member banks be permitted to obtain of Federal reserve banks short period loans of this kind."

It seems apparent from this that it was contemplated that member banks might borrow on their promissory notes for very brief periods, even as short as one or two days.

As stated above, however, in my opinion the Board has the authority under the law to prescribe this limitation if it deems it advisable.

Respectfully,

(signed) George B. Vest,
Assistant Counsel.

(COPY)

X-6124-b

(Proposed new section of Regulation A to be inserted as Section X of Article A, subsequent sections to be renumbered accordingly.)

SECTION X. ADVANCES TO MEMBER BANKS ON THEIR PROMISSORY NOTES.

(a) Any Federal reserve bank may make advances to any of its member banks on their promissory notes provided such notes are secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of the Federal Reserve Act or of the Regulations of the Federal Reserve Board, or are secured by the deposit or pledge of bonds or notes of the United States.

(b) No such advances shall be made for a period exceeding fifteen days nor for a period less than seven days. A note of a member bank given for any such advance in no case shall be cancelled or marked paid or shall be returned to the member bank until payment in full of both principal and interest thereof shall have been made not less than seven days after the advance to the member bank. No rebate of interest covering any part of such seven-day period shall be made in any case.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6125

September 4, 1928.

SUBJECT: Topic for joint conference - Deduction of foreign balances in computing member bank reserves.

Dear Sir:

The Board has voted to refer to the fall conferences of Governors and Federal Reserve Agents the attached correspondence relative to a suggestion by Mr. Fred I. Kent, New York City, that the Board revoke the ruling made by it in 1919, to the effect that balances due from foreign banks may not be deducted from balances due to other banks by a member bank in calculating its reserves.

The subject is also being referred to the next meeting of the Federal Advisory Council.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

COPY

FRED I. KENT
100 Broadway
New York

X-6125-a

June 22, 1928.

Hon. Roy A. Young, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Young:

Enclose herewith copy of one letter which I forwarded Mr. Curtiss on July 19, 1924, except that due to the fact that the copy in the files of the Bankers Trust Co. was mutilated and only a few lines of page 2 were with the letter I have had to reconstruct it from memory. However, as it is the argument you desire and not the specific wording I am certain that it will serve your purpose.

Cordially yours,

(S) Fred I. Kent.

FIK-F
Enc.

C O P Y X-6125-b

July 19, 1924.

Mr. Frederic H. Curtiss, Chairman,
Federal Reserve Bank of Boston,
30 Pearl St.,
Boston, Mass.

Dear Fred:

Referring to your letter of June 27, concerning reserves required of banks, members of the Federal Reserve System, would say that it seems to me that in the consideration of this subject we should steer clear of the academic in so far as is possible and confine ourselves to the practical phases of the question.

In the first place it might be well to say that the whole theory of reserves as carried out in this country is wrong. When a reserve cannot be used in time of emergency it is no reserve at all - instead it merely acts to curtail business.

There is no doubt, however, but that a system of banking which carries within it thousands of individual banking institutions must for the better protection of all concerned be required to carry certain specific reserves yet the aim should be to fix such reserves at as low a figure as is consistent with safety and bearing in mind that the necessity to carry reserves is not going to prevent losses that are due to fraud or deliberate theft and that consequently the reserve requirement is only effective as a means to prevent the exercise of bad judgment on the part of individual bankers who might be tempted to loan or invest a larger proportion of their assets than the nature of their particular business warranted.

In connection with the change in the regulations made by the Federal Reserve System under which member banks were not allowed to deduct balances maintained with foreign banks from balances due from banks in order to arrive at the net balance upon which reserves were to be maintained, nothing was accomplished toward strengthening the banking system of the country in my opinion.

With few exceptions the banks which maintain foreign balances are large Metropolitan institutions which between them carry on the foreign exchange business of the United States. It goes without saying that such business is of tremendous importance to our people and that our export trade affords an outlet for our production which has resulted in making it possible to develop mass production that has enabled the manufacture of sufficient units of the conveniences which the people desire to reach a tremendous portion of our population.

The institutions doing such business in figures of importance are generally situated in cities where there are Federal Reserve banks or branches of such banks and they are therefore in position to obtain credits or currency, if it is required, against discounts without loss of time. Such banking institutions carry sufficient staffs of officers of large experience in banking to enable the application of composite intelligence to the consideration of their operations as they might be affected by a weaker or stronger reserve position.

It is probable in so far as these particular institutions are concerned that they would be operated along lines of as great safety if they were not obliged to maintain any specific reserves but were allowed

to use their judgment from day to day as to what reserves they should carry. Under our large individual system of banking, however, it goes without saying that this would be quite impossible to arrange and that therefore it is entirely in order that they should come under the law with all other banking institutions.

Discrimination against such institutions, however, such as actually occurred through the change in regulations referred to, not only appears to be unjustifiable but it clearly imposes an unnecessary tax on the export trade of the country.

When the change in regulations was made it became necessary for many banks doing a foreign exchange business to go to their Federal Reserve banks and borrow in order to make their reserves good. This act did not strengthen the banks in any particular as they could have borrowed exactly as well on the collateral which they actually put up, if the operations of their banks made it necessary in order to maintain their reserves under the former regulations.

The next important result was that it developed a certain amount of friction between banking departments and foreign departments that should never exist. Banking departments in order to keep their reserves in order under the regulations have brought force to bear upon the foreign departments to curtail their foreign balances, which has resulted in many institutions having senior officers call upon foreign departments for funds when it was against the interests of the banks to reduce such funds and also against the interests of the foreign trade of the country to have them do so. When such balances could be deducted from gross deposits in ascertaining net deposits, such a situation did not develop.

It is necessary in order for bankers to carry on a foreign business and give a satisfactory service for them to carry balances in foreign banks. It is through such balances that they obtain rates needed to give a proper service to exporters and importers and while they are always free to withdraw such balances, and in practically all cases to overdraw on occasion, yet it is expected that they shall have a satisfactory average deposit in foreign banks commensurate with the service which is extended to them.

Again it becomes necessary occassionally for exporters to turn in bills of exchange after the foreign markets are closed and when the bank accepting them is obliged to carry them over until the next day. It seems unreasonable to expect a banker to maintain a reserve against such balances for if the bills are refused, he is in position to charge them back and so reduce deposits. The banker is also obliged under present rulings to have in mind the effect upon his reserves when taking exchange from exporters and is obliged to consider the extra cost to the bank.

There is also serious doubt as to the advisability of forcing American banks to curtail their foreign deposits in order to hold up their reserves instead of allowing the freedom which is necessary to enable the foreign exchange banker to handle his business safely, economically and profitably. In case of a domestic crisis, foreign balances have always proved of great value. In 1907 in particular, it was only because of the foreign balances available that American banks in the metropolitan cities were able to obtain the gold which was required in order to restore confidence. While the conditions under the Federal Reserve System are somewhat different than prevailed then,

yet after the present unnatural situation developed by the war has passed, as it will, the ability to draw gold from abroad is again going to be a valuable asset and foreign bankers are going to be much freer in giving up gold if American banks are in the habit of keeping respectable balances on deposit with them than would otherwise be true.

The next question is that of availability of foreign balances in cases of necessity and as to this there is no question at all unless a crisis developed where all banks were obliged to sell their foreign exchanges at the same time and such a situation does not occur without warnings, during which many institutions dispose of their holdings. Further, an emergency of such character would mean that some serious crisis had developed in which the banking system as a whole would have to stand together and against which it is thoroughly uneconomic to make protection in good times and bad.

While there is always a broader market for certain foreign exchanges than for others, yet the very fact of a narrow market results in small foreign balances in such markets, so that it does not seem necessary or advisable to even consider the question of allowing the deduction of certain exchanges and not others. Instead in so far as safety to individual institutions is concerned, they should be allowed to deduct foreign balances wherever held. If bank examiners found certain institutions were carrying too large sums in their opinion in foreign exchanges having a limited market, they could easily call it to the attention of the banks so operating.

It must be borne in mind in considering the question of reserves that banks doing a foreign business have to compete with foreign banks which are not obliged to maintain any reserves and that every additional unnecessary expense made for the American foreign exchange bank increases our difficulty in successfully competing with foreign banks. This situation as to reserves has been recognized by the Federal Reserve Board in their application of the reserve law to foreign branches of American banks members of the Federal Reserve System and it is just as important that they should do so in connection with banks in the United States doing a foreign business. The effect of prohibiting the deduction of foreign balances, which is unquestionably legal under the Federal Reserve Act, although it is prohibited by regulation, is equivalent to putting a tax upon foreign deposits.

During the times of most violent fluctuations in the foreign exchange markets it has always been possible to sell balances and the question as to whether a bank doing a foreign business may make a loss in turning over such balances in case of emergency has nothing to do with the question of reserves, although a banker is more apt to meet with a loss without entire freedom in handling his balances than is otherwise true. As a matter of fact I know of large losses which banks have sustained because they were obliged to sell their foreign exchange at inopportune times to meet reserve regulations. This particular point in the situation is, of course, one that is more apparent to foreign exchange men than to those who have not actually operated in exchange themselves, but there is no doubt but that inability to deduct foreign exchange balances on the whole has a tendency to reduce exchange profits rather than otherwise.

Taking everything into consideration, that is the safety of banks, their opportunity to operate at a profit, their ability to give a service to exporters and importers, their success in meeting competition from foreign banking institutions and for the good of the country as a whole, there would seem every reason why bankers in ascertaining their net reserves should be allowed to deduct the balances due them from foreign banks.

Certain bankers having no banking deposits have on occasion objected to the principle of allowing any deduction of bank balances in ascertaining net deposits and the change in regulations that authorized such deduction only to the extent that deposits were held for other banks is understood to have been made because of such objection. The same bankers or others who carry no foreign balances are also believed to have expressed an opinion against allowing the deduction of foreign balances from deposits. In both cases there must have been a misunderstanding of the reason for requiring the maintenance of reserves and further there must have been a belief that in some indefinable way allowing the deduction of bank balances by a banker who had them to deduct was a discrimination against a banker who did not have such balances, which is, of course, untrue. A banker who has to carry bank balances in order to meet his banking requirements is tying up funds at low interest rates which might otherwise be loaned at higher rates.

When it comes to the question of foreign balances the same thing is true in so far as the interest return is concerned, as foreign balances probably do not average as a whole a return of 2%. Their maintenance, however, enabling as it does the furthering of the foreign trade of the country reacts directly to the benefit of many bankers who do not do a foreign business themselves, but who make commission profits from the foreign exchange of their customers that is taken from them by the foreign exchange bankers and indirectly through helping the trade of their clients. This is of great value to all bankers and their best interests lie in having unnatural barriers removed from their foreign trade.

Assuring you that I shall be glad to go over the matter with you in detail sometime when you are in New York should you desire to have me doso, I am

Very truly yours,

Vice President

FIK:R

COPY

FEDERAL RESERVE BANK

OF NEW YORK

X-6125-c

June 20, 1928.

Dear Governor:

Referring to your letter of June 13 and the subject of Mr. Fred I. Kent's letter of June 5, copy of which was enclosed therewith, and his further letter of June 14 of which copy was also received, I am writing to advise you that we have given careful consideration to the statements made by Mr. Kent and have also carefully reviewed his previous arguments along the same line, contained in his letter of January 21, 1921, addressed to Governor Harding. We do not appear to have in our files a copy of his letter to Mr. Curtis to which he refers but it is the recollection of our officers that his letter to Governor Harding in January, 1921, contained a complete exposition of his views at that time.

Foreign exchange balances arise from a variety of operations including the collection of customers' commercial drafts and bills receivable payable abroad in foreign currencies, but relatively that constitutes but a small part of the ordinary operations of the larger American banks that deal in foreign exchange. It is a business engaged in for the profitable employment of loanable funds and includes the buying and selling of cable transfers, the discounting of long and short bills, the establishment and maintenance of fixed deposits repayable on demand at short notice or after specified longer periods, and the execution of contracts for the receipt or delivery of exchange at future dates.

In the execution of this business accounts are maintained with foreign correspondents and frequently reciprocal accounts and balances are maintained by foreign correspondents with American banks. Balances in such accounts ordinarily bear interest and a higher rate is usually paid on balances arranged for fixed terms, say thirty, sixty or ninety days, than on balances in account current which may be valued against by demand draft or cable transfer. Overdraft facilities are frequently extended, facilities of rediscount in foreign countries are often availed of, and balances are frequently shifted between foreign countries or brought home, depending upon where the funds may be most

profitably employed. The whole business is largely one of arbitraging rates and has little to do directly with domestic deposits, although of course a change in the volume of domestic deposits may increase or decrease the funds available for exchange and other loan or investment operations of the bank.

Considering primary reserves of a bank from a banker's viewpoint as being an unemployed fund maintained for the purpose of adequately meeting demands for repayment of deposits and other current liabilities of the bank, we can see no justification for permitting in the computation of required minimum reserves the deduction from deposit liability of funds employed in the foreign exchange operations above referred to, even when such operations have resulted in balances of collected funds due from foreign banks. The fact that these balances may be converted rather promptly into dollars is, we believe, beside the question, and that seems to be the principal reason stated by Mr. Kent in his argument for the deduction. If that were the test intended by Congress it would be difficult to explain the exclusion of cash in vault as a deductible item or even its non-allowance as actual reserve.

We believe that the reserves now required represent a fair minimum and that it would be unwise to permit their further diminution through allowing deductions from gross deposits of monies employed abroad or in exchange operations.

Very truly yours,

(S) GATES W. McGARRAH,
Chairman.

Hon. R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

COPY

FRED I. KENT
100 Broadway
New York

X-6125-d

June 14, 1928.

Hon. Roy A. Young, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Young:

Your letter of the 13th inst. received. Upon investigation I find that my letter to Mr. Curtis was written in 1921 and it will be necessary for the Bankers Trust Co. to send to their archives, which are filed in another city to get it out, so that I will have to send it to you later.

In the meantime answering your inquiry concerning Time Bills of Exchange would say that while it is undoubtedly the custom of most banks to keep their Time Bills of Exchange in their balances due from foreign banks because they are equivalent to cash in so far as utilization is concerned by the bank, yet all books, as far as I have ever heard, are maintained in such manner that the actual cash balance is always available and could be used for purposes of deduction as a positive figure.

Time Bills of Exchange are purchased from exporters daily by most banks doing a foreign exchange business. Such bills are either discounted and turned into cash on arrival or they are carried toward maturity before discounting, or they are allowed to run to maturity as Time Bills. The determination of the banks as to how such bills should be handled is based upon money rates and exchange conditions.

If, for instance, Time Bills of Exchange on London can be discounted in the London market at 4% and the money used in New York at 6% under the ordinary exchange conditions bills would be discounted to arrive as rapidly as they were purchased either by cable on the day of purchase or by cable on the day of arrival, depending upon the apparent tendency of money in London.

As a matter of fact in so far as the availability of the bills is concerned they are actually equivalent to cash because the buyers of such bills in the United States can sell exchange against them on the day that the bills are purchased if they so desire. This was proved conclusively in 1907 when the currency panic was stopped through importations of gold from London that was obtained from proceeds of discounted bills.

Before going into the matter in more detail I would like to wait until I see just what is covered in Mr. Curtis' letter.

As you expect to be away on a holiday I will not have the Bankers Trust Co. send a special messenger for Mr. Curtis' letter but will ask them when they next go to the archives to get the letter.

Cordially yours,

FIK:F

(S) Fred I. Kent.

COPY

X-6125-e

June 13, 1928.

Dear Mr. McGarrah:

During 1919 the Federal Reserve Board issued a ruling, which was published on page 963 of the Federal Reserve Bulletin for that year, to the effect that for the purpose of figuring reserve requirements, balances due from foreign banks cannot be deducted from balances due to other banks.

There is attached hereto a letter dated June 5 from Mr. Fred I. Kent, referring to a suggestion made while in Washington attending the recent meeting of the Chamber of Commerce of the United States, that this ruling be revoked on the ground that the conditions which led to its adoption in 1919 no longer exist.

Before taking any action the Board would like very much to have your views and the views of the officers of your bank as to the advisability of reversing the ruling in question.

Very truly yours,

R. A. Young,
Governor.

Mr. Gates W. McGarrah, Federal Reserve Agent,
Federal Reserve Bank,
New York, New York.

COPY

X-6125-f

June 13, 1928

Dear Mr. Kent:

I was very glad to get your letter of June 5, and I would also be very pleased to have you forward to me a copy of the letter which you sent to Mr. Curtis sometime ago. I have been extremely busy trying to clean up my desk so that I could get away tomorrow for a short vacation, which will explain the delay in replying to your communication, and as soon as I return I shall bring the matter referred to in your letter before the Board.

During the interim I would appreciate it very much if you would furnish me with a little additional information. I have been informed that a large percentage of the balances carried by American banks with their foreign correspondents is upon a thirty-, sixty-, or ninety-day basis. In other words, they are more in the nature of advances than foreign balances. Any information you can give me in reference to this will be greatly appreciated.

Yours very truly,

(S) R. A. Young,
Governor.

Mr. Fred I. Kent,
100 Broadway.
New York City, N. Y.

COPY

FRED I. KENT
100 Broadway
New York

X-6125-g

June 5, 1928.

Hon. Roy A. Young, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Young:

Yesterday at the conference in Washington I was taken with a really frightful headache as I stepped up to the Platform to speak. This was undoubtedly due to the fact that I had been in steady conference until midnight during the previous three days and was greatly exhausted. My only reason for bringing this matter to your attention is my desire to have you know exactly what I had in mind if for any reason because of my condition I did not make it entirely clear.

The Federal Reserve authorities allowed member banks to deduct from their total deposits balances held in foreign banks as well as balances held in domestic banks until some time after the war. Then member banks were notified that they could only deduct balances held with American banks. At the time there was seemingly real reason for taking this action as the foreign exchanges were so seriously upset that the dollar values of balances held in foreign banks were constantly fluctuating in large percentages. While actually this was not as important as it seemed, because banks holding foreign exchange balances could always sell them at the rates at which they were figured when ascertaining their reserves, yet the uncertainties that developed were sufficient to at least justify a consideration of the matter at the time the action was taken.

Today, however, conditions have so changed for the better and the foreign exchanges are sufficiently stable so that the reason for changing the ruling and prohibiting the deduction of balances held in foreign banks does not now exist.

It is my firm conviction that in the interests of our foreign trade and in all fairness to the banks which enable the carrying on of foreign trade through the purchase of bills of exchange representing exports that they should be allowed this deduction.

Without going further into the matter would say that I presented the reasons to Mr. Curtis, Chairman of the Federal Reserve Committee having the question of reserves in charge, some time ago, which I only mention thinking that if the matter is brought up again you might wish to have such detail before you. If for any reason you prefer to have me send you a copy of my letter I will very gladly get it out. It was my intention to explain the situation a little more fully yesterday but when I found that I was having to fight severe pain at the same time I did not feel warranted in attempting to do so.

Hoping that this study of the Federal Reserve system that has been undertaken by the Chamber will have results that in your opinion not only justify it but prove of value to the system, and with kind regards, I am

Cordially yours,

FIK:F

(S) Fred I. Kent.

X-6126

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON

A-24296

August 30, 1928.

Federal Reserve Board
W. M. Imlay, Fiscal Agent
Washington, D. C.

Sir:

This office is in receipt of your letter dated August 14, 1928, relating to charges for transportation of Mr. A. C. Miller between Washington, D. C., and New York and Boston.

You state that Mr. Miller being a member of the Federal Reserve Board, no travel orders were issued.

Your attention is invited to letter of this office dated May 23, 1928 addressed to the Governor, Federal Reserve Board in which after quoting paragraphs 5, 6 and 7 of the Standardized Government Travel Regulations he was

> "requested to give consideration to the matter of furnishing with all vouchers for reimbursement of travel and subsistence expenses hereafter incurred a copy of the order or authority under which the particular travel was performed, such order or authority to be signed either by yourself as head of the Federal Reserve Board or by some responsible official of the board to whom the authority to issue orders has been properly delegated."
>
> * * * *
>
> "Beginning with June 1, 1928, however, the provisions of the Standardized Government Travel Regulations, supra, will be applied in the audit of the travel expense accounts of the officers and employees of your Board. 3 Comp. Gen. 190; id. 468."

In accordance with the foregoing and in pursuance of paragraph 5 of the Travel Regulations all travel of members or employees of the Board should be approved by the Board or by an official to whom the authority for such approval has been properly delegated.

In regard to travel which has been performed without prior authority your attention is invited to paragraph 7 of the Travel Regulations. Also please note paragraph 11 of the said regulations as to limitation of accomodations and the application required where the minimum accomodations are exceeded.

Respectfully,

(Signed) J. R. McCARL
Comptroller General
of the United States.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6128

September 7, 1928.

SUBJECT: Code Word to cover new Issue of Treasury Certificates of Indebtedness, Series TJ-1929, in Telegraphic Transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks the code word "BESTRIP" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TJ-1929, dated September 15, 1928, due June 15, 1929.

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

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

IN THE DISTRICT COURT OF THE UNITED STATES

IN AND FOR THE EASTERN DISTRICT OF ILLINOIS.

MAY TERM, 1928.

J. F. JARVIS, ET AL.,)
)
Complainants,)
) IN EQUITY No. 98-D
vs.)
)
OTTO KEPP, ET AL.)

COURT'S RULING UPON MOTION OF FEDERAL RESERVE BANK OF CHICAGO TO DISMISS COMPLAINANTS' BILL.

- - - - - - -

The motion of Federal Reserve Bank of Chicago, to dismiss the complainants' bill, as to it, is hereby sustained.

After a careful study of briefs of counsel and of the Act providing for the Federal Reserve System in its relation to the National Banking Laws as a whole, with particular attention to those sections of the law authorizing the Federal Reserve Banks to conduct examinations of member banks, I have come to the conclusion that those examinations were not intended by Congress as a direct protection to the depositors or other creditors of the member banks, nor are such examinations compulsory upon the Federal Reserve Banks except in so far as they may be found necessary in order to enable the Federal Reserve Banks to carry out the peculiar purposes of the Act providing for the Federal Reserve System. If this conclusion is correct, it inevitably follows that the failure of the Federal Reserve Bank of Chicago to conduct examinations of the Neoga National Bank, one of its member banks, did not and could not, of itself, or because of the

alleged results of such failure, create any liability on the part of the Federal Reserve Bank of Chicago, to the depositors in the Neoga National Bank.

I am further of the opinion that the only cause of action against the Federal Reserve Bank of Chicago, indicated by the complainants' bill, is upon the theory that the Federal Reserve Bank by some means secured an unlawful preference. Without attempting to pass upon or consider whether or not a cause of action by the depositors on that theory can be stated, it is enough to say that as now drawn the allegations of the bill are not sufficient to establish a cause of action on that ground.

I am further of the opinion that it would constitute an abuse of the court's discretion under Rule 26 of the Federal Equity Rules, to permit a joinder of the action against the Federal Reserve Bank of Chicago and the action against the directors of the Neoga National Bank, as stated in the bill. I can see no definite relation between a cause of action by depositors against the directors of the Neoga National Bank for failing to perform their general duties as directors and a specific cause of action against the Federal Reserve Bank for obtaining a preferential payment of a specific indebtedness, whether by collusion with the directors and officers of the Neoga National Bank or otherwise. To try these causes of action together, it seems to me, could only produce confusion, without aiding the Court or saving time and labor to the litigants.

Complainants' bill is ordered dismissed as to the defendant, the Federal Reserve Bank of Chicago.

FRED L. WHAM
Judge of the United States District Court, Eastern District of Illinois.

September 4, 1928.

TO GOVERNORS, CHAIRMEN AND COUNSEL OF
ALL FEDERAL RESERVE BANKS (Except Chicago)

FEDERAL RESERVE BOARD

X-6131

WASHINGTON

September 12, 1928.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Decision in Neoga National Bank Case.

Dear Sir:

There is enclosed for your information a copy of the ruling of the United States District Court for the Eastern District of Illinois, upon the motion of the Federal Reserve Bank of Chicago to dismiss complainants' bill in the case of J. F. Jarvis, et al., v. Otto Kepp, et al., being a suit brought by the depositors of the Neoga National Bank of Neoga, Illinois, against the directors and the receiver of that bank and against the Federal Reserve Bank of Chicago. There is also enclosed for your information, a copy of the brief in support of this motion filed on behalf of the Federal Reserve Bank of Chicago.

The theory upon which the Federal reserve bank was joined as a party defendant in this suit may be summarized very briefly as follows:

(1) That the Federal reserve bank is charged with the duty of supervising national banks and is liable to the depositors thereof for failure to cause such banks to be closed when they become insolvent; and

(2) That the Federal reserve bank had obtained an unlawful preference in violation of Section 5242 of the Revised Statutes, by receiving additional collateral for rediscounts, which enabled it to collect its indebtedness in full when the depositors of the bank only received sixty cents on the dollar.

The Federal reserve bank filed a motion praying that it be dismissed from the suit on two grounds:

(1) That the bill of complaint stated no cause of action against the Federal reserve bank; and

(2) That the Federal reserve bank could not properly be joined as a party defendant in a suit brought by the depositors of the member bank against the directors of such bank for losses arising from the alleged mismanagement of the member bank by the directors.

The Court sustained the motion of the Federal reserve bank on both grounds and dismissed the Federal reserve bank from the suit.

Very truly yours,

Walter Wyatt,
General Counsel.

Enclosures.

C O P Y

X-6130

IN THE DISTRICT COURT OF THE UNITED STATES
in and for
THE EASTERN DISTRICT OF ILLINOIS

In Equity No.____

J. F. JARVIS, et al.,

Complainants,

v.

OTTO KEPP, et al.,

Defendants.

BRIEF IN SUPPORT OF MOTION TO DISMISS.

STATEMENT OF FACTS AND PROCEEDINGS

The original petition in this case was filed in the State Court by the present plaintiffs, a group of depositors of the Neoga National Bank, against the officers and directors of that bank. That petition was substantially like the amended petition now before this court, so far as the allegations asserting liability against the officers and directors of the Neoga Bank are concerned. This case was, upon petition, removed from the State Court to the United States District Court for the Eastern Division of Illinois, and after removal the amended bill of complaint was filed. In the amended bill of complaint the Federal Reserve Bank of Chicago was for the first time made a party and there were added allegations which attempted to assert liability against the Federal Reserve Bank of Chicago.

The present hearing is upon a motion of the Federal Reserve Bank of Chicago to dismiss the amended bill of complaint as to it, on two grounds:

(1) That the amended bill of complaint fails to state a cause of action against the Federal Reserve Bank of Chicago, and

(2) That there is a misjoinder of causes of action in that an entirely different cause of action is sought to be set up by the complainants against the directors and officers of the Neoga Bank from that sought to be set up against the Federal Reserve Bank of Chicago.

In the amended bill of complaint, it is alleged that the Neoga National Bank was incorporated in 1905 with a capital of $25,000.00, and continued to do business in the Village of Neoga until the 12th day of January, 1925, at which time it suspended business by direction of a national bank examiner, and the Comptroller of the Currency appointed a Receiver for the bank. The original Receiver, Mr. Shubert, was succeeded by Mr. Harry B. Marsh during the year 1927. Mr. Marsh, as Receiver, is made a party to the amended bill. The directorate of the bank remained practically unchanged during the three or four years preceding its suspension and the nine directors who acted during that period are all named parties defendant with the exception of Stephen Burton. Mr. Burton having died, his heirs at law, to whom his estate has been distributed, are made parties defendant by the bill. Judgment is asked against the individual directors and officers on the alleged ground of

their careless and negligent management of the affairs of the bank, and also on the ground that they wrongfully and unlawfully accepted deposits from the plaintiffs when they (the directors and officers) knew or should have known that the Neoga National Bank was insolvent.

The prayer of the bill asks as to the directors and officers,

> "that they and each of them be required and compelled thereby to account for and pay over to the complainants and other depositors of The Neoga National Bank of Neoga, Illinois, such sums of money with interest thereon as have been lost to the complainants and each of them and other depositors of said bank, by, through or on account of their wrongful and unlawful acts aforesaid; and that they and each of them be required to reimburse the complainants and each of them for all losses occasioned to the complainants or either of them by the mismanagement of said bank or by their neglect or failure to discharge their duties as officers or directors of said The Neoga National Bank, and that they be required as trustees for the complainants and each of them to account for and pay over to the complainants and each of them the funds and deposits aforesaid of the complainants and each of them lost through and by the wrongful and unlawful acts of said defendants who were directors of said The Neoga National Bank of Neoga, Illinois, as hereinbefore set forth;"

The prayer for judgment against the Federal Reserve Bank of Chicago is in these words,

> "That your orators may have a decree against the defendant, FEDERAL RESERVE BANK OF CHICAGO, requiring it to account to the Receiver of The Neoga National Bank of Neoga, Illinois, for such sums of money with interest thereon as have been lost to the complainants and each of them and other depositors of said bank, by, through or on account of those wrongful and unlawful acts as aforesaid,"

An examination of the amended bill discloses various allegations, which will be later considered in detail, charging that there was by law a duty upon the Federal Reserve Bank of Chicago to examine the Neoga National Bank, and that if such examinations had been made, the Federal Reserve Bank of Chicago would have discovered the alleged misconduct of the directors and officers of the Neoga National Bank and the insolvency of the bank; but it is not alleged that the Federal Reserve Bank of Chicago could have taken any disciplinary action as a consequence of such discovery on its part. It will hereafter be shown that the Federal Reserve Bank of Chicago owed no such duty to the depositors of the Neoga National Bank, and that no "wrongful and unlawful acts" are in fact well charged against it in the amended bill.

Apart, however, from the allegations which thus seek to charge negligence against the Federal Reserve Bank, the bill does claim a right, on the part of the petitioners, to relief growing out of the fact that upon suspension of business by the Neoga Bank under the orders of the Comptroller of the Currency, the Federal Reserve Bank of Chicago appropriated the stock interest of the Neoga National Bank in the Federal Reserve Bank of Chicago of the value of $1,000.00, crediting its value upon the indebtedness of the Neoga National Bank to the Federal Reserve Bank of Chicago; and further set off against that indebtedness the deposits of the Neoga National Bank in the Federal Reserve Bank of Chicago to the credit of the reserve

fund; and further used the collateral of the Neoga National Bank to the extent necessary to pay the residue of the indebtedness.

From the foregoing it is clear that the causes of action sought to be set up against the Federal Reserve Bank of Chicago have to do: first, with the alleged duty of the Federal Reserve Bank of Chicago to examine the affairs and discipline the officers of the Neoga National Bank; and second. with the action of the Chicago Federal Reserve Bank, after the suspension of the Neoga Bank, in the application of resources of the Neoga Bank in its hands, so far as they were necessary, to the payment of the indebtedness of that member bank to it. Neither of these alleged causes of action grow out of, or are in any way associated with, the alleged negligence and misconduct of the directors and officers of the Neoga Bank.

The causes of action attempted to be asserted against the Federal Reserve Bank of Chicago both rest upon the duties imposed upon and the rights given to Federal reserve banks by law. These duties and rights can be determined only by an examination of the Federal Reserve Act, which, of course, is to be interpreted as a whole and so construed as to accomplish the great public purposes for which it was passed.

THE FEDERAL RESERVE SYSTEM:
Federal Reserve Banks and Member Banks.

The Federal Reserve Act was approved by the President on

the 23rd day of December, 1913. Its title is as follows:

> "An Act 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 Federal Reserve Act, 38 Stat. 268; Comp. Stat. An. 1916, Sec. 9799; 39 Stat. 792; 40 Stat. 238; is best found in U.S.C.A., Title 12, Sec. 221 et seq.)

Prior to the passage of the Federal Reserve Act, national banks were incorporated and governed under the National Bank Act passed at the close of the Civil War. The characteristic of the National Bank Act was that it provided for the issuance of national bank notes as the principal reliance of the country for currency, and based the amount of such notes at any time possible upon the amount of bonds of the Federal Government outstanding. The debt of the National Government by reason of war expenditures was very large and for some years Government bonds could be bought by national banks at so favorable a rate as to enable them to supply adequately the country's needs for currency. As the national debt began to be paid off, however, the basis for currency issued was constantly narrowed. Meanwhile, with the commercial, industrial and agricultural development of the country, the need for currency increased. The consequence of this was that the currency of the country became rigid and inelastic, and the demand for currency excessive and fluctuating, until finally the country reached the situation where industrial and commercial prosperity created a certainty of currency stringency with resulting

panic. A further cause of panics, crises and depressions arose from the fact that by the National Bank Act, national banks were required to maintain reserves based upon stipulated percentages of their deposit liabilities. These reserves were required to be deposited in other banks in reserve and central reserve cities, and in the course of time, the practice grew up of concentrating national bank reserve deposits in great metropolitan banking centers where employment was found for surplus funds by loans for speculative purposes. When stringencies arose and depositors began to withdraw their deposits, banks were obliged to call in their reserves. As these calls increased, they accumulated pressure on the great metropolitan banks causing rapidly rising rates for call money, dumping of securities in stock markets, with consequent falling prices, and, all too often, commercial and bank failures, which quickly enlarged a relatively local bank scare into a general panic.

The very nature of the financial system of the country, therefore, was such that panics were inevitable and the frequency and severity of their occurrence increased with the development and expansion of the country's business. To meet this situation Congress passed the so-called Aldrich-Vreeland Act of May 30, 1908, which sought to lend elasticity to the currency by authorizing the issuance of currency based

upon commercial paper by the association of banks known as the National Currency Association. This Act was temporary in character and purpose, one section of it authorizing the appointment of a National Monetary Commission to study the problem and suggest more fundamental and permanent relief. The report of the National Monetary Commission made clear the evils to be cured: namely, the inelasticity of the currency and the lack of real reserves available to meet and relieve financial uneasiness.

The Federal Reserve Act was drawn and passed to cure these evils. The title of the Act quoted above shows that its primary purposes had to do with the establishment of real reserves in Federal reserve banks and authorization of an elastic currency. The title further shows that the Act aimed at a more effective supervision of banking in the United States. This, of course, does not say a supervision of "banks" but a supervision of "banking" and it will later be made clear that the supervision in question had to do with banking practices necessary to be controlled to assure the character of commercial paper to be used as a currency basis, and with reserve deposits, which were by the law required to be accumulated in Federal reserve banks rather than in private banks and thus removed from speculative engagement.

An examination of the Federal Reserve Act shows that

it establishes an agency of the Government for the accomplishment of public purposes. At the head of the system is an official board composed of officers appointed by the President and confirmed by the Senate, having no invesement interest in any bank in the system, and exercising public powers. The Federal reserve banks as distinguished from the Federal Reserve Board are regional. All national banks in each district are required to be members of the Federal reserve bank of the district and to subscribe in a fixed proportion to its capital stock. Eligible state banks and trust companies are invited to join the System under an equality of burden and of opportunity with the national banks, but the whole System is a public, official thing. The directors of the Federal reserve banks are of three classes, the members of one class being appointed by the Federal Reserve Board. But the stockholding banks are limited to an accumulative dividend of 6% on the paid in capital, and throughout the entire Act it is clear that the Federal reserve banks, acting under the direction and control of the Federal Reserve Board, are agencies of the Federal Government, exercising governmental power, equipped with the right to acquire information wherever necessary to enable them to exercise that power wisely, and with certain disciplinary power over the member banks, which, however, is limited to that necessary to insure

performance by the members of those obligations to the system which are necessary to carry out the public purposes for which the banks were organized. There is no suggestion anywhere in the act of any duty running from Federal reserve banks to the stockholders and depositors of member banks. As a matter of fact, at the time of the debate upon the Federal Reserve Act, an amendment was rejected by Congress to introduce what would in effect have been a guarantee of deposits to member banks, and the Act was left without any such direct or even analogous provision.

FUNCTIONS AND POWERS OF FEDERAL RESERVE BANKS

From the foregoing it is clear that Federal reserve banks are not private money making institutions but are rather instrumentalities of the Federal Government through which definite national purposes are accomplished. Specific sections of the Federal Reserve Act illustrate this statement. Thus U.S.C.A., Title 12, Ch. 3, Sec. 248 enumerates the powers of the Federal Reserve Board and each of these powers is shown to have a public object related to the maintenance of sound financial conditions throughout the country.

Sec. 281 et seq. show the method of organizing Federal reserve banks. Sec. 341 enumerates the powers of Federal reserve banks, and it is here significant to note that even

Federal reserve banks may not transact business until they have been duly authorized thereto by the Comptroller of the Currency. The extension of credit accommodations, the issuance of Federal reserve notes, and a par collection system for the general benefit of the financial system of the country are all shown in the succeeding sections, and very strict limitations are provided in the statute as to what Federal reserve notes may be authorized to be issued, and how issued notes shall be protected by gold deposits in the Treasury. (Sec. 414). In like manner, beginning with Sec. 461, the subject of bank reserves is fully covered. Throughout these sections it will be found that such supervisionary power as is given to the Federal reserve bank over its members had to do with the protection of the reserve, or the safeguarding of currency issued, or otherwise furthering the great general purposes of the Federal Reserve Act in the way of preventing the devotion of expanded currency facilities to speculative uses of the prejudice of sound business undertakings. Nowhere in these sections is any general or specific visitorial or disciplinary power given to Federal reserve banks over their members.

All national banks are required by this Act to be members of Federal reserve banks. The Neoga National Bank was a national bank. The bill of complaint alleges that the Neoga Bank was organized in 1905 as a national banking association.

It was, therefore, organized some years before the enactment of the Federal Reserve Act. When the Federal Reserve Act was passed, there was no concurrent repeal of the earlier National Bank Act. The system of national banks then in existence was continued. The method of organizing, operating, controlling, disciplining and dissolving national banks remained unchanged. National banks were tied into the Federal Reserve System in definite ways for definite purposes, but remained otherwise as they had been under the old National Bank Act. It is, therefore, important to state briefly just how national banks are organized, disciplined and controlled.

U.S.C.A., Title 12, Ch. 2, beginning with Sec. 21 (Rev. Stat. 5133 et seq.) deals with that subject. An examination of these sections shows that the Comptroller of the Currency, acting under the direction of the Secretary of the Treasury (Rev. Stat. Sec. 324; U.S.C.A., Title 12, Ch. 1, Sec. 1), is the center of authority with regard to national banks. They can be formed only upon his approval as provided in Secs. 21 and 22. He keeps the records of their organization and only when he has approved the steps by which they were organized can they begin to transact business as national banks. (Sec. 26 and 27). All changes in their organization, location or name must be first submitted to and approved by the Comptroller. Consolidations and the

establishment and operation of branches are subject to the Comptroller's approval, and state banks may become national banks only after having satisfied the Comptroller of their compliance with the requirements of the statutes.

The enforcement of the National Bank Act is placed in the hands of the Comptroller by Sec. 93 (Rev. Stat. 5239), and by Sec. 191 the Comptroller is given authority to appoint Receivers when in his own sound discretion he has become satisfied that a national bank is insolvent. In order that the Comptroller may have the information upon which to base this visitorial and disciplinary action, it is provided in U.S.C.A. Ch. 3, Sec. 481 (Rev. Stat. 5240):

> "The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank other than those expressly excepted by Sec. 330 of this title, at least twice in each calendar year and oftener if necessary;"

It is thus clear that all examinations of national banks to detect and correct negligence or misconduct of the kind alleged in bill of complaint against the officers and directors of the Neoga National Bank is committed to the Comptroller of the Currency and not the Federal reserve bank or Board. This was true before the passage of the Federal Reserve Act and remains true now. A different situation exists with regard to state banks, members of a Federal reserve

bank. We are not concerned with them in this case and it will be sufficient to say that state banks objected to being examined by national bank examiners as they were already subject to examination by state bank examiners. A limited discretion was, therefore, given to the Federal reserve bank to examine member state banks when for any reason the Federal reserve bank in question declined to accept the result of examinations by state examiners. But with regard to national banks the statement above made is true. The entire power of examination and discipline over national banks remains in the Comptroller as it was before the passage of the Federal Reserve Act. Certain discretionary and voluntary rights of supplemental examination are given to the Federal reserve banks with regard to member national banks for specific purposes, but they are not visitorial or disciplinary and they impose no duty upon the Federal reserve banks of the kind alleged in the bill of complaint. With these general observations we may now proceed to examine the causes of action attempted to be set up against the Federal Reserve Bank of Chicago in the bill of complaint in this case.

I.

THE AMENDED BILL DOES NOT STATE A CAUSE OF ACTION AGAINST THE FEDERAL RESERVE BANK OF CHICAGO.

At the outset it is important to separate the allega-

tions of the bill of complaint into two classes:

1. Those which alleged a breach of duty growing out of the negligent or careless failure on the part of the Federal Reserve Bank of Chicago to examine the Neoga Bank; and

2. Claims asserted because of the action taken by the Federal Reserve Bank of Chicago after the insolvency of the Neoga Bank.

1. Alleged Failure of Duty of Federal Reserve Bank of Chicago.

For the convenience of the court, we set out here serially all the allegations of the bill of complaint dealing with the alleged failure of the Federal Reserve Bank of Chicago to take action which it is asserted it was its duty to take for the protection of the complainants.

In paragraph 2, page 3, it is said:

> "***that said Acts of Congress also required said bank to be a member of the Federal Reserve Bank of Chicago and empowered said Federal Reserve Bank when extending credit to a member bank to supervise and examine the business of such member bank in like manner to the supervision and examination exercised by the Comptroller of the Currency;"

In paragraph 9, page 7, it is said:

> "***said directors were constantly required to make reports of the financial condition of said bank over their individual signatures to the Comptroller of the Currency and also to the Federal Reserve Bank of Chicago."

Paragraph 12, page 11, in dealing with the alleged neglect of duty of the examining committee of directors of

the Neoga National Bank and reciting the things which should have put said committee on notice, says:

> "***and regardless of the constant requirements of the Federal Reserve Bank of Chicago that collateral of the face value of more than twice the amount of the money loaned to the Neoga National Bank should be held by said Federal Reserve Bank and regardless of the fact that the Federal Reserve Bank was in possession of substantially all of the valuable assets of said bank."

In paragraph 13, page 12, dealing with requirements imposed by the Comptroller of the Currency and by national bank examiners under his authority that the board of directors improve Neoga Bank's condition 'out of their private funds, it is said:

> "***that the Federal Reserve Bank of Chicago from whom the Neoga National Bank had borrowed more than $80,000.00 in 1920 by rediscounting a like amount of its notes with said Reserve Bank had been constantly making demands during all the years aforesaid on the said The Neoga National Bank to reduce said rediscounts and said board of directors had reduced said rediscounts in 1924 to approximately $51,000.00, that since the year 1921 the quality and character of said rediscounts were found so unsatisfactory and valueless that said Federal Reserve Bank required the said board of directors to turn over to said Federal Reserve Bank as collateral for said rediscounts additional securities or notes in approximately equal face value to said securities rediscounted; that the said rediscounts and collateral included substantially all of the notes and securities of said bank which were of any value; that the said board of directors being fully aware that the said Federal Reserve Bank had substantially all of its assets of any value in its possession and knowing that the vaults of said bank contained no securities of any substantial

value and contained only funds recently deposited by customers of the bank continued to keep said bank open for business;"

In paragraph 14, on page 13, it is said that the board of directors of the Neoga Bank made false and misleading reports to the Comptroller of the Currency and caused them to be published in The Neoga News,

"***and that by reason of the false and misleading character of said reports the Comptroller of the Currency and the depositors of said The Neoga National Bank were not informed as to the actual condition of said bank and failed to take steps to repair or put the bank in liquidation at a much earlier date by reason of which the losses of said bank were further increased."

Paragraph 16, on page 14, is in full as follows:

"Orators further represent that The Neoga National Bank was a member of the Federal Reserve Bank of Chicago from the organization of said Reserve Bank in 1913; that said Federal Reserve Bank was a corporation governed by a Board of Directors and the chairman of the Board of Directors is known also as 'Federal Reserve Agent'; that under the National Banking Laws the said Federal Reserve Bank of Chicago was empowered to rediscount bills and notes of member national banks and whenever any member national bank rediscounted paper with the said Federal Reserve Bank immediately said Federal Reserve Bank had full and complete authority under said banking laws with the approval of the said Federal Reserve Agent who was then and there the chairman of the Board of Directors of said Federal Reserve Bank to make special examinations of member banks rediscounting paper with said Federal Reserve Bank; that The Neoga National Bank had been rediscounting its paper with the Federal Reserve Bank of Chicago for some years and in the 1920 by means of said rediscounting had borrowed from said Federal Reserve Bank more than $80,000.00; that the National Banking Laws required the Federal Reserve Bank to so conduct such special examinations as to

inform the Federal Reserve Bank of the condition of its member banks and of the lines of credit which were being extended by them; that one of the objects in the establishment of the Federal Reserve Bank System was to establish a more effective supervision of the banks in the United States; that in the year 1920 the said Federal Reserve Bank made a requirement of The Neoga National Bank that it reduce its rediscounts with the Federal Reserve Bank and that it put up as collateral with said rediscounted paper other notes and securities of approximately the same face value as said rediscounted paper; that the Federal Reserve Bank continued to rediscount the paper of The Neoga National Bank and in like manner as aforesaid continued the requirement of collateral security up to the date of closing the said The Neoga National Bank when the amount of said loan to The Neoga National Bank was approximately $51,000.00 and that during all this period the Federal Reserve Bank was continuously making criticism of the banking methods of The Neoga National Bank and was continuously criticising the class of paper furnished it for loans by the Federal Reserve Bank and at the time of closing said The Neoga National Bank the Federal Reserve Bank had required the deposit with it of more than $120,000.00 in face value of the notes and paper of The Neoga National Bank to secure its loan of $51,000.00 and that in constantly requiring said additional collateral said Federal Reserve Bank notified the Board of Directors of The Neoga National Bank of the worthlessness and unsatisfactory nature of thenotes and papers of said Neoga National Bank and in order to properly secure itself the Federal Reserve Bank required collateral or more than double the amount of the loan to The Neoga National Bank because same were to a large extent worthless and not properly secured; that at the time of the closing of the said Neoga National Bank it had on deposit as a reserve fund with theFederal Reserve Bank approximately $10,000.00 which was approximately all the available cash The Neoga National Bank had at that time; that during all the time aforesaid the Federal Reserve Bank made no examination as required by law of The Neoga National Bank so far as your orators are advised; that the Federal Reserve Bank of Chicago being so organized under the laws of the

United States with full power to examine member banks as aforesaid had also the full and free access to all information acquired by the Comptroller of the Currency and the National Bank Examiners as to said The Neoga National Bank in the transaction of its business with said The Neoga National Bank and was also authorized to engage in the private banking business of rediscounting paper for its member banks for profit and was then and there a governmental agency organized for the purpose of supervising and improving the banking facilities of all its member banks and for the protection of the public; that by reason of the powers conferred upon said Reserve Bank as aforesaid it was the duty of said Reserve Bank to know the actual condition of the affairs of said The Neoga National Bank and it was then and there the duty of said Reserve Bank not to permit the depositors of said The Neoga National Bank to suffer loss by any act of said Federal Reserve Bank and it became therefore a trustee for your orators when it began and continued to rediscount the bills and papers of The Neoga National Bank since said rediscounting merely increased the indebtedness of said The Neoga National Bank; and that it reduced the assets thereof and thereby caused further loss to your orators and that it was the duty of said Federal Reserve Bank then and there having full power or supervision of The Neoga National Bank to have made an examination of the said Neoga National Bank and to have known of its insolvency before it discounted such papers and to have either caused The Neoga National Bank to be closed or to have refused to make said rediscounts and thereby prevented loss to your orators; and said Federal Reserve Bank would have known of the insolvency of said The Neoga National Bank if it had exercised ordinary care in the performance of its duties then and there owing to your orators."

Paragraph 24, on page 21, is as follows:

"And orators further represent that the Federal Reserve Bank of Chicago, by reason of the powers conferred upon it by law, had full and complete supervision of the affairs of said The Neoga

National Bank since the year 1921, and during that time was informed, or in the exercise of ordinary care in the performance of its duties of supervision should have been informed of the actual financial condition of said Bank and should have ascertained whether said Bank had sustained losses and was insolvent, and should have ascertained the negligence of the Directors and officers of said Bank in and about their duties, and should have known that said Bank was totally insolvent on the first day of January, 1924 up to the date of its closing as aforesaid, and that during all the time of said insolvency your orators and other creditors of said Bank were making deposits in said Bank, and should have ascertained that said Directors were fraudulently holding out said Bank to the public and to your orators after January 1, 1924, as a financially sound and solvent institution, yet said Federal Reserve Bank of Chicago having such knowledge as aforesaid, and being informed, or in the exercise of ordinary care in the performance of its said duties, being fully advised as to the insolvency of said Bank and of the negligent conduct of the officers and directors of said Bank, approved and confirmed the keeping open of said Bank as a solvent and sound financial institution as hereinbefore set forth, and thereby abetted and approved the negligent and fraudulent conduct of the officers and directors of said Bank in keeping said Bank open and in addition thereto, said Federal Reserve Bank, knowing the insolvent condition of said The Neoga National Bank and knowing that said Bank did not have funds of its own with which to reduce its indebtedness to said Federal Reserve Bank without using the funds deposited by your orators and other depositors in said Bank in the daily transaction of their business, required said The Neoga National Bank to continue to reduce its indebtedness to said Reserve Bank by using the moneys deposited by your orators and other depositors in The Neoga National Bank; that by reason of the powers conferred by Law upon said Federal Reserve Bank under the facts in this case, the said Federal Reserve Bank became and was a trustee for the depositors of The Neoga National Bank, and

> was burdened under the law with the duty of protecting the depositors of said The Neoga National Bank from any loss due to any act of said Federal Reserve Bank; and that by reason of the said Federal Reserve Bank cooperating with the officers and directors of said Bank in their negligent and fraudulent conduct of said Bank, your orators and other depositors in said Bank have sustained losses in excess of 40 percent. of the deposits made by your orators and other depositors in said Bank during said time, which said deposits of your orators is set forth in Paragraph 22 hereof."

The foregoing are all of the provisions in the bill of complaint dealing with the subject of the alleged duties of the Federal Reserve Bank to the complainants. Disregarding for the moment the action of the Federal Reserve Bank after the insolvency of the Neoga Bank, we now ask:

Do the foregoing allegations constitute a cause of action against the Federal Reserve Bank of Chicago?

Restating the effect of the foregoing averments, they charge that the Federal Reserve Act required the Neoga National Bank to be a member of the Federal Reserve Bank of Chicago, when extending credit to the Neoga Bank, to supervise and examine its business in like manner to the supervision and examination exercised by the Comptroller of the Currency. That the directors of the Neoga Bank were constantly required to make reports of its financial condition to the Comptroller of the Currency and to the Federal Reserve Bank of Chicago. That the Federal Reserve Bank of Chicago redis-

counted paper of the Neoga National Bank in varying amounts, demanded security therefor, complained of the quality and character of the paper tendered by Neoga Bank for rediscounting, and ultimately had in its hands as security for such loans substantially all of the assets of the Neoga Bank of any substantial value. That the directors of the Neoga National Bank made false and misleading reports of its condition to the Comptroller of the Currency. That the Federal Reserve Bank of Chicago had full and complete authority, with the approval of the Federal Reserve Agent, to make special examinations of the Neoga Bank by reason of its discount of its paper, but that the Federal Reserve Bank of Chicago continued rediscounting Neoga Bank paper and demanding security for each rediscounting loan and at the same time criticized the class of paper tendered, and so had knowledge that the affairs of the Neoga National Bank were in doubtful condition. That had the Federal Reserve Bank of Chicago made further examinations, it would have discovered that the directors of Neoga Bank were fraudulently holding that institution out to the complainants as a solvent institution, but that the Federal Reserve Bank of Chicago being advised of the insolvency of the Neoga Bank and of the negligent conduct of its officers and directors approved and confirmed the keeping open of said bank as a solvent and sound financial institution

and thereby abetted and approved the negligent and fraudulent conduct of its officers and directors.

It is clear that these averments do not state a cause of action against the Federal Reserve Bank of Chicago unless it was the duty of Federal Reserve Bank to cause examinations of the affairs of Neoga Bank, and, as the result of such examination, to take some action upon a showing of insolvency, but this we have shown in the foregoing not to be true. The whole duty, and indeed, the exclusive power to make such examinations and take such disciplinary action with regard to the Neoga Bank is by statute imposed upon the Comptroller of the Currency. There were only two ways in which the Neoga National Bank could have been declared to be insolvent. They are both set forth in U.S.C.A., Title 12, Sec. 191. They are that any creditor having obtained a judgment against the Neoga Bank might make application to the Comptroller of the Currency, accompanying his application by a certified copy of the judgment showing it to have remained unsatisfied for thirty days and upon such application the Comptroller would appoint a Receiver; and the second method would be that the Comptroller should have himself become satisfied of the bank's insolvency after an examination of its affairs.

If the Federal Reserve Bank of Chicago had made an examination or had in any other manner become satisfied of

the insolvency of the Neoga Bank, it would have had no right to declare that fact or to make any application to the Comptroller to declare it without first having put itself into the same position as any other creditor by securing a judgment against the Neoga Bank and sending a certified copy of such unsatisfied judgment to the Comptroller with its application.

The Federal Reserve Bank of Chicago had the right, under some circumstances, to make supplemental examinations of the Neoga National Bank for its own information in the extension of credit and for the protection both of the public interest and of the interest of the other member banks in the Federal Reserve Bank of Chicago, but if in the course of such examinations it had come to the conclusion that the Neoga National Bank was insolvent and had called its belief to the attention of the Comptroller of the Currency and the Comptroller had come to a different conclusion, the Federal Reserve Bank of Chicago, like any other individual, would have been foreclosed and estopped by the official determination of the Comptroller of the Currency to whom alone the power to determine that fact is committed.

As a matter of fact the theory of the allegations, which are now being considered, is a total misconception of the function of the Federal reserve bank toward its member banks. The Federal Reserve Act creates the Federal Reserve

System to be of assistence to member banks, not so much for the benefit of the member banks, as for the benefit of the entire fiscal and financial situation in the country, and practice under the Federal Reserve Act shows that this purpose has from the first been understood and followed. Member banks temporarily in trouble go to the Federal reserve banks to aid them to tide over their temporary difficulties and the Federal reserve bank brings to the support of an embarrassed member the aggregated strength of the District. Every consideration of wisdom and policy approves the action of Congress in thus excepting the disciplinary control of national banks from the Federal reserve banks, whose duty it is to prevent bank failures, not to bring them about, to go perhaps beyond the lengths of prudence and forbearance in the aid of weak members in order, if possible, to avert the necessity of ultimate failure. All the provisions of the Federal Reserve Act itself show that this was the purpose of Congress, but in order to leave no doubt about it, the Federal Reserve Act itself contains specific references to the official examinations of member banks by the Comptroller. Thus in U.S.C.A. Sec. 482, the Federal Reserve Board is given power, upon the recommendation of the Comptroller of the Currency, to fix the salaries of bank examiners, but the initiative here lies with the Comptroller. In U.S.C.A., Sec. 483, the power to make special

examination is given to the Federal reserve banks, but these special examinations are, by the language of the statute, in addition to examinations made and conducted by the Comptroller of the Currency and the Federal reserve bank may not make these special examinations without first having the approval of the Federal reserve agent or the Federal Reserve Board, and then, in order to prevent any possible misconstruction, U.S.C.A. Sec. 484 provides that no bank shall have any visitorial powers other than such as are authorized by law or vested in the courts, or shall be, or have been, exercised by either House of Congress or any committee thereof.

To establish a cause of action against the Federal Reserve Bank of Chicago in this behalf, it would be necessary to show that the Federal Reserve Bank was under a duty to the complainants which it had negligently failed to perform. There being no such duty, there can be no such delict as is alleged.

2. The Action of Federal Reserve Bank of Chicago After the Insolvency of the Neoga National Bank.

The allegations in the petition with regard to the conduct of the Federal Reserve Bank of Chicago after the insolvency of the Neoga Bank manifestly have nothing to do with the wrongful acts and neglects alleged against the directors and officers of the Neoga Bank. The allegations in

question are as follows:

Paragraphs 18 and 19 of the bill, page 17, are as follows:

"Orators further represent that when The Neoga National Bank closed its doors on January 12, 1925, the said Federal Reserve Bank took unto itself all the rediscounts and collateral on deposit with it amounting to approximately $120,000 and the reserve fund on deposit with it amounting to approximately $10,000 and the stock in the said Federal Reserve Bank of the approximate value of $1000.00 and kept and paid itself in full therefrom and turned the balance of said collateral and rediscounts over to the Receiver thereby making itself a preferred creditor of The Neoga National Bank; that the transfers of the notes and bills of The Neoga National Bank to the said Federal Reserve Bank were all made after the said Neoga National Bank became insolvent and after such insolvency would have become known to the Federal Reserve Bank if it had used ordinary care in and about the performance of its duties owing to the public and that under the Federal Banking Laws such transfers were utterly null and void as against your orators and that the Federal Reserve Bank should be required to turn over to the Receiver all the funds, notes and bills in its hands on January 12, 1925, and should be put on the same basis as any other creditor of said Bank; and that being so advised as to the conditions of the affairs of The Neoga National Bank the said Federal Reserve Bank of Chicago, connived, consented and cooperated with the directors and officers of The Neoga National Bank thereby permitting the manipulation of the deposits of said Bank, the management and control of said bank to the injury and damage of your orators and thereby committed a fraud upon your orators and other depositors.

"19. Orators further represent that at the time of closing said Bank your orators and other depositors had on deposit approximately $116,381.46; that the loans and discounts owned by said Bank had a face value of $170,655.88 and over-drafts amounting to $1881.45 and had other assets amounting to

> $38,430.79 which should have been applied to the payment of your orators; that the said Directors permitted the Federal Reserve Bank to pay itself in full the sum of approximately $51,000 out of said assets as a preferred creditor of said Bank; that the said Federal Reserve Bank having full knowledge of the situation and of the affairs of The Neoga National Bank under the National Banking Laws had no authority or right to make itself a preferred creditor, yet the Receiver of said Bank and the Directors stood by and abetted the said Federal Reserve Bank in taking advantage of its own wrong and permitting it to be paid in full and depriving your orators and other depositors of said Bank of a fair, just and equal distribution of the assets of said Bank and that in equity and in good conscience the Federal Reserve Bank of Chicago should be compelled as a trustee under the circumstances to pay over to the Receiver of said Bank the said sum of approximately $51,000 and should be made amenable to the law as other creditors of said Bank and that the said Directors of said Bank should be required to make good to your orators and other depositors their pro rata share of said $51,000."

The net effect of these averments is that after the Neoga National Bank closed its doors, through the action of the Comptroller, the Federal Reserve Bank of Chicago appropriated the stock of the Neoga Bank in the Chicago Bank of the value of $1000.00, the reserve fund of the Neoga Bank amounting to $10,000.00 and so much as was necessary of the collateral in its hands securing rediscounts to pay the debts of the Neoga Bank to the Federal Reserve Bank, and returned the balance in its hands to the Receiver of the Neoga Bank. The allegations that the Federal Reserve Bank of Chicago

connived, consented and cooperated with the directors and officers of the Neoga Bank to secure a preference is, of course, a conclusion of law flatly at variance with the facts pleaded. The Federal Reserve Bank of Chicago was not, and did not become, a preferred creditor. It was and remained a secured creditor.

It is not alleged in the bill of complaint, and could not have been, that the Federal Reserve Bank of Chicago secured any of the resources of the Neoga National Bank as an unlawful preference. All the assets of the Neoga Bank in its hands came into its possession in due course for value received and pursuant to law. Thus the $1000.00 invested in the capital stock of the Federal Reserve Bank of Chicago was an investment required to be made by a member bank, the reserve funds of the Neoga National Bank were deposits required to be made by law for specific purposes and to be administered in furtherance of those purposes. The securities for loans similarly were required to be exacted by the Federal Reserve Board of Chicago by the law which authorized those loans.

The application by the Federal Reserve Bank of Chicago of the assets of the Neoga Bank in its hands to the payment of the debts due to it was necessary ~~to~~ carry out the purpose of the Federal Reserve System. If the Federal Reserve Bank of Chicago had returned all these assets to the Receiver and had

become merely a general creditor of the Neoga Bank, the loss sustained would have been a loss to the other member banks of the Federal Reserve Bank of Chicago, since all the resources of the Federal Reserve Bank of Chicago belonged to the member banks and are made up of their investments in its capital stock and their reserve deposits. The plain purpose of the Federal Reserve Act is to accumulate these resources of the members to make them available to the members under conditions of safety and security. If the Federal reserve banks were required to sustain losses in these resources in the manner suggested by the bill of complaint, then instead of being a source of strength to the financial structure of the country, the Federal reserve banks would be a source of weakness, as every such loss would pro tanto affect the strength of all member banks and thus spread the consequences of local loss throughout the whole structure. This idea was suggested to the Congress in the amendment proposing a guarantee of deposits in member banks through the Federal reserve banks but was rejected as being at variance with the purpose of the Federal Reserve System.

Dealing specifically with the three items of assets of the Neoga National Bank, we take up first:

Federal Reserve Bank of Chicago was Entitled to Appropriate the Stock Interest of the Neoga Bank.

Section 6 of the Federal Reserve Act (U.S.C.A., Title 12, Ch. 3, Sec. 288) provides:

> "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 cancelled 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."

It will be observed that in the foregoing quotation from the statute, this application of paid subscriptions to capital stock is made mandatory by the use of the word "shall". The Supreme Court of the United States in Farmers & Merchants Bank of Monroe v. Federal Reserve Bank of Richmond, 262 U.S. 649, says, at page 663:

> "This statute appears to have been drawn with great care. Throughout the Act the distinction is clearly made between what the Board and the reserve banks 'shall' do and what they 'may' do."

The subscriptions to the capital stock of the Federal reserve banks by national banks are made mandatory by the Federal Reserve Act (U.S.C.A. Title 12, Ch. 3, Sec. 282) and the amount is fixed at a sum equal to six per centum of the paid up capital stock and surplus of each member. In view of these requirements of the Federal Reserve Act, the

Federal Reserve Bank of Chicago had no alternative and the complainants must be held to have dealt with the Neoga Bank with knowledge of its investment in the capital stock of the Federal Reserve Bank of Chicago, and the preference created by law in favor of the Federal Reserve Bank of Chicago to the extent of any indebtedness to it by the Neoga National Bank.

The Federal Reserve Bank of Chicago was Entitled to Set Off Against the Reserve Fund of the Neoga Bank any Indebtedness due It from that Bank.

The second asset item of the Neoga National Bank as to which complainants complain had to do with "the reserve fund on deposit with the Federal Reserve Bank of Chicago amounting to approximately $10,000.00."

Reserve funds in Federal reserve banks deposited under Section 19 of the Federal Reserve Act (U.S.C.A. Ch. 3, Sec. 462) constitute a credit balance. The member bank deposits checks and other items with the Federal reserve bank daily to the credit of this account and draws its own checks on its balance in the transaction of its daily business. By statute (U.S.C.A. Ch. 3, Sec. 464) this balance is made subject to be checked against and withdrawn by the member bank for the purpose of meeting existing liabilities. It was, therefore, like an ordinary account maintained in a bank by a depositor.

Neoga Bank could have drawn a check upon it any day to pay any indebtedness from it to the Federal Reserve Bank of Chicago and, on the declaration of the insolvency of Neoga Bank, this fund in the hands of Federal Reserve Bank of Chicago was subject to an ordinary banker's lien to be set off against any indebtedness from the Neoga Bank to it. The law is entirely well settled that a bank upon the insolvency of its depositor may apply the balances remaining on deposit in open accounts in payment of obligations due it from such depositor. A Federal reserve bank is in effect a banker's bank and the relationship between it and its members is in many respects similar to the relation existing between an ordinary bank and individual depositors. The rule with regard to banker's liens, more properly a right of set-off, is not peculiar to banks but is an outgrowth of the general doctrine of set-off and has been repeatedly recognized by the State and Federal courts alike both where the depositor was an individual and where the depositor was a bank.

Scott v. Armstrong, 146 U.S. 499.
Studley v. Boylston Bank, 229 U.S. 523.

The latter of these cases arose in a bankruptcy proceeding, but the Supreme Court specifically recognized that the right was not created by the Bankruptcy Act, but was an outgrowth of set-off. (See page 528).

A similar case, Federal Reserve Bank of Minneapolis v. First National Bank of Eureka, 277 Fed. 300 (1921), arose from the closing of a national bank by the Comptroller of the Currency. A Receiver had been appointed and the Federal Reserve Bank insisted upon its right to cancel the member's stock and apply that and the reserve deposit of the member bank to the payment of the member bank's obligations. These obligations arose by the endorsement of paper of the member bank for rediscount. It was contended on behalf of the Receiver that the Federal Reserve Bank must first exhaust the makers of the paper and assert only a secondary liability against the member bank. The court, however, held that the object of the Federal Reserve Act was at all hazards to secure the Federal reserve banks and that endorsement for rediscount by a member bank constituted a primary liability and approved the action of the Federal Reserve Bank in applying the reserve balance and the proceeds of the member's stock immediately and without first exhausting the makers of the paper. On page 302 the court says:

> "If the purpose and intent of the statutes and rules and regulations above referred to are to be recognized, it is the evident intent and purpose to protect the bank in its service, and the advancement of funds to member banks, and upon the receipt of the notes of the bank and collateral notes with the endorsement of the bank."

The court here recognizes the distinction which we have pointed out above. The function of Federal reserve banks is to aid, nurse and, if possible, save member banks. Every safeguard is thrown around their performance of this function. It is not required to be performed at the hazard of its own resources, which are, after all, the resources of its other member banks. It has no general visitorial or disciplinary function. Per contra, the visitorial and disciplinary power of the Government is vested in the Comptroller of the Currency and in him alone.

Federal Reserve Bank of Chicago Was Entitled to Retain and Apply the Collateral Which It Had Received for Rediscounting of Paper.

The 18th and 19th paragraphs of the amended bill allege repeatedly that the Federal Reserve Bank has made itself a preferred creditor. The facts alleged by the bill, however, are that the Federal Reserve Bank was a secured creditor as to the collateral demanded and received by it to protect loans made to the Neoga Bank.

Paragraph 18 of the amended bill alleges that the Federal Reserve Bank, after satisfying the indebtedness to it of Neoga Bank, turned the balance of the collateral and rediscounts over to the Receiver of the Neoga Bank.

The matter of rediscounts is covered in Section 13 of the Federal Reserve Act (U.S.C.A. Ch. 3, Sec. 343) which

provides:

> "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, any Federal reserve bank may discount notes, drafts, and bills of exchange, arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this chapter."

By the provisions of Sections 344 and 346, additional authority is given to discount other forms of paper, including acceptances, and by Section 347, it is provided:

> "Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this chapter, or by the deposit or pledge of bonds or notes of the United States."

Limitations are imposed upon this power by Section 352 and provision is made for the regulation of the rediscount rate from time to time. This latter is one of the vital powers in the Federal Reserve Act. Through it the Government controls the tendency to speculation and regulates

in the public interest the availability of loan money.

It is very important, further, to note that the provision of elasticity in the currency was one of the great objects in the Federal Reserve Act, and that this object was accomplished by the authorization of Federal reserve notes. These notes constitute now a large part of our currency. They are protected by the deposit with the Federal reserve agent as collateral security of paper rediscounted by the Federal reserve banks, so that it is of the very highest importance that rediscounted paper should be fully protected by the most adequate security.

In Section 16 of the Federal Reserve Act (U.S.C.A., Ch. 3, Sec. 412) it is provided:

> "Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. ********The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

It was, therefore, not only the right, but the plain duty, under this statute of the Federal Reserve Bank of Chicago to demand, receive and hold collateral, which, in its judgment, fully protected rediscounted paper of Neoga National

Bank. Resultantly Federal reserve notes based upon the rediscount paper have entered into the general currency of the country and the solvency of rediscounted paper is the basis upon which Federal reserve currency rests.

It thus appears that in all three of the matters complained of, the Federal Reserve Bank of Chicago acted within the plain language or necessities of the statute. The Neoga National Bank secured value received for all of its assets in the hands of the Federal Reserve Bank of Chicago and those assets were applied in accordance with the obligations of the Neoga National Bank, all of which were created by law and were, therefore, known to depositors in the Neoga Bank.

In the foregoing we have demonstrated that the Federal Reserve Bank of Chicago was guilty of no breach of duty toward the complainants, but, on the contrary, acted in accordance with the law in all respects. It is, therefore, respectfully submitted that the amended bill does not state a cause of action against the Federal Reserve Bank of Chicago.

II.

THERE IS A MISJOINDER OF CAUSES OF ACTION IN THE AMENDED BILL

We have shown in the foregoing pages that no cause of action is stated in the amended bill against the Federal Reserve Bank of Chicago, but, apart from those questions, we submit that there is an improper joinder of the causes of action against the officers and directors of the Neoga Bank on the one hand and those supposed to exist against the Federal Reserve Bank of Chicago on the other.

We have seen that the bill asserts the liability of the Federal Reserve Bank of Chicago upon two distinct theories which we have discussed in detail. These are:

1. That there was a breach of duty growing out of the negligent or careless failure on the part of the Federal Reserve Bank of Chicago to examine the Neoga Bank.

2. That the Federal Reserve Bank of Chicago was guilty of some wrong, because of the action taken by it after the insolvency of the Neoga bank in appropriating the assets in its hands.

On the other hand, there are two distinct causes of action stated against the officers and directors of the Neoga Bank, which may be briefly summarized as follows:

1. The negligent administration of the affairs of the bank by the directors caused the bank to become insolvent and the plaintiffs will lose a part of their deposits.

2. The Neoga Bank was kept open and received deposits from plaintiffs after the directors

knew, or should have known, that the bank was insolvent.

Bearing in mind the distinct character of the four claims made by the amended bill, let us examine the standards which have been established by the Federal Courts for determining questions of misjoinder or multifariousness. Since February 1, 1913, the new equity rules adopted by the Supreme Court have controlled the practice on the equity side of the Federal Court. Rule 26 deals specifically with joinder of causes of action and reads as follows:

"Rule 26. Joinder of Causes of Action.

The plaintiff may join in one bill as many causes of action, cognizable in equity, as he may have against the defendant. But when there are more than one plaintiff, the causes of action joined must be joint, and if there be more than one defendant the liability must be one asserted against all of the material defendants, or sufficient grounds must appear for uniting the causes of action in order to promote the convenient administration of justice. If it appear that any such causes of action cannot be conveniently disposed of together, the court may order separate trials."

This rule, although it had no prototype in the eariler rules of the Supreme Court, did not establish a new standard for determining questions of misjoinder or multifariousness, but was rather a crystalization of those rules or criteria which had been developed and applied over a long period of time by the Federal courts. Thus, in Low v. McMaster, 255 Fed. 235, 236, the court recognized that the rule did not

establish a new basis and held that it did not prohibit any joinder of causes of action which was permissible before its passage. In view of this holding, it will be interesting to examine cases decided before as well as after the promulgation of Rule 26.

Almost half a century ago, the Supreme Court, speaking through Mr. Justice Miller, defined multifariousness in an opinion which has been frequently cited and quoted since that time.

Walker v. Powers, 104 U. S. (14 Otto), 245.

The Court said, page 251:

> "By multifariousness 'is meant the improperly joining in one bill distinct and independent matters, and thereby confounding them; as, for example, the uniting in one bill of several matters, perfectly distinct and unconnected, against one defendant or the demand of several matters of a distinct and independent nature against several defendants in the same bill.' Story, Eq. Pl., sect. 271. In Daniell's Chancery Practice, 335, it is said in explanation of this that 'it may be that the plaintiffs and defendants are parties to the whole of the transactions which form the subject of the suit, and, nevertheless, those transactions may be so dissimilar that the court will not allow them to be joined together, but will require distinct records.'"

The Circuit Court of Appeals for this circuit has had occasion to pass upon a question of misjoinder in a situation which was in many respects similar to that now before the court. In Watson v. U. S. Sugar Refinery, 68 Fed. 769 (C.C.A. 7th Circuit 1895), the bill asked for dissolution of a corporation and an accounting upon various grounds and also

sought to recover judgment against certain individual defendants on the ground that complainant had been induced by false representations to purchase stock in the corporation. The court held that there was a misjoinder of the causes of action and that the cause of action against the corporation was entirely distinct from that alleged against the individuals for false representations and said (page 772):

> "If the appellant was induced by false representations to make a losing investment in the corporate stock, his remedy is at law against those who deceived him, and not against the corporation. * * * * * Unless, therefore, the averments in respect to the deceit practiced upon him be rejected as meaningless or superfluous, the bill is clearly multifarious, not only because it joins distinct and independent matters, but because it seeks to enforce different remedies against distinct parties not jointly liable or interested."

The rule laid down in the Sugar Refinery Company case by the Circuit Court of Appeals for this circuit has been recognized by the courts of appeals in other circuits and has been applied since the adoption of the new equity rules.

Watson v. Huntington, 215 Fed. 472, C. C. A. 2nd Circuit, (1914).

The decision of the court is shown by the syllabus:

> "A bill by stockholders of a corporation to recover damages from the defendant on the ground of his fraudulent acts as an officer of the corporation by which, as alleged, certain of the complainants were induced to purchase their stock, and others, who had previously purchased, were otherwise injured, is bad for multifariousness; the right to relief of the two groups being based on a different state of facts."

Backus v. Brooks, 195 Fed. 452, C.C.A. 2nd Circuit, (1912).

The decision of the Court is shown by the syllabus:

> "A bill in equity which states a cause of action in behalf of individual complainants based on the fraudulent conduct of majority stockholders toward the minority, and which asserts the right of stockholders to follow corporate property conveyed in fraud, and which states a cause of action in favor of a corporation, as complainant, for breach of contract by defendant corporation and individual defendants for the purchase of articles, is multifarious for misjoinder of causes of action."

Price v. Union Land Co. 187 Fed. 886, C. C. A. 8th Circuit (1911).

The decision of the court is shown by the syllabus:

> "A right to maintain a suit against the officers of a corporation for fraudulent misappropriation of its property is a right of the corporation, and stockholders suing in such right cannot join therewith a cause of action for fraud and deceit practiced on them when they purchased their stock which is personal."

The court said, page 889:

> "But running through the bill is an attempted assertion of a cause of action against the individual defendants not for the use and benefit of the Fuel Company but exclusively affecting the complainants as individuals. It is for fraud and deceit practiced upon them in the original sale and purchase of the stock which they hold. Clearly such a cause of action has no place in a stockholders' suit brought for the benefit of the corporation. 'A right to maintain a suit against the officers of a corporation for fraudulent misappropriation of its property is a right of the corporation.' Porter v. Sabin, 149 U. S. 473, 478, 13 Sup. Ct. 1008, 37 L.Ed. 815. A right of a stockholder to sue for fraud and deceit practiced upon him when he purchased stock is a personal one."

In view of Rule 26 and the foregoing authorities, it appears that there are three distinct reasons why a bill may be multifarious.

1. Misjoinder of parties plaintiff.

2. Misjoinder of parties defendant.

3. Misjoinder of causes of action.

The present bill is objectionable upon all three of these grounds, and we will examine it separately with respect to each.

1. MISJOINDER OF PARTIES PLAINTIFF:

As to the joinder of parties plaintiff, Rule 26 provides:

> "But when there are more than one plaintiff the causes of action joined must be joint."

The second cause of action which the will alleges against the officers and directors of the Neoga bank (i.e., the wrongful receipt of deposits after insolvency), is clearly one in which the plaintiffs are suing in their individual capacities. Indeed, there are actually as many causes of action against the individual directors of the Neoga bank as there are plaintiffs. It is evident that the acceptance of deposits by the directors from the various plaintiffs when the Neoga bank was insolvent was not an injury to the corporation, the Neoga bank, but was only an injury to the individual depositors whose money was wrongfully accepted.

Cassidy v. Uhlmann, 170 N. Y. 505, 63 N. E. 554

It is possible that the first claim attempted to be asserted against the Federal Reserve Bank of Chicago (i.e., the breach of duty to examine and superintend the Neoga bank) is also an individual claim of the various depositors. We have pointed out that the Federal Reserve Bank had no such duty as is claimed by the amended bill, but if there were such a duty, we could not determine the party aggrieved by a breach thereof without knowing whether the duty was owing to the Neoga bank or the depositors of such bank or the public at large.

On the other hand, the first claim against the officers and directors of the Neoga bank (i. e., for negligence), and the second claim against the Federal Reserve Bank (i.e., for appropriating the security in its possession after the receivership), are undoubtedly rights which were vested in the corporation and which the Receiver could have asserted. The plaintiffs' only right to sue, therefore, must depend upon the fact that they have made a demand upon the Receiver to commence suit and that he has refused. Thus, we have the plaintiffs as to at least one cause of action suing in their individual capacities and in at least two other causes of action suing merely in their representative capacities, because the directors or the receiver who should compel action by the corporation have failed to act. The situation thus presented is within the rule laid down in Watson v. Huntington, Backus v. Brooks

and Price v. Union Land Co., cited above.

2. MISJOINDER OF PARTIES DEFENDANT:

As to the misjoinder of parties defendant, Rule 26 says:

> "If there be more than one defendant, the liability must be one asserted against all of the material defendants."

The mere statement of this rule and the enumeration of the various causes of action included in the bill makes it clear that there is a misjoinder. The Federal Reserve Bank of Chicago is not, of course, jointly liable with the directors, either because of the directors' negligence or because deposits were wrongfully received after the insolvency of the Neoga bank, and, on the other hand, the officers and directors of the Neoga bank are not liable, either for the breach of the supposed duty of the Federal Reserve Bank to examine and superintend the Neoga bank or for the appropriation of the security by the Federal Reserve Bank after the receivership. There are, to be sure, some allegations in the nineteenth paragraph of the amended bill which suggest that the directors and officers connived and cooperated with the Federal Reserve Bank in appropriating the security in question, but inasmuch as this was not done until after the receivership, it must be clear that these allegations which are merely in the form of conclusions are entirely inconsistent with the specific facts alleged by the complainant.

3. MISJOINDER OF CAUSES OF ACTION:

Rule 26 contains an additional provision which may justify a joinder of defendants which would otherwise be improper. It reads:

> "or sufficient grounds must appear for uniting the causes of action in order to promote the convenient administration of justice."

What are the grounds which "must appear" to justify the joinder? The criterion which had been established by the Federal Courts prior to the adoption of Rule 26 and which has been applied constantly since that time, is that there are such grounds for uniting causes of action only when there is such identify of issues either of fact or of law which will be decisive of the various causes of action, that the convenience of the parties and of the court will be served by determining those issues at one time rather than in distinct trials. It is, therefore, necessary to consider this part of the rule in connection with the discussion of misjoinder of causes of action. As stated by the Supreme Court in Walker v. Powers (supra, page 41), multifariousness means:

> "The uniting in one bill of several matters, perfectly distinct and unconnected, against one defendant, or the demand of several matters of a distinct and independent nature against several defendants in the same bill."

Bearing in mind this rule, we can most effectively demonstrate the futility of consolidating in one case the claims against the Federal Reserve Bank of Chicago and the

claims against the directors of the Neoga Bank by enumerating the issues which are involved in each case and thus determining what, if any, common points of litigation there are in the two cases.

The case against the Federal Reserve Bank of Chicago, if there is a case, involves the following questions:

1. The right of a Federal reserve bank to cancel the stock of an insolvent member bank and apply the value thereof to the debts of the insolvent member bank to the Federal Reserve Bank, as provided for in U. S. C. A. Title 12, section 288.

2. The right of a Federal reserve bank to assert a lien or set-off on the reserve deposit of an insolvent member bank.

3. The right of a Federal reserve bank to apply the discounted paper and collateral received from an insolvent member bank in payment of the obligations of the member bank which such paper was given to secure.

4. Whether the Federal Reserve Bank had any actual knowledge of the condition of the Neoga Bank.

5. Whether the Federal Reserve Bank was chargeable as a matter of law with notice of the condition of such bank.

6. Whether, if the Federal Reserve Bank had knowledge either as a matter of fact or as a matter of law, such knowledge makes any difference in the liability of such Federal

Reserve Bank.

7. Whether the plaintiffs in this case, as depositors, actually suffered any damage through dealings between the Neoga bank and the Federal Reserve Bank.

8. What, if any, duties a Federal reserve bank owes to the depositors of member banks to protect such depositors against misfeasance, malfeasance or nonfeasance of the directors and officers of such member bank?

9. If there is such a duty, whether there was any failure on the part of the Federal Reserve Bank to perform that duty in the present case.

10. If there was such a duty and a failure to perform it, whether the Neoga Bank, or its depositors, suffered any damage of which such failure was the proximate cause.

It is clear that no one of these issues is at all material in determining the liability of the directors and officers of the Neoga Bank to the plaintiffs in the present case.

On the other hand, the case against the directors of the Neoga Bank involves, among others, the following questions:

1. The knowledge or lack of knowledge of each of the nine directors as to the condition of the Neoga Bank at various times from 1921 to January 1925.

2. The participation or lack of participation in the

affairs of the Neoga Bank of each of the nine directors.

3. The extent to which the directors, as a matter of law, are chargeable with knowledge of the affairs of the bank.

4. Whether the directors kept the affairs and books of the bank in such condition that they could easily ascertain its condition.

5. Whether failure to keep the affairs and books of the bank in such condition that the directors could be easily advised of its solvency or insolvency, amounted to negligence on the part of the officers or directors.

6. Whether various loans made by the bank and approved by the directors were improper because of the inadequacy of the security received by the bank.

7. Whether various loans made by the bank and approved by the directors were improper because of the character of the individuals who made the loans.

8. Whether excessive loans were made to particular people in view of the size of the bank, the funds available for loans and the responsibility of the borrower.

9. Whether false reports, as alleged in the amended bill, were made by the directors and resulted in misleading the depositors and the Comptroller of the Currency.

10. Any other facts and circumstances whatsoever which may tend to show the negligent management of the affairs of the bank by its officers and directors.

11. Whether the Neoga Bank was insolvent when deposits were received from the various plaintiffs.

12. Whether each or any of the directors acted improperly in view of his knowledge, actual or constructive, of the affairs of the bank, in continuing to operate the bank and receive deposits during the year 1924.

We submit that no one of these issues is at all material in determining the liability of the Federal Reserve Bank to the plaintiffs in the present case.

It is submitted, in view of the foregoing enumeration, that the uniting of the causes of action against the directors on the one hand and the Federal Reserve Bank on the other would not serve to promote the convenient administration of justice, but would be a serious inconvenience to the court and the parties concerned in disposing of the several entirely distinct controversies attempted to be set forth in the amended bill.

CONCLUSION

The fundament of the plaintiffs' claim is the misconduct and negligence of the officers of the Neoga Bank. Their wrongful acts are alleged to have injured the plaintiffs in two distinct ways:

1. The negligent management by the defendant directors caused the insolvency of the bank and the consequent loss to the depositors.

2. The defendant directors wrongfully continued to operate the bank and accept deposits from the plaintiffs after they knew or should have known that the bank was insolvent.

It must be clear that the Federal Reserve Bank of Chicago was not in any way involved in either of these breaches of duty toward the plaintiffs and there are no facts alleged in the amended bill showing that the Federal Reserve Bank was involved in the slightest degree. The claims which are made against the Federal Reserve Bank itself are unfounded in law, contrary to the express provisions of the Federal Reserve Act and the decisions of the Courts thereunder, and the motion of the defendant should be granted both on the ground that no cause of action is stated against the Federal Reserve Bank of Chicago and on the ground that there is a misjoinder of the causes of action set forth in the amended bill.

Respectfully submitted,

_____

Attorney for Federal Reserve
Bank of Chicago.

_____

of Counsel.

COPY X-6132

FEDERAL RESERVE BANK OF CHICAGO

CHAS. L. POWELL, Counsel
Continental and Commercial Bank Bldg.

CHICAGO September 6th, 1928.

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

My dear Mr. Wyatt:

Two suits have recently been instituted in Iowa against the Federal Reserve Bank of Chicago which I feel impelled to call to your attention because of the manner in which the plaintiff has attempted to get service on the Federal Reserve Bank of Chicago.

These suits (there are two of them) were filed in the Page County, Iowa, District Court, and I am enclosing herewith a copy of the petition in one of the suits in which Jennie E. Bull is the plaintiff. The other suit is brought in the name of I. T. Bull as plaintiff, and the allegations of the petition are the same except as to the liberty bonds claimed to have been deposited.

You will notice that these suits grew out of the failure of the First National Bank of Shenandoah, Iowa. Suits are begun in the District Court of Iowa, not by the service of process, but by the service of what is denominated an original notice, which notice is signed by the attorney for the plaintiff. A copy of the notice in the Jennie E. Bull case is enclosed.

The plaintiff first caused this notice to be served on the Shenandoah National Bank of Shenandoah, Iowa, as agent for the Federal Reserve Bank ofChicago; then they served it on H. J. Spurway, Receiver of the First National Bank of Shenandoah, Iowa, as agent for the Federal Reserve Bank of Chicago; and lastly they served it on G. C. Rinehart as agent for the Federal Reserve Bank of Chicago.

G. C. Rinehart is a young lawyer employed by the Federal Reserve Bank of Chicago to look after claims against failed banks in Iowa.

Mr. Walter Wyatt September 6th, 1928.

Under the statutes in Iowa, a defendant can file a special appearance to object to the jurisdiction of the court. I filed such special appearance supported by affidavits attacking the jurisdiction so far as it depends upon the service on Spurway, Receiver, and on the Shenandoah National Bank, as agents of the Federal Reserve Bank. The day I filed this special appearance, they served the notice upon Rinehart, and I am preparing to file affidavits to show that he is not the agent of the Federal Reserve Bank; and the sufficiency of my special appearance will be determined when the court convenes on the 3rd of October or soon thereafter.

It is quite possible that the District Court of Page County may hold the service upon Rinehart sufficient, but I do not see how the court can possibly hold that the Federal Reserve Bank of Chicago is doing business in Iowa.

You will observe that the Jennie E. Bull case, in which I am sending you copy of the petition, involves less than $250. exclusive of interests and costs; and I am somewhat inclined to the view that I should stand on my special appearance should the court hold it insufficient and let them take their judgment and then appeal it immediately to the Supreme Court.

In this connection, perhaps I should say to you that it seems to be settled in Iowa that one cannot preserve his objection to the jurisdiction made on a special appearance and answer over on the merits.

In other words, if after my special appearance is held insufficient should I answer on the merits, the Iowa Court holds that that would be a general appearance and the objection on the special appearance would be waived. At any rate, such seems to be the holding in the case of Scott v. Price Brothers, 217 N.W. Rep. 75.

When you get time I would be glad to hear from you as to your reaction on this matter. I rather think I will be in Washington next Monday, and will call on you.

Yours very truly,

(S) CHAS. L. POWELL,
Counsel

CLP
Enc.

COPY

IN THE DISTRICT COURT OF IOWA, IN AND FOR THE COUNTY OF PAGE

AUGUST TERM, A.D. 1928.

Jennie E. Bull, Plaintiff, vs The Federal Reserve Bank of Chicago, Illinois, Defendants.	PETITION AT LAW. NO. 10898

Comes now the plaintiff and for her cause of action herein, respectfully represents to the court as follows, to-wit:

That she is a resident and citizen of the City of Shenandoah, Page County, Iowa, and the defendant, the Federal Reserve Bank of Chicago, Illinois, is a corporation duly organized and existing under and by virtue of the Acts of Congress of the United States pertaining thereto, with its principal place of business located in the City of Chicago, Illinois, which said bank is the headquarters for Federal Reserve District number Seven.

That the First National Bank of Shenandoah, Iowa, is a corporation duly organized and existing under and by virtue of the laws and acts of Congress, with its principal place of business at Shenandoah, Iowa, which bank was engaged in the general banking business, was a member bank of the Federal Reserve system, being located in the Seventh Federal Reserve District of the United States, and which bank continued in business at all times mentioned in this petition until the 13th day of May, 1926, when said bank closed its doors, and a Receiver, H. J. Spurway, was appointed therefor by the United States Comptroller of the Currency, pursuant to a resolution passed by its board of directors, and, that said bank is insolvent and has been in the course

of liquidation at all times since said date.

That prior to the 4th day of December, 1919, the plaintiff herein had purchased, and was the owner of certain Third United States Liberty Loan 4¼% coupon bonds, of a par value of $300.00; that on said date she did deliver said bonds to the First National Bank of Shenandoah, Iowa, for safe-keeping, and, that said bailment was pursuant to the terms of a certain written receipt therefor that was issued by said bank to the plaintiff herein, which receipt is in words and figures as follows:

> No. 1765 U.S. Bond Certificate of Deposit
> Shenandoah, Iowa Dec. 4, 1919.
>
> This certifies that Mrs. I. T. Bull has deposited with
> THE FIRST NATIONAL BANK
> Three Hundred and no/100 ----- DOLLARS (PAR VALUE)
> in U.S. Third Liberty Loan 4¼ Per Cent Coupon Bonds,
> returnable to Her or to Her Order at this Bank, on Surrender
> of this Certificate Properly Endorsed.
>
> Interest Payable Hereon in Lieu of the Interest on Such Bonds
> According to the Terms and Tenor of Such Bonds. All Matured
> Coupons to This Date Having Been Detached.
>
> Interest due Sept. 15 and Mch 15, each year.
>
> D. B. Miller,
> A Cashier.
> (With following endorsements)

Sept. 4, 1920 Pd. $6.36 Int. to Mch 5, 1920,
Mch 17, 1920 Pd. $12.75 Int. to 3/15/21,
Dec. 12, 1921 Pd. $6.39 Int. to 8/15/21,
July, 1922, Pd. $6.36 Int. to 3/15/22,
Jan. 12, 1923, Pd. $6.39 Int. to 9/15/22,
Oct. 28, 1923 Pd. $12.75 Int. to 9/15/23,
July 11, 1924, Pd, $6.36 Int. to 3/15/24,
July 13, 1925, Pd. $12.75 Int. to 3/15/25,
May 12, 1925, Pd. $12.75 Int. to 3/15/26.

That title to said bonds remained in the plaintiff herein, and, the title to said bonds is now, and at all times since the date of the issuance of said receipt has been, in the plaintiff herein, and, that the plaintiff herein is now, and has been at all times since

said date, the absolute owner of said bonds.

That subsequent to the issuance of said receipt, the exact date of which is unknown to this plaintiff, the said First National Bank of Shenandoah, Iowa, did deliver said bonds of the plaintiff herein to the defendant herein, Federal Reserve Bank of Chicago, Illinois, and did pledge said bonds to the said defendant herein for the purpose of securing indebtedness of the First National Bank of Shenandoah, Iowa, to the said Federal Reserve Bank of Chicago, Illinois; that said pledge was unauthorized by the plaintiff herein, without her knowledge or consent and was unknown to her until after the date of the closing of the said First National Bank of Shenandoah, Iowa.

That the said First National Bank of Shenandoah, Iowa, at no time has had any title or ownership in said bonds of the plaintiff herein, and has had no right to transfer or hypothecate the same.

That the defendant herein, at the time the said bonds of the plaintiff herein were delivered to it had notice and knowledge of the fact that the said First National Bank of Shenandoah, Iowa, had no right to pledge the same as collateral security to its indebtedness; and, that the defendant herein acquired no right, title or interest in and to said bonds by reason of said pledge.

That on the date of the closing of the First National Bank of Shenandoah, Iowa, the said bonds of the plaintiff herein were in the hands of the defendant herein; that on said date the said First National Bank of Shenandoah, Iowa, was indebted to the said defendant herein on bills payable in the principal sum of $66,500.00, together with interest thereon as evidenced by certain promissory notes,

a copy of which the plaintiff herein does not have; that on said date the said First National Bank of Shenandoah, Iowa, was indebtod to the said Federal Reserve Bank of Chicago, Illinois, for notes rediscounted in the principal sum of $234,652.91, together with interest thereon; that for the purpose of securing the payment of said indebtedness at the said Federal Reserve Bank of Chicago, Illinois, the said First National Bank of Shenandoah, Iowa, had pledged United States Liberty bonds including the bond of this plaintiff, in the sum of $81,700.00, of which bonds to the extent of $66,500.00 were pledged to secure the said liability for bills payable and $15,200.00 of which was pledged to secure the liability for notes rediscounted.

That on or about the 29th day of July, 1926, the said defendant herein without the knowledge or consent of the plaintiff herein, did sell her said bonds and apply the proceeds from said sale to the payment of the indebtedness of the said First National Bank of Shenandoah, Iowa to the said Federal Reserve Bank of Chicago, Illinois, and, with knowledge and notice of the fact that it held no title to the bonds of the plaintiff herein, and thereby converted the same to its own use and benefit, and now retains the proceeds therefrom and refuses to pay the plaintiff herein the proceeds from her said bonds.

That said bonds of the plaintiff were so sold by the said defendant herein with other bonds aggregating the face value of $81,700.00 and did realize from the sale of said bonds a profit of $1281.31, and did realize from said sale accrued interest on said bonds in the sum of $971.91, making a total received by the said defendant herein from the sale of said bonds in the sum of $83,953.32.

That the said defendant herein wrongfully holds the said proceeds from the sale of the said bonds of the plaintiff herein, and uses the same for its own benefit and without title or authority from the plaintiff herein.

That on the date of the said wrongful conversion of said bonds, the value thereof was the sum of $309.28.

That after the appointment of said H. J. Spurway, as Receiver of the First National Bank of Shenandoah, Iowa, on the 13th day of May, 1926, the plaintiff herein did file a claim for said bonds with the said Receiver of said bank, in the sum of $303.11; that since said time she has received from said receiver two dividends of ten per cent each, aggregating the sum of $60.62, which sum should be credited against the damages set out herein.

That by reason of the said wrongful conversion of said bonds by the said defendant herein, this plaintiff has suffered a damage in the sum of $249.28 and interest thereon.

WHEREFORE, Plaintiff prays judgment against the defendant herein in the sum of $249.28 together with interest thereon as provided by law, and the costs of this suit.

Ferguson & Ferguson

Attorneys for Plaintiff.

COPY

X-6132-b

IN THE DISTRICT COURT OF IOWA, IN AND FOR THE COUNTY OF PAGE

AUGUST TERM, A. D. 1928.

Jennie E. Bull, Plaintiff, vs. The Federal Reserve Bank of Chicago, Illinois, Defendant.	ORIGINAL NOTICE.

TO SAID DEFENDANT:

You are hereby notified that there is now on file in the office of the Clerk of the District Court of Page County, Iowa, the petition of the plaintiff wherein she prays the court for a judgment against you for the sum of $249.28, with interest thereon at six per cent. per annum for the wrongful conversion of Liberty Bonds of the third issue belonging to this plaintiff, the same being a balance on the par value of said bonds, less credits by dividends to the extent of twenty per cent. which said bonds were wrongfully converted by you on or about the 29th day of July, 1926, and the proceeds and benefits thereof kept and retained by you. For further particulars, you are referred to the petition on file.

And now, unless you do appear thereto and defend by noon of the second day of the ensuing August term of the said District Court of Page County, Iowa, for the year 1928, which will convene in the court room in the court house in Clarinda, Page County, Iowa, on the 28th day of August, 1928, your default will be taken and judgment rendered against you and in favor of this plaintiff as prayed for in said petition.

(S) Ferguson & Ferguson,
Attorneys for Plaintiff.

COPY X-6132-c

FEDERAL RESERVE BANK
OF RICHMOND

September 12, 1928.

Federal Reserve Board,
Washington, D. C.

Attention: Walter Wyatt, General Counsel.

Dear Mr. Wyatt:

I have your letter of September 11th with respect to the suits brought against the Federal Reserve Bank of Chicago in the State courts of Iowa.

As you say, I have had several cases brought against the Federal Reserve Bank of Richmond in the State courts of North Carolina when we had no branch in that state. In all of these cases service of process was made on a director of the Federal Reserve Bank of Richmond resident in the state. My investigation of the authorities led me to the conclusion that there are always two elements involved in the validity of the service of process in such cases: (1) The actual or constructive presence of the corporation in the state; (2) The authority of the officer or agent upon whom the service is actually made.

If a corporation is present within a state so that it is subject to process at all, there can be no doubt that a director is a representative of the corporation upon whom process may be served if it is so provided by state law. Consequently, in the cases which I had the only question involved was whether or not the Federal Reserve Bank of Richmond should be regarded as resident or doing business in the State of North Carolina.

In two of the cases in which this question was raised; that is to say, in Malloy v. Federal Reserve Bank of Richmond and in Craven Chemical Company v. Federal Reserve Bank of Richmond, I used the point as a "trading point" and abandoned it in consideration of the consent of co-defendants to a removal to the Federal court.

The point was also raised in the two cases mentioned by you and in another small case called Carolina Power Company v. Federal Reserve Bank of Richmond. The last mentioned case involved a suit for the amount of a check which we had sent to a non-member bank which failed before we received payment. The lower court decided to sustain the service of process, but the judge remarked from the bench that he felt great uncertainty. The amount in this case was small and the failed bank paid large dividends. While the case was pending, there were several decisions under the amended circulars of the Federal Reserve banks holding that the banks were expressly authorized to accept exchange drafts, and the counsel for the plaintiffs, after reading these decisions, took a non-suit.

In the case brought by Page and Company the lower court also decided against me, the judge again expressing great doubt. As you know, the jury rendered a verdict in our favor on the merits in that case, but the verdict was set aside. The case is still pending, and recently my opponents notified me that they hoped to try it during the coming fall.

In the case of C. G. Morris the lower court also decided against me on this point, but when the case was tried on the merits last May, the court gave a peremptory instruction in my favor on the merits. As you will recall, the facts in this case were identical with those set out in Craven Chemical Company v. Cleve..

In arguing the cases mentioned above, I collected some authorities, and I am sending Mr. Powell a memorandum of the cases upon which I relied and of some of those upon which my opponents relied.

I agree with you and Mr. Powell in thinking that the question is not of sufficient importance to make a "System matter" of a case involving it. It might be desirable to obtain a definite decision upon the point, but I have always felt that it was not certain whether it would be more desirable to have the point decided against us or in our favor.

If it be decided against us, it will subject us to some inconvenience and expense, but this inconvenience and expense will not be large when compared with the total expense of Federal Reserve banks, and I have always felt that it is rather "good politics" for the Federal Reserve banks to take the position that they are present in all parts of their district and can be sued as any other person in any state of their district. The fact that we can be sued means that if any person has a small claim against us he will be able to assert it in the courts of his own state, but if a person in South Carolina could not sue a Federal Reserve bank except in Richmond, then for all practical purposes, he could not assert a small claim at all, for the expense in prosecuting a claim in Richmond would exceed the amount involved, and if we refused such a claim, it would leave the claimant with a feeling that the Federal Reserve bank was a remote and arbitrary institution which ignored his rights, relying upon its practical exemption from process in his state. It is true, of course, that if we can be sued in every state, and perhaps in every county of every state, we are theoretically subject to "hold-up suits" on small claims; but, if we adopt the policy of defending to the limit every claim which we do not consider just, we will not be long vexed with such suits as I mentioned.

On the other hand, if the courts decide that the suit in person cannot be brought against us in every state, then it will follow that in most states our property will be subject to attachment as the property of a non-resident, so that a plaintiff, who knows our methods of doing business, or is willing to take sufficient trouble to discover property belonging to us within the state, could secure jurisdiction by attachment;

and if our property is attached as that of a non-resident, in most states we would not be entitled to the protection of a statute of limitations, which we would have if it were decided that we were doing business in the state and subject to the personal service of process.

While the point remains doubtful, I have found that the uncertainty is of itself an advantage, for, as you see above, we can raise the point in every case and frequently embarrass our opponents by showing them that they may be compelled to go to the Supreme Court of the United States before they secure a final decision.

I am sending a copy of this letter to Mr. Powell and along with it the memorandum of authorities which I mentioned.

Very truly yours,

(S) M. G. Wallace,
Counsel.

MGW L

Copy to -
Mr. Chas. L. Powell, Counsel,
Federal Reserve Bank of Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6134

September 12, 1928.

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

Dear Sir:

This is to advise you that the Federal Reserve Board has designated November 15, 1928, as the date for opening the polls in the forthcoming elections of Class "A" and "B" Directors. You are also advised that there will be no change in the group classifications which have governed in these elections for the past several years.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6135

September 12, 1928.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

Upon agreement between the Federal reserve banks involved, the Board has approved the following changes in the inter-district time schedule:

From	Buffalo to San Antonio	From 4 days to	3 days
"	San Francisco to Boston	" 6 "	" 5 "
"	Los Angeles " "	" 6 "	" 5 "
"	Salt Lake City to Buffalo	" 3 "	" 4 "
"	Spokane to Philadelphia	" 5 "	" 4 "
"	Seattle to Cleveland	" 5 "	" 4 "
"	Portland to "	" 5 "	" 4 "
"	Seattle to Cincinnati	" 5 "	" 4 "
"	Los Angeles to "	" 5 "	" 4 "
"	San Francisco to Richmond	" 6 "	" 5 "
"	Los Angeles " "	" 6 "	" 5 "
"	Seattle " "	" 6 "	" 5 "
"	Portland " "	" 6 "	" 5 "
"	Los Angeles to Baltimore	" 6 "	" 5 "
"	San Francisco to Charlotte	" 6 "	" 5 "
"	Salt Lake City " "	" 5 "	" 4 "
"	San Francisco to Atlanta	" 6 "	" 5 "
"	Seattle " "	" 6 "	" 5 "
"	Portland " "	" 6 "	" 5 "
"	San Francisco to New Orleans	" 5 "	" 4 "
"	Seattle to Birmingham	" 6 "	" 5 "
"	Portland " "	" 6 "	" 5 "
"	Spokane " "	" 5 "	" 4 "
"	Los Angeles to Nashville	" 5 "	" 4 "
"	Salt Lake City to "	" 4 "	" 3 "
"	Spokane to "	" 5 "	" 4 "
"	San Francisco to Jacksonville	" 6 "	" 5 "
"	Los Angeles " "	" 6 "	" 5 "
"	Salt Lake City " "	" 5 "	" 4 "
"	Seattle " "	" 6 "	" 5 "
"	Portland " "	" 7 "	" 5 "
"	Spokane " "	" 6 "	" 5 "
"	Los Angeles " Detroit	" 5 "	" 4 "
"	Seattle " "	" 5 "	" 4 "
"	Portland " "	" 5 "	" 4 "

From	Seattle to St. Louis	From 5 days	to 4 days
"	Los Angeles to Louisville	" 5 "	" 4 "
"	Portland " "	" 5 "	" 4 "
"	Salt Lake City to Memphis	" 4 "	" 3 "
"	Spokane " "	" 5 "	" 4 "
"	Los Angeles to Little Rock	" 5 "	" 4 "
"	Salt Lake City to " "	" 4 "	" 3 "
"	Seattle " " "	" 6 "	" 5 "
"	Spokane " " "	" 5 "	" 4 "
"	Seattle to Minneapolis	" 4 "	" 3 "
"	Portland " "	" 4 "	" 3 "
"	San Francisco to Helena	" 3 "	" 4 "
"	Spokane to "	" 1 "	" 2 "
"	Los Angeles to Kansas City	" 4 "	" 3 "
"	Spokane " " "	" 4 "	" 3 "
"	San Francisco to Denver	" 4 "	" 3 "
"	Seattle " "	" 4 "	" 3 "
"	Portland " "	" 4 "	" 3 "
"	Los Angeles " "	" 4 "	" 3 "
"	Seattle to Oklahoma City	" 5 "	" 4 "
"	Portland " " "	" 5 "	" 4 "
"	Los Angeles to Dallas	" 4 "	" 3 "
"	Salt Lake City to "	" 4 "	" 3 "
"	Spokane " "	" 5 "	" 4 "
"	Portland " "	" 5 "	" 4 "
"	Salt Lake City to El Paso	" 4 "	" 3 "
"	Spokane to " "	" 5 "	" 4 "
"	Seattle to Houston	" 6 "	" 5 "
"	Portland " "	" 6 "	" 5 "
"	" " San Antonio	" 5 "	" 4 "

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-6136

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 17, 1928.

SUBJECT: Holidays during October, 1928.

Dear Sir:

On Friday, October 12th, there will be neither Gold Settlement Fund nor Federal Reserve note clearing on account of the observance of Columbus Day (Farmers' Day in Florida) and the books of the Federal Reserve Board's Gold Settlement Division will be closed. The offices of the Board and the following Federal reserve banks and branches will be open for business as usual:

Richmond
Charlotte

Atlanta
Birmingham
Nashville

Detroit

St. Louis
Little Rock
Memphis

Minneapolis

Kansas City
Denver
Oklahoma City

In addition to the holidays mentioned above, the following branches of the Federal Reserve Bank of Atlanta will be closed on the dates specified:

Tuesday	October 9	Birmingham	Fraternal Day
Wednesday	October 10	Havana Agency	Revolution of Yara

Kindly notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

COPY X-6137

September 13, 1928.

Mr. Thomas B. Paton, Jr.,
Assistant General Counsel,
American Bankers' Association,
110 E. 42nd Street,
New York City.

Dear Mr. Paton:

Some time ago Mr. H. F. Strater, Cashier of the Federal Reserve Bank of Cleveland and Chairman of the Standing Committee on Collections of the Conference of Governors of Federal Reserve Banks, forwarded to me a copy of a letter which you had addressed to him under date of May 18th, requesting the views of his committee on the proposed Uniform Bank Collection Code which your office is preparing for the American Bankers' Association. Mr. Strater called my attention to your statement that it has been the policy to encourage as much constructive criticism as possible and suggested that I might transmit copies of the revised draft of the Code to Counsel for the various Federal reserve banks and obtain their comments on the same. I have done so and am taking the liberty of enclosing for your information such comments as I have received.

Mr. Parker, Counsel to the Federal Reserve Bank of Atlanta, asked me to advise you that since writing the enclosed letter he has reached the conclusion that the constitutional question raised in discussing Section 11 is probably not well founded.

Due to the fact that you had invited Counsel of some of the Federal reserve banks to submit their views with reference to the first tentative draft of your Code, this matter was brought up for discussion at a conference of Counsel for all Federal reserve banks which was held in Washington last winter to consider other legal questions of interest to the entire Federal reserve system, and at that time it was agreed that Counsel for all Federal reserve banks should furnish this office with copies of their comments respecting this Code in order that I might transmit them to you in a body. Before I received all of their comments I learned that you had already prepared a revised draft of the Code for submission to the Executive Council of the American Bankers' Association at a meeting held in Augusta, Georgia, sometime in April, and hence I did not transmit those comments to you.

In order that you may have a complete statement of the views of Counsel for the various Federal reserve banks I am now enclosing copies of their comments on the first tentative draft. You undoubtedly already have some of these, but I do not think you have all of them.

In authorizing me to furnish you with copies of their letters, Counsel for the Federal reserve banks have asked me to make it clear that the statements contained therein are merely expressions of their own personal opinions and do not represent the views of the Federal reserve banks or the Federal reserve system. Moreover, they do not desire to have their views quoted in this connection but would prefer to have you treat their letters as being intended only for your confidential information.

I trust that you will receive this information in the spirit in which it is offered - that of helpful and constructive criticism - and that if there is anything else that I can do to be of assistance to you, you will not hesitate to call upon me.

Very truly yours,

Walter Wyatt,
General Counsel.

Enclosures.

WW:vdb

COPY

FEDERAL RESERVE BANK
OF
KANSAS CITY

H. G. LEEDY, Counsel
1503 Federal Reserve Bank Bldg.,
Kansas City, Missouri.

X-6137-a

September 11, 1928.

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

My dear Mr. Wyatt:

Upon my return to the office after an absence of two weeks I find your telegram in which you request my comments on the proposed uniform bank collection code prepared by Judge Paton of the American Bankers' Association.

After reading the comments of the counsel to the several Federal Reserve Banks on the first draft of the proposed code, I feel that all questions have been raised which might be raised concerning the new draft. Accordingly, I have nothing new to add.

In my letter concerning the first draft of the code I questioned the provisions in the latter part of the section which appears in the revised draft as Section 10. This section relates to the continued liability of the parties to an instrument for which payment has not been made in finally collected paper. I am still unable to see that this section as drafted would be workable in all cases.

The terms to which I have reference are those which provide that when items are exchanged through the clearings and a draft is given for the difference between the items exchanged, which draft is not paid on account of the issuing bank failing, the makers, drawers and endorsers of the items drawn on or payable at the failed bank, shall remain liable on the items for the proportionate part thereof which the total amount of the draft so issued bears to the total amount of such items. I see no objection to this where an exchange of items is made between only two banks, or where each bank clearing items makes an exchange with each other bank, and a settlement is made between each, which is the same, of course, as if only two banks were involved. I am unable to see how it would work, however, where there are a number of banks involved which make their clearings through the ordinary clearing house arrangement, where a net debit or credit is cast up against each clearing bank, and the debtor banks settle with the creditor banks without regard to whether the paying banks,

or any of them, owe balances to the banks to which payments are made, on account of items which those banks, as between themselves, held against each other. To illustrate: Assume that there are eight banks which clear their items through the clearing house. The eighth bank is insolvent. The amount of items which each of the banks holds against the insolvent bank varies greatly, as do the items which the insolvent bank holds against the other seven banks. As to some of the seven banks, the items which the insolvent bank holds against them, exceeds the amount of the items which they hold against the insolvent bank. No balance is struck as between the insolvent bank and the other banks, but the total of all of the items held against the insolvent bank is taken, which, of course, represents the gross debt of that bank on account of the clearings. There is then totalled the amount of all items which the insolvent bank holds against all of the other banks, which is its gross credit in the clearings. The same thing is done as to each of the other banks, and in each instance the difference between the gross indebtedness of the bank and its gross credit is the amount which it is required to pay, or is entitled to receive, according to whether its debits or its credits are the larger. The amount a debtor bank is required to pay, (and a bank about to suspend is almost invariably a debtor bank,) bears no relation whatever to any indebtedness owing to the bank or banks to which payment is made on account of exchange of items between them, but on the contrary, the creditor bank or banks so paid, may have actually been indebted to the debtor bank, as between themselves, on account of their exchange of items.

I realize, of course, that for the purpose of determining the extent of the release of each maker, drawer or endorser of an item so handled, it would be possible for the proportion that such parties should be held liable for could be arrived at by reference to the total amount of the net debit balance owing by the insolvent bank, after the exchange of all items, and the aggregate amount of all items cleared against it, but the dilemma is in adjusting the rights as between the clearing banks, and as between their customers, so as to pass back to the ultimate owners of the items the right to enforce the items for the proportionate amounts the parties remain liable for thereon, and so that no clearing bank may retain a greater proportion of any settlement had from the clearings than it is entitled to, after the proportionate liability of drawers, makers and endorsers has been determined, and passed on to the parties entitled to enforce the same. For instance, assume that four of the banks in the above theoretical case are creditor banks in the clearings, and that the remaining four, including the insolvent bank, are debtors. Three of the creditor banks receive settlement from the debtor banks other than the insolvent bank. The fourth creditor bank receives settlement from the insolvent bank, in the form of its draft. On the suspension of the insolvent bank,

before payment of the draft, only the bank with which it made settlement has any balance owing on account of the items held against the insolvent bank, and all of the other banks, each of which may have held a larger number of such items, have been paid in full. If their items are to be treated as only partially paid, notwithstanding the settlement, there obviously must be some adjustment between them and the bank holding the unpaid draft, and as already indicated, there appears to be no provision in the proposed code by which this may be accomplished.

What I have said I assume may already have received the consideration of Judge Paton, but I again refer to it for whatever additional consideration he may think it warrants.

With best personal regards, I am

Yours very truly,

(S) H. G. Leedy.

HGL:CR

COPY

WILLIAMS AND SINKLER
ATTORNEYS AT LAW
601 Commercial Trust Building
PHILADELPHIA

X-6137-b

September 10, 1928

Walter Wyatt, Esq., General Counsel,

Federal Reserve Board,

Washington, D. C.

Dear Mr. Wyatt:

The matter of the proposed Uniform Check Collection Code is only another instance in which I have not been able to afford any practical assistance.

When I had an opportunity to consider the draft submitted I found that other counsel of Federal Reserve banks had between them apparently made every comment and suggestion that seemed to me to be pertinent. I should also say that the matter being in the hands of Judge Paton in the first instance as counsel for the American Bankers' Association, and having very promptly received the consideration and study which Mr. Agnew was able to give it, I should not have been inclined to expect that further suggestions of "alterations or repairs" would be capable of strengthening or improving it. I have taken occasion to make sure that the officers of the Federal Reserve Bank of Philadelphia had considered the proposed Code and have had an opportunity to comment on it from a practical standpoint. They have been in communication with certain of our member banks but have advised me that they have no comments to make at this time.

My own experience with respect to the enactment of

Walter Wyatt, Esq.
September 10, 1928

legislation in Pennsylvania during the past fifteen or twenty years has made me rather skeptical as to the chances of enactment for any such comprehensive code as compared with the chance of getting through one or more statutes to effect those specific changes which bankers would recognize as conforming to good banking custom and which under the decisions have not been definitely established, as, e. g., the direct transmittal of checks to banks on which they are drawn, the right to accept bank drafts in lieu of cash, the limitation of the responsibility of the bank of deposit to due care in the selection of sub-agents, and the clarification of the law as to preferences in the liquidation of insolvent banks. This I note is also the view of other counsel. The whole matter, however, is primarily for the American Bankers' Association to consider and to press. Certainly in this district while the members of that Association know of our readiness to co-operate, the best results could not in my judgment be expected from any action on the part of representatives of the Federal Reserve Bank in appearing to take the initiative in an effort to secure the enactment of such legislation.

I shall, of course, wish to keep in touch with the matter and hope it may be possible at some stage to render some aid. This would be preferable from my standpoint to writing in the way of apology for not having any practical assistance to offer, as up to this date.

Very truly yours,

E. MS. (S) Parker S. Williams.

COPY

HERRICK, SMITH, DONALD & FARLEY

First National Building
1 Federal Street

BOSTON

X-6137-c

September 6, 1928.

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

Dear Mr. Wyatt:

You have submitted to me the second tentative draft of a Uniform Bank Collection Code prepared by Mr. Thomas B. Paton and have asked for my comments.

Several months ago you submitted a copy of Mr. Paton's first draft of the code with a similar request. Under date of March 22 I wrote you a letter giving certain limited comments relative to Mr. Paton's first draft. I have reviewed my own comments made at that time and I have also read over the various letters written by counsel of other Federal Reserve Banks relative to that first draft.

Here are my comments concerning the second draft:

I should like to make reference to my letter of March 22 in which I made the following statement:

> "We have never had a single case in court growing out of the collection of checks or other items. Mr. Carrick tells me that there has never been any collection case involving any loss to the Reserve Bank of Boston except in connection with one small item where we misrouted a check and paid up the loss as soon as our negligence became apparent.
>
> "Thus, at least so far as our practical experience is concerned, there is nothing in existing conditions to

indicate the necessity of formulating any code. Perhaps your committee will take under advisement as to whether a new code is necessary. I think it might be borne in mind that all new legislation, however carefully prepared, turns out almost inevitably to be defective or ambiguous in some respect."

When I made the above statement I felt more strongly than I expressed a grave doubt as to the wisdom of formulating any comprehensive code relative to collections.

I note with interest the letter of Mr. Parker, counsel for the Reserve Bank of Atlanta, in which he makes the following statement:

"We might remark at the outset that we rather doubt both the feasibility and advisability of securing the enactment of anything which might properly be termed a Uniform Collection Code. We believe that it would be very helpful were the several States to enact legislation designed to accomplish certain specific things, namely: (a) the right to send checks direct to drawee or payor banks; (b) the right to accept bank drafts in lieu of cash; (c) exemption from liability on account of the default or omissions of subagents; and (d) the clarification of the law on the subject of preferences in insolvent bank liquidation. We believe, however, that it would be better to limit the activities of the Association to the accomplishment of these particular ends rather than to attempt to have enacted a somewhat ambitious code which runs counter to the common law in a number of respects, and which experience might demonstrate to be defective if not dangerous."

It seems to me that Mr. Parker's points are well taken. I am not prepared to state whether I should recommend legislation covering the same specific things as he does, but I do think the general idea he enunciates is sound.

Now with respect to the second draft of the code I can only say that I have read it over carefully together with the explanatory remarks which accompany the draft. It certainly seems

To W.W.

Folio 3 September 6, 1928

to be an improvement over the first draft and on the whole would seem to be a fairly clear enunciation of the principles which should govern bank collections. Based on such experience as I have had in this district I observe no particular provision in the code which I would consider to be objectionable. However, as I have heretofore stated to you several times, we have had no experience in this district in the matter of litigation.

These are my personal views and do not necessarily reflect the views of the officers of the Boston Bank.

Very truly yours,

(S) Arthur H. Weed.

AHW:M
CC-Mr. Carrick
Mr. Parker

Law Office Of
LOCKE, LOCKE, STROUD & RANDOLPH,
American Exchange Building,
Dallas, Texas.

X-6137-d

September 6, 1928.

Federal Reserve Board,
Washington, D. C.

Gentlemen: Attention Walter Wyatt, General Counsel.

Pursuant to the telegraphic communications that have passed between our Mr. Dreibelbis and Mr. Wyatt, we have to advise that we have reviewed the second draft of the proposed Uniform Bank Collection Code prepared by Mr. Thomas B. Paton, General Counsel of American Bankers' Association.

We do not find this draft substantially different from the first draft, upon which we made detailed comments some time ago. We enclose a copy of our notes of comparison of the second draft with the first draft.

As a concrete whole, we doubt the advisability of the adoption of this code.

We incline to the opinion that it will cause more troubles than it will solve and will produce more litigation than it will avoid.

Yours very truly,

(S) Locke, Locke, Stroud & Randolph.

HPD-h.

COPY

X-6137-d

Notes made in connection with
second tentative draft of
Proposed Uniform Collection Code.

-o-

SECTION 1 - is subject to the same criticism made in our criticism of first tentative draft.

SECTION 2 - is subject to same criticism made in our criticism of Section 2 of first tentative draft, except, however, that it appears to give the depository bank broader rights than were given under section 2 of first tentative draft, which would seem to make it even more subject to our criticism.

SECTION 3 - appears to have been materially changed from section 3 of the first tentative draft, by merely giving the depositary right to revoke the credit without requiring that checks be paid in the order of their receipt.

SECTION 4 - does not appear to have been changed from section 4 of the first tentative draft, with the exception of the omission of the word "missing" from the last sentence of the same, and is subject to the same criticism as was originally made.

SECTION 5 - does not appear to have been changed.

SECTION 6 - appears to have been changed, omitting the objected provisos which were made the subject of criticism and, also, by the omission of sub-section (c), which we criticized.

SECTION 7 - merely states the rule of law now followed in this state, with the exception of the use of the words "solvent drawee or payor bank". This might lead to a question of fact as to when a check is paid, the answer to such question being dependent upon the solvency of the drawee or payor bank.

SECTION 8 - has been stricken out.

SECTION 9 - The redraft of section 9 appears to meet our criticism of the same. Subsection (b) appears to have been broadened to give the right to the drawee bank to pay the check with a cashier's check. There is some doubt in our mind of the wisdom of sponsoring legislation which would permit a bank to pay a check upon itself with its own cashier's check.

(SECTION 10 - of the original draft appears to have been omitted.)

SECTION 10 - of the second draft does not appear to have been materially changed from section 11 of the first tentative draft with the exception of the inclusion of the words "indorsers" along with drawers and makers of items.

There appears to us to be some question as to whether or not section 7 does not conflict with this section in view of the fact that section 7 provides that under certain conditions the items shall be deemed to be paid, whereas this section provides

for a continued liability even after payment as outlined in section 7.

SECTION 11 - This appears to only broaden section 12 of the first tentative draft, and it likewise appears to us to be in conflict with section 7.

SECTION 12 - This section is subject to the original criticism of section 13 of the first tentative draft.

SECTION 13 - This section does not appear to have been changed from section 14 of the first tentative draft and is subject to the same criticism as made of that section.

-o-

COPY

FEDERAL RESERVE BANK OF CHICAGO

CHAS. L. POWELL, Counsel
Continental and Commercial Bank Bldg.

X-6137-e

CHICAGO September 4, 1928

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

Dear Mr. Wyatt:

Re Uniform Bank Collection Code

Your wire of the 29th ult., called my attention to Mr. Vest's letter of July 10th with reference to the above matter. I was out of town when your wire reached my office, as you were advised by Mr. McKay. I have not overlooked Mr. Vest's letter, but I had let other more important matters push it to one side.

In the first place, I do not believe that there is any general call for the enactment of this proposed collection code. We already have, in most of the States, the uniform negotiable instrument act, and I doubt the propriety of enacting this proposed code, which in some respects will interfere with that act.

I am not averse, however, to expressing my views on several of the sections of the proposed code:

Sec. 2. The word "items" in next to the last line should be changed to "item".

Sec. 3. Insert a comma after the word "hours" in the fifth line, and a comma after the word "day" in the sixth line; and omit the last sentence in said section; and if the last sentence is not omitted insert the word "next" before the word "following" in the last line.

I can see no reason whatever for the last sentence because it is a repetition of what is above.

Sec. 5. Change the word "collection" to the word "collecting" in the second line of this section.

Sec. 9. Sub-paragraph (b) is not clear. It might mean that an agent for collection could accept in payment of an item

Mr. Walter Wyatt,
General Counsel,
Federal Reserve Board,
Washington, D. C.
#2

a cashier's check on the collection bank. This should never be permitted. If the words "upon itself" could be clarified so as to make it clear that they meant a check upon the bank which sent the item for collection it would be satisfactory.

Sec. 10. The word "or", being the first word in the sixth line of this section, should be changed to "and". The last sentence in this section needs clarifying; and in fact, the whole section is of doubtful propriety in that it attempts to deal with the rights of the drawers or makers of the items and not with the rights of the endorsers alone. From a banker's standpoint, it would be highly desirable to deal with these rights, but I do not believe it is practical, and I do not believe it can ever be enacted into law.

Sec. 11. The last sentence is entirely impractical. How could a receiver or other official return evidence which would enable the owners to hold the drawers, makers or endorsers? He certainly could not determine what the court would accept as evidence. He might well furnish information as to the exact situation.

Sec. 12. This section does not go far enough. I think it should include, and be so re-drafted as to include, items held for collection, even though such items are drawn on the agent bank, as the whole theory of the collection code recognizes a drawee bank as a proper agent for collection, as appears in Section 6; and I can see no reason to make the distinction here made in regard to establishment of a preference under the trust fund theory.

I am very sorry that I have so long delayed replying to Mr. Vest's letter; the facts are that I deemed the matter of so little importance that I did not give it my usual prompt attention.

With kind regards, I am

Yours truly,

(S) CHAS. L. POWELL,
COUNSEL.

CLP

COPY

X-6137-f

FEDERAL RESERVE BANK
OF
ST. LOUIS

August 30, 1928.

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

Dear Mr. Wyatt:

Referring to your telegram of 8/29/28 relative to the Second Tentative draft of the Uniform Collection Code prepared by Mr. Paton.

Prior to the receipt of Mr. Vest's letter of 7/10/28, forwarding Mr. Paton's Second Tentative Draft of the Uniform Bank Collection Code to-gether with suggestions made by Counsel, of the several Federal Reserve Banks, on the First Tentative draft, Mr. Attebery, our Deputy Governor and a member of the Standing Committee on Collections, had received from Mr. Strater, Chairman of the Committee, a copy of the Second Tentative draft which had been forwarded direct by Mr. Paton to Mr. Strater. Upon examination of the Second Tentative draft submitted by Mr. Strater, I found that the changes suggested in my letter to you under date of 2/29/28 had been satisfactorily taken care of and so advised Mr. Attebery.

When Mr. Vest's letter of 7/10/28 was received, I routed it together with the suggestions of Counsel, of the Federal Reserve Banks, on to Mr. Attebery for his use in answering Mr. Strater's letter, intending to answer Mr. Vest's letter as soon as Mr. Atterbery had had sufficient time to go over the comments of Counsel, answer Mr. Strater's letter, and, return Mr. Vest's letter to my files. After Mr. Attebery had finished with the letter and suggestions of Counsel and answered Mr. Strater's letter (copy of which I enclose) through some error the letter and suggestions were routed on to the General Files of the bank instead of being returned for the legal files. Therefore, it was overlooked until your telegram came in.

Having in mind the objections raised by Counsel to the First Tentative draft, I have compared the first tentative draft with the second tentative draft, and, whilst not all the suggestions of Counsel have been followed, I believe that the draft, as amended, is not objectionable from a Federal Reserve Bank's standpoint.

Section 5, which adopts the Massachusetts rule, is well adapted to the Eighth Federal Reserve District where we have, in several States, the direct sending Statute, and, wherein some questions have been raised, under this direct sending Statute, whether under the Massachusetts rule the drawee or payer bank is the agent of the owner of the item, or, whether the Federal Reserve Bank

forwarding the item to the drawee or payor bank is the last agent of the owner of the item.

I have always taken the position that under the direct sending act the drawee or payor bank is the agent of the owner- but, have never had to test it out in Court.

The last three lines of Section 5 settles this question, and will be very advantageous to the Federal Reserve Bank of St. Louis since we have had so many non-member bank failures - in nearly every one of which we were caught with outstanding unpaid cash letters.

After going over the Second Tentative Draft with the operating officers of our Bank, we cannot find any serious objections to its form.

I take it that as Counsel for the American Bankers Association, Mr. Paton is preparing this Code not from a Federal Reserve Bank standpoint but rather from a commercial bank standpoint, and, that some of the changes suggested would not meet with the commercial banks' desires in the matter.

Very truly yours,

(S)

Jas. G. McConkey
Counsel.

COPY COPY X-6137-C

St. Louis, Mo. July 14, 1928.

Dear Mr. Strater:

I refer to your letters of May 24th and June 10th, relative to uniform bank collection code, received from the General Counsel of the American Bankers Ass'n.

I have carefully gone over the code and the comments made by Federal Reserve counsel. The proposed code contemplates meeting present day practices on the part of many banks, but it seems to me that in quite a few instances, it relieves banks - that is, collecting banks - of responsibilities which, probably due to the manner in which I have been accustomed to handling items, I do not feel is desirable. On the other hand, from a Federal Reserve standpoint, there does not appear to be anything particularly objectionable in the code, as now presented. It does clarify quite a few things, but, if adopted, will undoubtedly require many legal decisions before its meaning is well established.

I am not attempting to make any specific suggestions or criticisms, primarily for the reason that this is clearly a legal subject, and experience of recent years has convinced me that the intricacies of present day law are too much for me. I am obliged to agree with Mr. Walden's suggestions as contained in his letter of June 15th, copy of which you forwarded to me.

Yours very truly,

O.M.Attebery,
Deputy Governor.

Mr. H. F. Strater, Chairman,
Standing Committee on Collections,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

COPY

X-6137-g

Law Offices
UELAND & UELAND
401 New York Life Building
MINNEAPOLIS

August 30, 1928

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

Dear Mr. Wyatt:

Upon receipt of your wire of yesterday, we have gone over the second tentative draft of the UNIFORM BANK COLLECTION CODE prepared by Thomas B. Paton, General Counsel of the American Bankers Association.

We make the following criticisms of the second tentative draft:

Section 4. We question the use of the words "in blank or in full" in this section. The words "by unrestricted endorsement" should be substituted.

Section 5. It is not expressly stated in this section, or elsewhere in the second tentative draft, that any intermediate bank in the chain of collection is the agent of the owner of the item. This should be made express so as to settle the question whether the owner of the paper can maintain a suit against the intermediate collecting bank.

Section 7. We believe that the omission of this section would constitute an improvement.

Section 12. We believe this section should be omitted altogether. The question of preferred claims is so intricate that we believe that section 12 would add to the confusion rather than simplify matters.

Section 13. The last clause reading "but such lien may be acquired upon any such item or proceeds for an indebtedness of the real owner thereof." ought to be omitted. On principle a collecting bank should not have a lien on items coming into its possession without the consent of its debtor.

Yours very truly,

(S) A. Ueland,
Sigurd Ueland.

SU:ME

COPY X-6137-h

FEDERAL RESERVE BANK

OF SAN FRANCISCO

August 30, 1928.

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

Dear Mr. Wyatt:

Responding to your suggestion for further comments on the Uniform Bank Collection Code prepared by Judge Paton, General Counsel to the American Bankers Association, and referring to the redraft of the code, I have today wired you per enclosed copy.

Supplementing my wire, I beg leave to submit the following:

You will recall that on December 23, 1927, I wrote to Judge Paton, commenting in detail on the original draft of the code. This letter is embodied in the compilation of correspondence between your office and Counsel for the various Federal reserve banks and is designated X-6085-h.

Without intending to be egotistical, I must say that the comparison of the original code with the revised one indicates that Judge Paton has adopted almost in entirety the suggestions contained in my letter of December 23, 1927. The only suggestion made which was not adopted is in regard to the use of "solvent" in section 1(b), defining solvent credit. In view of the subsequent provisions contained in paragraphs 9 and 11, I am inclined to believe that the use of the word "solvent" is necessary.

I suggest that in Section 4, after the word "banker" in line 7, page 2, the words "or other similar phrase" be added so that the line as amended will read: "An indorsement 'pay any bank or banker' or other similar phrase shall be deemed a restrictive indorsement etc." I make this suggestion for the reason that many banks use this type of indorsement with a slightly different wording, some of them being, "pay to any bank, banker or trust company." To confine the indorsement to the exact words set forth in the proposed statute to one particular wording might, under a strict construction, exclude any other wording having similar import but slightly different phraseology.

I suggest that in section 6(a) after the word "receipt" in line 4, the word "either" be added, and that in line 5 of the same section after the word "bank" there be added the words, " or at the discretion of the collecting bank;" these additions being for the purpose of making it entirely clear that the collecting bank has the absolute option of sending the item direct to the drawee or payor or to another bank.

Walter Wyatt, Esq., August 30, 1928

I also suggest that in section 6, paragraph (b), after the word "or", being the first word in the eighth line of that paragraph, there be added the words "in any other manner."

In Seattle, Los Angeles and Portland there are a number of small outlying banks within the corporate limits of the cities mentioned, which are not members of the clearing house and in relation to which presentation by messenger would consume the major portion of the business day in making the round trip. I have no doubt that this situation exists in many other large cities. In these cases we have followed the practice of sending the items direct to the drawee by mail and accepting the drawee's draft in settlement through the mail. I believe the code should make it clear that such method of collection, if necessary, and in accordance with local custom, constitutes ordinary care. We have pending now a suit against us arising from pursuing this method of collection in Portland, the drawee bank being located within the city limits of Portland but at a great distance from the center of population. The addition suggested would clarify our right to pursue the course indicated.

I cannot see that section 7 is necessary or that it adds anything to the strength of the code. I believe it should be left out.

In regard to section 9, I have suggested that the words "itself or" at the end of line 3 be eliminated. I do not believe that a collecting bank should be granted the right of accepting in settlement of cash items the check of the drawee bank drawn upon itself. To permit this, legalizes the acceptance of one obligation of the drawee in substitution for another. It creates the relation of debtor and creditor as between the drawee bank or payor bank and the collecting agent andif pursued to the point permitted by the code, would enable the drawee to substitute one cashier's check after another in purported settlement ofcash items. While it is true that in the collection of local items a collecting bank sometimes accepts a cashier's check from the drawee in purported settlement, I believe that when this is done, the collecting bank should recognize and accept the risk entailed in such procedure.

In my opinion section 13 of the proposed code constitutes merely an attempt to state the general law of bankers' liens. The wording of the section as drafted is somewhat involved and I believe that the code would be stronger and more readily adopted if this section were omitted. I observe that Judge Paton evidently entertains some such views inasmuch as he suggests that the section could be omitted without much loss.

I have recently been preparing a brief on our Portland case and attempting to get something helpful for Mr. Logan in connection with the Raichle suit, which accounts for my delay in taking up the code matter.

I trust that my telegram and this letter will reach you in time to be of some service.

Yours very truly,

(S) Albert C. Agnew
Counsel.

COPY

X-6137-h

FEDERAL RESERVE BANK OF SAN FRANCISCO

TELEGRAM

TO WYATT

FEDERAL RESERVE BOARD August 30, 1928

PRONTO

Referring redraft Uniform Bank Collection Code Paton has adopted practically all of our suggestions contained in X-6985 h, our letter December 23, 1927, and we consider redraft of code generally satisfactory. Suggest however, following minor changes.

Add after word "banker" seventh line page 2 "or other similar phrase."

In Section 6 paragraph A add after word "receipt" in line 4 word "either".

After word "bank" section 6-a line 5 add "or at the discretion of the collecting bank."

in section 6-b line 8 after word "or" first word of that line, add "in any other manner."

Advise elimination of section 7.

Section 9 page 3 line 3 advise elimination of "itself or" at the end of that line.

Also advise elimination Section 13.

Referring to suggestion for elimination of words "itself or" being last words line 3 section 9 page 3 we do not believe that collecting bank is justified in accepting in settlement check of drawee bank or payor bank upon itself. This of course includes cashier's checks the acceptance of which inevitably creates relation of debtor and creditor between collecting bank and payor bank. Such method of settlement cannot be construed as final payment and if adopted by law might result in grave abuses. While acceptance of cashiers checks in settlement of collection items is common practice on local items we consider that collecting bank should recognize and accept risk involved. Letter follows.

AGNEW

AC

COPY X-6137-i

FEDERAL RESERVE BANK

OF RICHMOND

August 29, 1928

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel.

Dear Sir:

I have your telegram of August 29th. I have not had an opportunity to give the revised form of the Uniform Bank Collection Code thorough study, but I have read it over and have no suggestions to offer which are not contained in the letters from the Counsel of other Federal Reserve banks.

Very truly yours,

(S) M. G. Wallace,
Counsel.

MGW L

COPY

X-6137-j

SQUIRE, SANDERS & DEMPSEY
COUNSELLORS AT LAW
THE UNION TRUST BUILDING
CLEVELAND

August 22, 1928.

Mr. Walter Wyatt,
General Counsel,
FEDERAL RESERVE BOARD,
Washington, D. C.

Dear Sir: In re: Uniform Bank Collection Code

We duly received your letter of July 10 enclosing copy of second tentative draft of the Uniform Bank Collection Code and have made a careful review of the proposed code in its present form as requested by you.

The following suggestions as to form have occurred to us in reviewing the proposed draft of the code:

Section 3. Item on same bank. The last sentence in section three appears to be a repetition of the provision expressed in the latter part of the first sentence of this section and is apparently superfluous and should be omitted. We also think there is a chance of confusion in interpreting the language of this section. We take it that the intention is to restrict the right of revocation to such reasons only as may exist at the time the initial credit is made and not to extend the right to reasons developing before the end of the day on which the item is deposited or the following business day in the case of deposits after banking hours. As expressed, we think there is danger of a court interpreting the right of revocation to extend to any reason arising within the time limits for revocation (which would

make the item not payable). For instance, if a stop order is received by the bank on the same day that the item is deposited but subsequent to the deposit of the item and the credit of the item to the account of the depositor, the language as at present expressed might be construed to permit the bank to revoke the credit previously given. This we assume was not the intention. To clarify the section in this respect, we would suggest that it be changed to read as follows:

> "Any credit allowed by any bank for any item drawn on or payable at the same bank in which it is deposited, shall be provisional subject to revocation at or before the end of the day on which the item was deposited whenever such deposit has been made during banking hours or at or before the end of the next following business day when such deposit has been made after banking hours in any case in which the item is found not to have been payable for any reason existing at the time credit was made to the depositor's account. The bank shall be required to give due notice of such revocation to its depositor."

Aside from the matters of form commented on above we feel that the code should be so designed as not to make the drawer of a check a guarantor of the solvency of the bank upon which his check is drawn as is the effect of section ten. It seems to us that it would be more equitable and at the same time be a provision more easily administered if this section of the code were drafted along the lines of the Ohio code which creates a trust fund in the insolvent bank's assets where an item drawn on it by its depositor has been presented for payment and charged against the depositor's account prior to insolvency of the bank.

We believe that the provisions of the proposed code should go as far as possible in providing a stable basis for commercial paper in course of collection and that the trust fund theory with its attendant preference as found in the Ohio code attains that objective more nearly than the provisions of the proposed code.

Yours very truly,

PMH:HIE (S) Squire, Sanders & Dempsey.

COPY

X-6137-k

FEDERAL RESERVE BANK

OF ATLANTA

July 21, 1928.

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

Dear Mr. Wyatt:

Since the receipt of your letter of July 10, addressed to my firm, I have made such study as I could of the second tentative draft of the "Uniform Bank Collection Code" as prepared by Mr. Paton, and, pursuant to your request, I am submitting herein my views with respect thereto.

The second tentative draft eliminates many of the objectionable features which were in the original draft: however, in my opinion, the proposed code still contains provisions which I believe would prove dangerous and, in fact, since my further study of the question, I am more firmly convinced than I was when I wrote you in March, with reference to the first draft, that the effort to secure this legislation would be of doubtful advisability. Legislation designed to accomplish (a) the right to send items direct to drawee or payor bank; (b) the right to accept bank drafts in lieu of cash; and (c) exemption from liability on account of the defaults or omissions of subagents, would be helpful, but I believe that the proposed code "covers too much territory."

My comments with reference to the code, considered section by section, are as follows:

Sec. 1:- The definitions contained in this section seem to be accurate, regarded in the abstract. If, however, the term "solvent credit" is to be used in the code, it should be given a different definition for reasons which I shall try to make plain in subsequent comments.

Sec. 2:- I doubt the advisability of a statutory provision to the effect that a bank receiving an item payable at another bank shall, in the absence of an express agreement to the contrary, become an agent of the depositor for the collection of such item and not debtor to its depositor therefor, until it has received the proceeds in actual money or a solvent credit. I know, of course, that most banks provide by contract with their customers for a status having virtually the same legal concomitants as would appertain to the agency relationship set up in this section; but it is quite a different thing, particularly when the interests of third persons are involved, for a bank

and its depositor to enter by private agreement into the relationship of principal and agent, quoad items placed on deposit with the bank, and for a statute to create this relationship in all cases where there is no agreement to the contrary.

It seems to me, furthermore, that the effect of this section would be to make any endorsement of a negotiable instrument, although in blank or without any restrictions or qualifications, to all intents and purposes a restrictive endorsement, since the effect of the same would be to "constitute the endorsee the agent of the endorser." The fiduciary character of the endorsee would be established by statute, and I doubt whether the objections which would be inherent in this situation would be removed by that part of Section 4 which purports to give to "subsequent holders ----- the right to rely on the presumption that the bank of deposit is the owner of the item." In other words, the "presumption" as to the relationship between the depositor and the bank is directly contrary to the actual status as fixed by statute.

The effect of Section 2 of the Code, considered in the light of Sections 36 and 37 of the Negotiable Instruments Law, involves the further serious question as to whether the initial bank, or other banks handling such items, would take the same subject to all equities existing between prior parties. I have noted, of course, that Section 2 undertakes to confer upon a collecting bank the right to enjoy "all the rights of a holder in due course against prior parties." Is it possible, however, by legislative enactment to create the anomalous situation of a mere collection agent, having all the rights of a holder in due course, without at least repealing by implication one or more sections of N. I. L.? Again, might not the provision that the bank should be regarded as a holder in due course be construed by the courts as permitting at most a recovery by the bank only to the extent of withdrawals that might have been made by the depositor against his uncollected balance ? In such latter event the bank would be put to the necessity, in suing upon any instrument which it had received on deposit, of proving its actual loss in the premises.

A further complication might arise from the fact that the principal and agent relationship, touching any item received on deposit, would exist until the bank had received the proceeds in "actual money or a solvent credit." A solvent credit is defined in the Act to mean an unconditional credit of money on the books of a solvent bank to the account of another bank, etc. If this definition be taken literally, the question of whether or not a bank had, in fact, received a "solvent credit" would be

determinable by the solvency of the bank, upon the books of which the credit appears, as of the time the credit was entered. It follows that the collecting agent might discover, sometime after it was given credit on the books of a supposedly solvent bank, that the latter was in fact insolvent at the time of the credit. In such event it might, if the Code is to be taken literally, charge back an item to a depositor who had supposed the same to have been finally paid, since the bank of initial deposit had, in fact, received an insolvent credit, although all parties supposed the same to have been a solvent credit. While it is doubtless true that the courts would not permit any such happening, the definition of "solvent credit" should be changed. Mr. Agnew has thoroughly discussed this particular question in his former letter and I shall not enlarge on the same.

Sec. 3:- I have no comments to make with reference to Section 3, except that the first sentence of the same is involved and a redraft would doubtless make for clarity.

Sec. 4:- That portion of this section creating a presumption of ownership in an endorsee, despite the statutory creation, by the provisions of Section 2, of a relationship which is incompatible with such presumption, has already been discussed. I have also discussed what I regard as the inadvisability of undertaking to change the present law regarding the legal effect of an endorsement in blank or in full as applied to the deposit of a check or other item in a bank. There are always advantages accruing from the removal by statute of a conflict in judicial holdings. Therefore, a settlement of the much mooted question as to whether an endorsement "to any bank or banker" is restrictive or unrestrictive might be of something more than academic interest. It would seem, however, that the matter is of little practical importance.

Sec. 5:- I have no criticism to make of this section.

Sec. 6:- I have no criticism to make of this section.

Sec. 7:- I am inclined to believe that this section should be omitted.

Sec. 9:- I see no objection to the first sentence in Section 9. I think that the word "solvent" should be stricken from the second sentence of this section. In any case where a bank accepts in payment of an item a credit on the books of another bank, it should be estopped to assert that it has not received returns should the bank, the credit of which it had so accepted, prove to be insolvent.

Mr. Walter Wyatt, 7/21/28.

Sec. 10:- I do not believe that this section could be enacted without entailing dangerous possibilities. Even were the questions which arise out of the use of the phrase "a solvent credit" eliminated, other puzzling questions present themselves. Ordinarily, payment upon presentation by the drawee or payor bank discharges makers, drawers and endorsers. By Section 10 it is provided that there shall be no discharge until the drawee or payor has made actual payment in money or a solvent credit. I assume that a failure on the part of the drawee or payor to make payment as prescribed in this section would amount to a dishonor of the item, which, under the Code, would remain unpaid although the same had been actually charged to the account of some party liable thereon. It has been held that the drawer of a check is discharged by a failure to give notice of dishonor, the bank having refused to pay because it was short of funds and subsequently became insolvent. What would be the situation, touching protest and notice of dishonor, in a case where a bank charged items to the accounts of drawers or makers, remitting therefor by bank draft which was never paid because of the insolvency of the remitting bank? Would it not be very difficult, if not impossible, for the "holders" of the items which had been charged to customers' accounts, or perhaps delivered to such customers, to procure, under these conditions, a protest of such items and to effect notice of dishonor to parties entitled thereto? In many cases parties entitled to notice of protest might be released and the owners of the items would not even have a claim against the closed bank because of the provisions of Section 11 of the Code.

I am not entirely certain of my ground in raising this objection to Section 10, but I believe that the questions are worthy of close study.

I do not believe that the second sentence of Section 10 would be appropriate for enactment in any event. The practical effect of its provisions would be to leave the owner of an item, which had been "paid" through a clearing house, with an unsatisfied claim against the maker, drawer, or endorser of the item for a portion of the same and against the failed bank for the balance. The difficulties and confusion which would result are obvious.

Sec. 11:- Assuming for the moment the constitutionality of Section 11 of the Code, there are questions of policy involved which should be given consideration. Ordinarily an insolvent bank receives from other banks, up to the time of closing, items drawn on it and enclosed with "cash letters." It pays such items and remits therefor in exchange, by a transfer of credits, or in some other way. Each owner of such items has an equitable, and

sometimes a legal, interest in the "remittance" which has been obtained for his benefit by an agent acting in his behalf. It is contemplated in Section 11 that upon the appointment of a receiver all items drawn upon or payable by or at such insolvent bank which have not been paid in money or solvent credit, whether or not the draft of the insolvent bank has been issued therefor, shall be returned to the presenter of such items. Is it not conceivable that the owners of the items would prefer to have, in many cases, a claim against the insolvent bank rather than one against a still more insolvent maker or drawer? In Georgia, and perhaps in other States, an unpaid remittance draft is made a lien upon the assets of an insolvent bank and the amount thereof is entitled to preferential payment. By judicial interpretation of the common law in other States, the same rule has been established. In any jurisdiction he would have some kind of a claim. Where parties liable on an instrument remain solvent despite the closing of a bank, it would doubtless be to the advantage of the owner of such item to be able to enforce the same against parties liable thereon; but there are probably just as many cases where there is more change of a recovery against the bank than against the parties liable on the instrument. I doubt whether it would be feasible to give the holder of an item the option of reclaiming the same or of proving against the bank for the amount thereof, but, unless the Code conferred such option, its constitutionality would be subject to serious question. If the agent of the owner of an item has obtained for him a remittance draft, or an interest therein, upon which a claim against the bank may be made by him or for his account, it would seem to be contrary to the Constitution to deprive him of the property, in which he has a legal or equitable interest, by the requirement that the receiver of the closed bank "cancel" such property, returning to him a check or other instrument which he may not wish to accept.

Sec. 12: - I have no criticism of Section 12.

Sec. 13: - I think that this section should be omitted from the Code. If there were any need for the enactment of a uniform statute concerning bankers' liens, such need would be occasioned largely by the provisions of Section 2 of the Code, touching the relationship of a bank to paper which it has received from another bank and with respect to which it is merely the agent of the original depositor. This consideration, to my mind, emphasizes the dangers which, as I see it, are inherent in Section 2.

I apologize for the length of this letter, but the im-

portance of the subject has seemed to justify a complete discussion. I do not wish to be understood as being unduly critical of a paper which is the careful, scholarly work of a very able lawyer. It may be that some of the objections stated are without merit and, if so, I am open to conviction. Every lawyer feels a distrust of enactments which run counter to the common law and which will upset decisions and precedents with which he is familiar and it is possible that I have conjured up eventualities which would not in fact follow an enactment into law of the Code.

I have not undertaken to suggest substitutes for those portions of the Code which I have criticized. If I were to undertake to formulate a code I could not do nearly so well as has Mr. Paton. My feeling is that any collection code, prepared to cover anything except the few important subjects mentioned at the outset of this letter, would be subject to criticism and to objections.

With kind personal regards, I am,

Cordially yours,

(S) Robt. S. Parker.

RSP/w.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6138

September 19, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, August, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6138-a and X-6138-b, covering in detail operations of the main line, Leased Wire System, during the month of August, 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,

Fiscal Agent.

Enclosures.

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

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST, 1928.

X-6138-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	32,357	1,270	33,627	3.54
New York	146,442	-	146,442	15.42
Philadelphia	34,709	961	35,670	3.76
Cleveland	88,218	2,403	90,621	9.54
Richmond	56,585	2,207	58,792	6.19
Atlanta	66,112	6,886	72,998	7.69
Chicago	114,264	2,499	116,763	12.30
St. Louis	78,304	726	79,030	8.32
Minneapolis	31,917	2,280	34,197	3.60
Kansas City	80,812	2,533	83,345	8.78
Dallas	73,174	7,241	80,415	8.47
San Francisco	115,161	2,530	117,691	12.39
Total	918,055	31,536	949,591	100.00

F. R. Board business	259,661	1,209,252
Treasury Department business - Incoming and Outgoing		190,381
Total words transmitted over main lines		1,399,633

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-6138-b).

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

X-6138-b

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, AUGUST, 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	$ -	$ -	$ 260.00	$ 711.98	$ 260.00	$ 451.98
New York	1,149.46	6.00	-	1,155.46	3,101.32	1,155.46	1,945.86
Philadelphia	225.00	-	-	225.00	756.22	225.00	531.22
Cleveland	296.66	-	-	296.66	1,918.72	296.66	1,622.06
Richmond	232.00	-	230.00(&)	462.00	1,244.95	462.00	782.95
Atlanta	270.00	-	-	270.00	1,546.64	270.00	1,276.64
Chicago	4,149.23 (#)	-	-	4,149.23	2,473.81	4,149.23	1,675.42 (*)
St. Louis	205.00	-	-	205.00	1,673.34	205.00	1,468.34
Minneapolis	177.90	-	-	177.90	724.04	177.90	546.14
Kansas City	275.64	-	-	275.64	1,765.86	275.64	1,490.22
Dallas	251.00	-	-	251.00	1,703.51	251.00	1,452.51
San Francisco	370.00	-	-	370.00	2,491.92	370.00	2,121.92
Federal Reserve Board	-	-	15,180.84	15,180.84	-	-	-
Total	$7,861.89	$ 6.00	$15,410.84	$23,278.73	$20,112.31	$8,097.89	$13,689.84
				3,166.42(a)			1,675.42(b)
				$20,112.31			$12,014.42

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $3,166.42 from Treasury Department covering business for the month of August, 1928.
(b) Amount reimbursable to Chicago.

X-6139

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release Thursday morning,
September 20, at 11.00 o'clock
And not before.

Address delivered by

Governor Roy A. Young,

before the

Indiana Bankers Association,

at its

Annual Convention

at Gary, Indiana.

September 20, 1928.

The Present Credit Situation

Representatives of Federal reserve banks have appeared before audiences so many times to describe currency, discount and other operations of the System that today I am going to digress somewhat and talk about the present credit situation. This is a large subject, but inasmuch as I am speaking to an audience that is quite familiar with banking practice, I feel I will be able to get over to you a concise story in the time that has been allotted to me.

In order to bring the picture up to date, it is necessary to review what has happened during the past eight years. Gold is the basis of our credit structure and while the gold standard, perhaps, has some faults, it is the best basis that has yet been devised and public faith in 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. All that has happened for the past eight years, therefore, can best be reviewed by referring to gold movements.

Since September 1920 and up to December 1924, gold flowed into the United States continuously, the net import movement for the period aggregating approximately $1,660,000,000. From September 1920 to the spring of 1922, the gold received from abroad was used largely by member banks to reduce their borrowings from the Federal reserve banks and thus improve the general condition of the member banks and the reserve position of the reserve banks. Generally speaking, 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 1924 gold imports were sufficient to meet the country's growing demand for currency, and in addition, to increase the reserves

of member banks which were thus enabled to expand their loans and investments without increasing their borrowings at the Federal reserve banks. From 1924 to the spring of 1927 the gold imports just about offset gold exports, so that the total increase in gold holdings of our country between September 1920 and the spring of 1927 aggregated, as I have stated before, approximately $1,660,000,000.

With this addition to the gold basis, through the inverted pyramid principle of credit, banks were able to expand tremendously. All of this growth, however, could not go into the old-fashioned forms of credit based upon production and distribution otherwise known as eligible paper, and therefore the banks had to seek other forms of credit. Naturally they turned to the investment credit market. With this stimulus and support from the banks throughout the country, the investment bankers accepted the opportunity and financed not only new enterprise by long-time credits, but old established enterprise as well, with the result that the proportion of eligible paper diminished in the portfolios of the banks while the proportion of investment credit held by the banks increased rapidly. For all the banks of the United States as of June 30, 1928, the figures are approximately as follows:

U. S. Government bonds	$ 6,000,000,000
Other stocks and bonds	12,000,000,000
Loans on securities (Of which amount $3,000,000,000 is represented by so-called brokers' loans)	13,000,000,000
Loans on real estate security	5,000,000,000
Loans to customers (Of which amount it is estimated that approximately $5,000,000,000 is eligible paper held by member banks)	20,000,000,000
Total loans and investments	$56,000,000,000

There has been some complaint of late that investment and speculative credit have not received their proportion of the bank credit available, but

it seems to me from these figures - when you add the total amount of bonds to the total amount lent on securities and arrive at the total of $31,000,000,000 - that these forms of credit have been treated liberally by the banks.

All of this expansion of credit, up to May 1927, was accomplished without increasing the amount of Federal reserve credit, because the figures show that except for seasonal and holiday currency requirements, the total assets of the Reserve System have continued around $1,000,000,000 since 1922.

In May of 1927, however, something happened to which the American business public and financial interests did not attach sufficient importance. This was a reversal in the direction of gold movements. From May until the early part of November the Reserve System offset the exports of gold by purchases of U. S. Government securities, feeling that the time was not opportune to disturb our own domestic situation when the regular seasonal agricultural requirements were on and stabilization plans for some of our foreign friends were not completed - and stabilization of foreign currencies, indirectly, was of great importance to our domestic situation. During November and December, when gold continued to flow from this country, the System did not offset the export movements. This should have had the effect of retarding the rapid growth of credit, but it did not, largely because any increase in Federal reserve bank credit at that time was interpreted by the banks and the public as being in response to customary seasonal requirements, even though it had gone $200,000,000 higher than the year before. The return flow of holiday currency in the latter part of December and early part of January was greater than it had been in any year for five years and therefore the System sold additional Government securities to partly offset this return flow. Gold holdings changed but little during the months of January and February but credit expanded at more than the normal rate, and certainly there was no evidence that this additional credit was required for business.

There is an impression in the minds of many people, including some bankers, that a member bank deliberately borrows from its reserve bank at a low rate to enable it to lend at a higher rate solely for the profit in the transaction. I have been associated with the System for ten years and I can say without fear of contradiction that this seldom happens. What does happen generally, however, is this:

A member bank accumulates deposits in the ordinary course of its business and, if it expects to continue its business at a profit, it must employ those funds almost instantaneously in the credit field that offers the best rates consistent with safety. Later it has a reduction in deposits and must replenish its reserve in one of two ways. One is by borrowing from the Federal reserve bank and the other is by selling some of its readily marketable assets. In the great majority of cases the member bank which has wide fluctuations in its deposits borrows from the reserve bank. By doing this the bank avoids disturbing its portfolio and uses the reserve bank for the legitimate purpose of bridging over a temporary shortage in reserves. Naturally, when the rediscount rate is low and the open market rate high, there is an incentive for the banker to continue to borrow rather than to curtail his investments. When this practice becomes simultaneously general it furnishes one reason, but only one, for raising the rediscount rates.

There was evidence of this in February, with the result that a 4% rate was initiated by the directors of the various Federal reserve banks. However, credit continued to expand and the banks continued to borrow from the Federal reserve banks on rediscounts to make up the loss in gold and the sale of Government securities. No one particular bank was in debt any great length of time; in fact, the information we have in Washington is that the bank that borrowed to cover a loss of deposits got out of debt by liquidating some of its ineligible assets.

When it did so, however, directly or indirectly, it made it necessary for some other bank to borrow and so the borrowings of member banks were passed around from one bank to another without reducing the total indebtedness of the member banks to the Federal reserve banks, but on the contrary, increasing it.

Again, in April, the directors of one of the Federal reserve banks initiated a rediscount rate of 4-1/2%. This was eventually followed by all of the other reserve banks. By June the member banks owed the System approximately $1,000,000,000 upon rediscounts and were in a position where they could not get out of debt so readily by shifting the load from one bank to another; in fact, the load centered mostly in the larger cities. There was a rapid increase in discounts in the latter part of June and also in July, some of which, of course, represented currency requirements, but the increase had the earmarks of further pyramiding of credit and not of being the old-fashioned credit based upon production and distribution, with the result that some of the Federal reserve banks, where many of their member banks were heavy borrowers, initiated a rediscount rate of 5%. This action, however, was not taken in the four strictly agricultural districts west of the Mississippi River where a 4-1/2% rate is still maintained, largely because the member banks were not heavy borrowers and because it was at the time of the year when legitimate seasonal agricultural requirements had to be met.

From June up to the present time there has been but little change in the gold holdings of the United States. The System has not sold additional Government securities since that time and has undertaken no open market operations, except of a temporary nature.

To summarize, the banking system of America built up a credit structure by resorting to the inverted pyramid principle of credit on $4,600,000,000 of gold which we held in May 1927, and today, on $4,100,000,000, it is not only supporting that credit structure but a much larger one. This is shown by the June

30 reports of member banks which indicate an increase above last year of $2,500,-000,000 in loans and investments. To support this credit structure, member banks have found it necessary to increase their borrowings at the Federal reserve banks approximately $500,000,000. From this it seems to me that the reserve banks are functioning just as the law intended that they should function. Miscalculations as to the future always have and perhaps always will occur with the banks and the business public and that is one of the reasons why we need reserve banks, in other words, institutions which enable the public to adjust their miscalculations in an orderly and systematic way. So many factors have an influence on banking that it is a mistake to arrive at the conclusion that the Federal Reserve System alone, through its policies, makes credit situations. It is reasonable to believe from what I have cited that conditions, over many of which the System has no control, form the basis of reserve bank credit policies and rates.

Many people in America seem to be more concerned about the present situation than the Federal Reserve System is. If unsound credit practices have developed, these practices will in time correct themselves, and if some of the over-indulgent get "burnt" during the period of correction, they will have to shoulder the blame themselves and not attempt to shift it to someone else. Great concern is expressed over the mystery of Federal reserve policies. Dissatisfaction is expressed because the Federal Reserve System refrains from prediction and can not always anticipate. I have stated to you that conditions, to a large extent, bring about Federal reserve policies rather than that Federal reserve policies bring about conditions. That is just the position of the System at the moment. If past experience means anything, we know that the additional reserve credit needed between now and December 31 will aggregate approximately $300,000,000. This will come from the usual seasonal requirements of agriculture and business. It is the expectation of the System that this additional credit will be secured by the member banks redis-

counting without hesitancy to take care of these requirements and that they will lend to their customers at reasonable rates. It further expects that this additional reserve credit will not be used in further expanding a bank credit situation that grew up when our gold reserves were $500,000,000 larger than they are now and which has continued to grow while the reserves have been shrinking. If after January 1929 following the return flow of holiday currency, the banks still owe the System approximately $1,000,000,000 in rediscounts, I, personally, will feel that the situation has been handled admirably and I shall have no cause for concern, because with the tradition which the member banks have about borrowing continually from the Federal Reserve System, a debt to the System of $1,000,000,000 will have a more moderating effect upon the too rapid growth of bank credit than any other single condition that I know of.

X-6141

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Cost of preparing Federal Reserve Notes during July, 1928.

1928
July 2 to 6 Federal Reserve Notes, 1914.

	$10	$20	Total Sheets
San Francisco	201,000	298,000	499,000

499,000 sheets @ $35.50 per M, ... $17,714.50

Credit appropriations, 1929, as follows:

Comp. of Emp.	Bur. Eng. & Prtg.	$9,555.85
Pl. Prtg.	Bur. Eng. & Prtg.	4,041.90
Mtls. & Mis. Exp.	Bur. Eng. & Prtg.	4,116.75

Bureau of Engraving and Printing,

Per C. R. Long,
Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6142

September 22, 1928.

SUBJECT: Topic for Governors' and Agents' Conferences.

Dear Sir:

There are attached hereto copies of self-explanatory letters exchanged between the Federal Reserve Bank of Dallas and the Board, and it is requested that the suggestion referred to therein, of annual meetings between the Members of the Federal Reserve Board and the directors of the Federal reserve banks, be considered at the forthcoming conferences of Governors and Federal Reserve Agents.

Very truly yours,

J. C. Noell,
Assistant Secretary.

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

COPY X-6142-a

September 18, 1928.

Dear Mr. Walsh:

Receipt is acknowledged of your letter of September 15, with regard to the resolution adopted at the recent meeting of the Advisory Committee of your bank's Stockholders Association, suggesting that a joint conference between the Members of the Board and the directors of the Federal Reserve Banks be held each year in Washington for the purpose of giving consideration to confidential matters which have been brought to the attention of the directors, or of which the Board should have personal and intimate knowledge. The Board has carefully considered the proposal of the Advisory Committee and will be very glad to follow the suggestion that the matter be referred to the forthcoming conferences of Governors and Federal Reserve Agents.

In the meantime, however, should anything develop in your territory regarding which your directors would like to confer with the Board you may be sure that the Board would be very glad to meet with your directors at any time they feel that they have a complaint or problem of sufficient importance to warrant such a conference. At different times the directors of other Federal Reserve Banks have conferred with the Board and we have always assumed that the directors of any reserve bank would feel at liberty to do so whenever they thought it to be necessary. If such a procedure should place too much inconvenience upon the time of your directors, the Board at their request, would be very glad to make arrangements to have Members of the Board meet with them in your own district. The latter procedure might be productive of the best results and incidently it would be less expensive. I want to assure you that the Board would be willing to follow either procedure at the pleasure of your directors.

With kind personal regards, I am,

Very truly yours,

(S) R. A. Young,
Governor.

Mr. C. C. Walsh, Chairman,
Federal Reserve Bank,
Dallas, Texas.

COPY

FEDERAL RESERVE BANK X-6142-b

OF DALLAS

September 15, 1928

C. C. Walsh
Chairman of the Board
and Federal Reserve Agent

Federal Reserve Board
Washington, D. C.

Gentlemen:

The Advisory Committee of the Stockholders' Association, of the Federal Reserve Bank of Dallas, in a meeting held on September 12, 1928, in this bank, passed a resolution suggesting that a joint conference between the members of the Federal Reserve Board, and the directors of the Federal Reserve banks, be held each year in Washington, D. C., at a time to be designated by the Board, for the purpose of giving consideration to any confidential matters which may have been brought to the attention of the directors of the Federal Reserve banks, either through the Advisory Committee of the Stockholders' Association, or by the member bankers themselves, and of which the Federal Reserve Board should have personal and intimate knowledge.

The reasons given by the Advisory Committee for the holding of such conferences are, substantially, as follows:

First - That many member bankers hesitate to submit to the officers of a Federal Reserve Bank any matters of criticism, or complaint, arising out of transactions had between the member banks and the Federal Reserve banks, or the text and application of the law and the Board's regulations. The suggestion being further based upon the opinion of the members of the Advisory Committee, gained through contact with bankers in this district, that 90% of the smaller banks in the district approach the Federal Reserve Bank with a spirit of awe, harboring the thought that its operation is surrounded with an atmosphere of secretiveness and mysticism.

Second - That such member bankers would not hesitate to discuss such problems with the director of the Federal Reserve Bank coming from their respective districts, for the reason that the member banker regards the directors of a Federal Reserve Bank, irrespective of the class which they represent, as his direct representative in his relations with the Federal Reserve Bank, and he feels freer to go to the director in his respective community with any grievance, or misunderstanding, whether real or imaginary, instead of going direct to the officials of the Federal Reserve Bank.

Third - That if such conferences between the Federal Reserve Board and the directors of the Federal Reserve banks were held

the member bankers feel that they would be brought in closer touch with the Board at Washington, through the individual members of the Board of Directors, with reference to all matters arising between the member banks and the Federal Reserve banks.

A suggestion was made that this was the function of the Advisory Council, it being the duty of the Advisory Councilman from each district to present these matters, but the suggestion was immediately offset by the statement that 90% of the smaller banks in a Federal Reserve District did not know that we had an Advisory Council, nor were they acquainted with its relationship between the member banks and the Federal Reserve Board.

Fourth - They also feel that if such conferences can be arranged a much closer contact will be established between the member banks and their own Federal Reserve Bank and the Federal Reserve Board; and that as a further result a better understanding, a more cordial feeling, and a much more satisfactory cooperation, will obtain throughout the districts, as well as the System.

Fifth - That by far and wide a great majority of the member bankers of the Federal Reserve System are strong proponents of the Federal Reserve banks, and of the Federal Reserve System, and heartily endorse the constructive credit policies laid down; that they are strong believers in the efficacy and effectiveness of the economic views sponsored by the System, and that it has proven the greatest piece of constructive legislation that has ever been passed by a National Congress or a State Legislature.

Sixth - That it is the earnest desire of such member bankers, as proponents and advocates of the policies of the System, to cement each year the bonds of union more closely, and in doing so to eliminate, in so far as this may be accomplished, all captious and irrelevant criticisms which have been offered from time to time by opponents of the System.

Seventh - That the desire for these joint conferences between the directors of the various Federal Reserve banks, and the Board at Washington, is prompted solely for the purpose of creating a more harmonious and friendly relation, and a more intelligent understanding of the uses, benefits and responsibilities of the System to the member bankers, and their duties and obligations to the Federal Reserve Bank of the district, to the Federal Reserve Board, and to the profession of banking.

Eighth - It was the opinion of the Advisory Committee that all of the directors of each Federal Reserve Bank should be present at the joint conference between the Federal Reserve Board

and the bank's directors attending the same, at which time they could discuss freely matters and relationships arising out of the respective bank's operations, giving publicity to such information as the Federal Reserve Board might see fit to release.

Ninth - It was the idea of the individual members of the Stockholders' Advisory Committee that if, and when, these conferences are instituted, they should be held separately by the Board with the directors of each Federal Reserve Bank in the System. This, of course, in the event all of the Federal Reserve banks in the System desired to take part in such a conference, would require one conference for each bank in the System during the year, and would necessitate the arrangement of twelve different conferences; but the thought was also suggested that it might be possible that some of the Federal Reserve banks throughout the System might not have matters of sufficient importance to require a meeting every year, but if they did that they should have the opportunity of meeting the Board through their directors and discussing the same.

Tenth - It was also suggested by the Advisory Committee that this matter be placed on the program for discussion at the Agents' and Governors' conferences to be held in Washington November 12-17, 1928.

I assured the Advisory Committee that I would transmit its views in regard to these conferences to the Federal Reserve Board, and I should be pleased to receive your reaction in reference thereto, for the purpose of reporting the same back to the Advisory Committee at its next meeting.

Yours very truly,

(S) C. C. Walsh,
Chairman of the Board.

CCW/MK

(COPY)

X-6143

Memorandum for Mr. Hamlin September 20, 1928.

From Mr. Gilbert.

Referring to the several questions raised by you in connection with my memorandum of September 10th, 1928, embodying proposals contemplating an improved administration of the provisions of the Federal Reserve Act applicable to State member banks and conditions of membership, may I be permitted to submit the following:

The proposals of my memorandum relate exclusively to State member banks of the Federal Reserve System and not to National member banks.

State member banks, as I understand the law, are subject to approximately thirteen general regulatory provisions of the Federal Reserve Act (listed in my memorandum) and additional conditions of membership which I believe taken together may be considered as constituting a fairly complete and satisfactory standard of banking, calculated to protect depositors and promote sound banking operations. That Congress intended that State member banks should comply with these express provisions of the Federal Reserve Act and the conditions of membership pursuant thereto, prescribed by the Federal Reserve Board under authority specifically granted by the Act, seems clear.

That the enforcement of these same provisions of the Act and conditions of membership is a duty of the Federal Reserve Board seems equally clear, since under Section 11(i) the Board is required to perform the duties, functions or services specified in the Federal Reserve Act and to make all rules and regulations necessary to enable the Board effectively to perform the same.

No other governmental authority, State or National, is directed or authorized to administer or enforce these particular provisions. Unquestionably, State banking authorities have no responsibility or power to enforce the provisions of Federal law. State banking authorities are legally responsible only for the administration and enforcement of the banking laws of their respective states, which may or may not contain provisions that are the same or similar to the provisions of the Federal Reserve Act relating to State member banks.

Likewise, no Federal Reserve Bank, as such, is charged with the duty and responsibility of administering or enforcing the regulatory provisions of the Federal Reserve Act. It is true that Federal Reserve Banks are authorized to make examinations of member banks, both State and National, but such examinations undoubtedly were intended by Congress for credit purposes only. When such examinations, or examinations by examiners of Federal Reserve Agents or the Comptroller of the Currency, disclose violations of the regulatory provisions of the Federal Reserve Act or National Bank Act or of conditions of membership, the correction of violations by State member banks is the function of the Federal Reserve Board, and violations by National banks the function of the Comptroller of the Currency.

Control of the enforcement of regulatory provisions of the law relating to National banks is not contemplated in my proposals for the reason, as above indicated, that it is my understanding that the Federal Reserve Board now has no duty or responsibility for the administration of such regulatory provisions as relate to National banks whatever may have been its authority during the organization period of the System. That duty and responsibility has been placed by Congress with the Comptroller of the Currency whose official acts in the main are not subject to the control of the Federal Reserve Board.

The Federal Reserve Board has, however, as above suggested, a responsibility to Congress for the administration and enforcement of the regulatory provisions of the Federal Reserve Act and conditions of membership affecting State member banks.

My conclusion in the matter is based upon the fact that Congress has imposed upon State member banks the thirteen regulatory provisions, mandatory in character, enumerated in my memorandum and has required the Federal Reserve Board to perform the duties, functions or services specified in the Federal Reserve Act. It is a matter of common experience that regulatory provisions of law are not self-enforcing, a fact that Congress undoubtedly took into account in framing the Federal Reserve Act. The Board's responsibility in this matter exists, I believe, regardless of whether one of the main purposes of the Act, as stated in the preamble, "to establish a more effective supervision of banking in the United States" shall be interpreted to mean improved supervision by Federal Reserve authorities over member banks of the System, State or National, or a mandate to the Board or other Federal Reserve authorities to undertake by whatever methods may be available to prevail upon all bank supervisors to raise their standards of examinations and enforcement of banking laws and sound banking practices.

Moreover, I believe that the Board's responsibility to Congress exists in this phase of administration and enforcement of the law, regardless of whether any failure on the part of the Board to enforce these regulatory statutes shall render individual Board members liable in personal damages to the depositors or other creditors of State member banks who may sustain losses as a result of such non-enforcement.

But, it would seem, whatever may be the rights of member bank creditors damaged by non-enforcement, that Congress would have the usual remedy against Board members who failed to enforce the law.

The proposals of my memorandum of September 10th do not contemplate any hasty or abrupt termination of the membership of any State member bank nor any harsh or oppressive method of enforcement. I believe that a State member bank found to be violating the provisions of the Federal Reserve Act or conditions of membership is entitled as a matter of common fairness to a written notice from the Federal Reserve Agent of what provisions or conditions it has violated and what will constitute satisfactory correction and that, furthermore, the member bank should be given a reasonable time in which to effect all corrections. What constitutes a reasonable time will vary greatly according to circumstances and is a matter that cannot be governed by any fixed rule. If a State member bank, after notice of violations and the passage of a reasonable time, shall fail, through unwillingness or inability, to comply with the law or conditions of membership, then the question of termination of membership should be considered. All efforts to correct matters subject to criticism in State member banks should, I believe, be made, as far as practicable, in cooperation with the State banking authorities concerned, but when such cooperation cannot be obtained, the Federal Reserve Agent should act independently. In all matters pertaining to the administration of the regulatory provisions under consideration, I see no need for any direct communication between the Federal Reserve Board and member banks except in connection with expulsion proceedings. All correspondence or other communication with the banks should be handled by the Agents, as the representatives of the Board.

In my opinion the improved administration contemplated in my proposals will not involve any substantial increase in the expenses of the Board or Federal Reserve Agents. In substance, what I am proposing is that a logical administrative use shall be made of information already being assembled; that treatment of State member banks in the matter of administration of the law shall be rendered uniform, at least in principle, throughout the System and that apparent laxity in enforcement of Federal law relating to State member banks shall be corrected to the end that State and National member banks shall be placed upon terms of equality in the matter of enforcement of the Federal laws relating to both and this should involve no substantial increase in expense. In this connection, it should be stated that the Comptroller of the Currency has long had well defined methods and processes for the administration and enforcement of the law relating to the banks under his jurisdiction whereas the Board has had an incomplete policy with respect to the enforcement of Federal law relating to State member banks.

COPY

X-6143-a

September 10, 1928.

The Examining Committee

Mr. Gilbert

Prior to April 14th, 1927, the Board had no agency charged with the duty of keeping it currently informed of the condition of State member banks of the Federal Reserve System and whether or not such State member banks were observing the provisions of the Federal Reserve Act applicable to them and the conditions of membership imposed by the Board at the time of their admission to the System. On the date mentioned, following consideration of my report dated March 7, 1927, dealing with the examination practice and policy of the Federal Reserve Agent at St. Louis, the Board adopted the following three resolutions:

(1) "In view of the recommendations contained in the report of the survey made by Mr. Gilbert of the work of examining state member banks, the Board continue the examination practice as at present, under the direct supervision of the Federal Reserve Agents."

(2) "That the Supervisor of Examinations, subject to the approval of the Federal Reserve Board, be instructed to make such arrangements as will develop the detailed routine operations designed to enable the Board to keep itself informed as to the condition of State member banks, and whether or not such banks are observing the conditions of membership imposed, and whether or not they are conducting their business within the provisions of the Federal Reserve Act relating to state member banks."

(3) "That the Supervisor of Examinations be instructed to prepare a form of analysis to be used by the respective Federal Reserve Agents covering each report of examination, and to prepare for submission to the Board for its approval a standard report form to be used by examiners in the field under the direction of the Federal Reserve Agents."

A few days prior to the adoption of the resolutions quoted above, the Board's Counsel on April 6, 1927, rendered an opinion on the duties and powers of the Federal Reserve Board, the Federal Reserve Agents and the Federal Reserve Banks with respect to the examination of State member banks and the administration of the provisions of the Federal Reserve Act relating to such banks. This opinion has a very important bearing upon the work of

the Supervisor of Examinations authorized and directed in the above quoted resolutions. Among other conclusions, Counsel held in effect that the ultimate responsibility for the enforcement of the provisions of the Federal Reserve Act relating to State member banks rests upon the Federal Reserve Board regardless of whether examinations of such banks shall be made by examiners of the State banking departments, Federal Reserve Agents or Federal Reserve Banks.

In view of the Board's responsibility as thus defined by Counsel, it has been necessary for the Supervisor of Examinations in analyzing and reviewing reports of examination and reporting to the Board to take into account the numerous provisions of the Federal Reserve Act relating to State member banks, together with the conditions of membership imposed by the Board prior to admission of such banks to the System.

Besides violations of the varying conditions of membership, violations falling under the following provisions of the Federal Reserve Act have been considered and reported to the Board when disclosed by the reports:

(a) Reserve requirements of the Federal Reserve Act (Sections 9 and 19),

(b) Capital requirements (Section 9 of the Federal Reserve Act and Sections 5204 and 5205, Revised Statutes),

(c) Prohibition against lending on or purchasing own stock (Section 9, Federal Reserve Act and Section 5201, U.S. Revised Statutes),

(d) Prohibition against payment of unearned dividends (Section 9, Federal Reserve Act, and Section 5204, U.S. Revised Statutes),

(e) Criminal provisions (Section 9, Federal Reserve Act and Section 5209, U.S. Revised Statutes),

(f) Certification of checks by officers, clerks, etc. when depositor has insufficient funds to his credit (Section 9, Federal Reserve Act),

(g) Making of loans or payment of dividends when legal reserve is deficient (Section 19, Federal Reserve Act),

(h) The keeping of balances with nonmember banks in excess of 10% of the paid-up capital and surplus (Section 19, Federal Reserve Act),

(i) The making of loans or granting of gratuities to any bank examiner (Section 22, Federal Reserve Act),

(j) The acceptance of fees, commissions, etc. by bank officers, etc. for procuring or endeavoring to procure loans from own bank for others. (Section 22, Federal Reserve Act),

(k) Purchase from or sale to a bank of securities or property by directors on more favorable terms than would be granted to others (Section 22, Federal Reserve Act),

(l) Payment of interest on deposits of directors, officers, etc. at a greater rate than that paid to others (Section 22, Federal Reserve Act) and

(m) Restrictions upon amounts, security and objects of acceptance by member banks (Section 13, Federal Reserve Act).

In response to the Board's third resolution above quoted, drafts of a report of examination form and form of analysis have been prepared. The examination form has been discussed with Federal Reserve Agents and interested officers of the Federal Reserve Banks of Atlanta, Cleveland, Kansas City, Minneapolis, Richmond and St. Louis and with the Examining Committee of the Federal Reserve Agents and modifications in accordance with their suggestions have been made. It is respectfully suggested that the modified form be submitted to all Federal Reserve Agents and their chief examiners prior to submission to the Board for final adoption.

From such investigations as have been made by the Supervisor of Examinations during the past two years and from reading and analyzing reports of examination of State member banks, it appears that enforcement of the applicable provisions of the Federal Reserve Act, conditions of membership and general standards of the System has lacked uniformity in a marked degree and in some districts reasonable effectiveness. This has ranged from what appears to be fairly complete enforcement in some districts to what seems to be very nearly no enforcement in others, or, at least, unreasonably delayed enforcement.

Admittedly, it is impossible to determine with exactness what the degree of enforcement may be from reading and studying reports of examination and related correspondence received by the Board from the Federal Reserve Agents, as

it has not been and is not now the practice of all Agents to report to the Board the steps taken by them either directly or through the State banking departments to obtain correction of criticised matters. Furthermore, examination report forms in use in the various districts and states either do not provide for reporting on all violations of the Federal Reserve Act or entirely omit reference to them. However, from such evidence as is furnished by successive reports of examination showing continuation of the same or similar violations in a very substantial number of banks, it may be assumed that enforcement in general has been below a fairly sound standard in certain districts.

The general situation, it is believed, calls for remedial action and it is respectfully suggested for the Board's protection against criticism that may be expected to develop later, should present conditions continue, that the matter of enforcement be regularly and systematically followed up with a view to ascertaining all pertinent facts, all of which, except as to a few districts, as above noted, are not set forth in reports of examination and related correspondence, and issuing wherever necessary appropriate instructions to such Federal Reserve Agents as may not be obtaining satisfactory results.

Procedure in substantial accord with the foregoing was suggested by the examining committee of the Federal Reserve Agents in a report dated August 24, 1926, which was adopted in substance by a later conference of Federal Reserve Agents, in which was the following recommendation:

> "In view of the Board's power to examine member banks and the responsibility this involves, the Board should satisfy itself that the examinations obtained or made by the Federal reserve agents are adequate, and that adequate steps are taken to correct unsatisfactory conditions. The Board now receives copies of all examinations of member banks by the legal supervisors and of all examinations and credit investigations made by the Federal reserve agents. The Board's analysis and study of these reports should enable it to determine whether the examinations are adequate or not, and where the Board finds them inadequate the Board should direct the Federal reserve agents to take such steps as may be appropriate under the circumstances to

obtain adequate examinations. In our opinion the Board should require the Federal reserve agents to maintain an organization adequate for the purpose, whether it involves larger participation in examinations made by national or state supervisors, or entirely independent examinations. The committee, however, for the reasons already stated, believes that the soundest procedure is for the Federal reserve agents to be responsible for the securing of adequate examinations and information rather than to have the work done directly by the Board."

One of the principal causes for the lack of uniformity and effectiveness in the administration of the provisions of the Federal Reserve Act under consideration is due to what appears to be a substantial diversity of opinion among Federal Reserve Agents as to their powers and duties relating to the enforcement of the Act and the meaning of its various provisions and the several and varying conditions of membership. To all appearances, this has been primarily the cause of no enforcement of some provisions in some districts or of partial enforcement. The matter is one that can be easily corrected by the issuance of general or special instructions to the Agents setting forth authoritative interpretations of the points involved.

In devising the steps of an administrative check upon the operations of Federal Reserve Agents in connection with the enforcement of the Federal Reserve Act as it applies to State member banks, some matters of practice and policy must of necessity be considered and adopted. These are matters that require thought and study beyond that which can currently be given by the executive officers of the Board in view of the multiplicity of their routine duties, and it is respectfully suggested, therefore, that in the early stages of the work, at least, the Supervisor of Examinations be authorized and directed to report directly to a special committee of one Board member and that the Board member selected be authorized to perform the following general functions:

(1) To direct and sign special correspondence with Federal Reserve Agents designed to develop pertinent facts in particular cases not covered or fully covered in reports of examination and accompanying correspondence.

(2) To direct the formulation for the Board's approval of general

instructions to Federal Reserve Agents outlining the details of information, aside from those supplied in the reports of examination, which are regularly necessary for a complete understanding of the Agents' activities.

(3) The preparation of general or special instructions to Agents, covering authoritative interpretations of the applicable provisions of the Federal Reserve Act and conditions of membership and dealing with matters of policy.

(4) The preparation and presentation to the Board, with recommendations, of all cases that involve the exercise of the Board's statutory power to expel banks from membership.

(5) General supervision over the activities of the Supervisor of Examinations.

X-6144

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

STATEMENT FOR THE PRESS

For release in Morning Papers,
Friday, September 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 August and September, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Volume of industrial and trade activity increased in August, and there was a further advance in wholesale commodity prices. Reserve bank credit outstanding increased in September reflecting in part seasonal demands for currency and credit. Money rates remained firm.

Production--Production of both manufactures and minerals increased considerably in August, the output of manufacturing plants being larger than at this season of any earlier year. Automobile production was in record volume in August, and available information indicates that output was maintained by many producers at a high level during September. Iron and steel production continued large in August and September, and output of nonferrous metals increased between July and August. Textile mill activity, which had been somewhat reduced in recent months, also showed a substantial increase. Factory employment and payrolls have increased since midsummer and in August were close to the levels of a year ago. In the building industry there was evidence of recession in a sharp decline after the early summer in contracts awarded, which were in smaller volume during August than in the corresponding month of any year since 1924. In the first three weeks of September, however, awards were somewhat larger than last year.

Estimates of the Department of Agriculture for September 1 indicate that yields of principal crops will be larger than last year and above the average for the preceding five years.

Trade--Distribution of commodities showed seasonal increases in August, although sales in most lines of wholesale and retail trade did not equal the unusually large sales of August 1927. Department stores stocks increased as is usual in August but continued smaller than a year ago, while inventories in several lines of wholesale trade were somewhat larger than last year. Freight-car loadings were in about the same volume in August as a year earlier. Shipments of miscellaneous commodities and grains were larger and those of coal, livestock, and forest products smaller than last year.

Prices--The general level of commodity prices increased in August and the Bureau of Labor Statistics index, at 98.9 per cent of the 1926 average, was the highest in nearly two years. Increases in August were chiefly in the prices of livestock and livestock products, which are now higher than at any time since 1920. There were also small increases in fuels, metals, and building materials. Grains and cotton showed sharp declines, and there were decreases also in hides and skins and wool. Since the first of September there have been some declines in livestock and meats, and a sharp further decrease in cotton, while prices of pig iron, copper, and petroleum have advanced.

Bank credit--Between the middle of August and the middle of September there was a considerable increase in the loans and investments of member banks in leading cities. Part of the increase was in loans on securities and part reflected a seasonal increase in other loans. Deposits of the member banks also increased during the period.

Volume of reserve bank credit outstanding increased during the four weeks ending September 19 in response to seasonal demands for currency and

growth in member bank reserve requirements. The increase in total bills and securities was largely in holdings of acceptances and in discounts for member banks.

During the same period there were further increases in open-market rates on collateral loans and on commercial paper, while rates on bankers' acceptances were reduced from 4 5/8 per cent to 4½ per cent.

FEDERAL RESERVE BOARD

WASHINGTON X-6145

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 26, 1928.

SUBJECT: Proposed Amendment to Regulation A -
Topic for Conferences of Governors
and Federal Reserve Agents.

Dear Sir:

The Federal Reserve Board has voted to refer to the forthcoming conferences of Governors and Federal reserve agents for their consideration a suggestion made by the Federal Reserve Bank of Dallas that Section IX of the Board's Regulation A, which treats of paper acquired from nonmember banks, be so amended as to except from the prohibition on the discount of paper bearing the signature or endorsement of nonmember banks bills of exchange payable at sight or on demand of the kind described in Section VII of Regulation A. There is enclosed herewith a copy of the letter received by the Board from the Federal Reserve Bank of Dallas in this connection.

The statute with regard to the discount by a Federal reserve bank of sight or demand drafts was amended by act of Congress approved May 29, 1928, so as to make eligible for discount such bills properly secured by shipping documents, which arise out of the exportation, as well as the domestic shipment, of nonperishable, readily marketable staples, whether or not such staples are of an agricultural character. Section VII of the Board's Regulation A has not been amended to meet the changes made by the new law on this subject. If Regulation A is to be amended so as to permit sight or demand bills conforming to Section VII of the Regulation to be discounted by a Federal reserve bank, even though bearing the signature or endorsement of a nonmember bank, it would seem appropriate at the same time to amend Section VII to conform to the terms of the Act of May 29, 1928.

There are enclosed herewith for your consideration copies of suggested amendments to Section IX and Section VII of the Board's Regulation A which would effect the changes above described.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosures.

TO ALL F. R. AGENTS AND GOVERNORS.

COPY X-6145-a

FEDERAL RESERVE BANK OF DALLAS.

September 11, 1928.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

According to our interpretation of the Act and the Board's Regulations a Federal reserve bank may not, without the permission of the Federal Reserve Board, either discount or purchase sight drafts secured by bills of lading bearing the signature or indorsement of a nonmember bank, although they may be otherwise eligible for discount or purchase under Section 13 of the Act and Regulations A and B.

We had offered to us on September 7 by the First National Bank of Durant, Oklahoma, a sight draft for $2,415.95, secured by shippers order bill of lading covering 25 bales of cotton. This draft was made payable to and indorsed by a nonmember bank and the First National Bank of Durant had apparently acquired it directly from the nonmember bank. We declined to discount this draft and entered it for collection for credit to the account of the offering bank when paid, and in writing to the member bank giving our reasons for declining to discount the item we quoted paragraph (a), Section 9 of Regulation A. We did not, however, discuss with the offering member bank the desirability or the procedure for obtaining the Board's permission to discount or purchase such items.

Obviously, the reason for excluding paper bearing the signature or indorsement of nonmember banks, except with the Board's permission or except as set out in paragraph (a), Section 9 of Regulation A, is to prevent the indirect use of reserve credit by banks which give no support to the Reserve System. It is not likely, however, that a member bank desiring to use the rediscount facilities of a reserve bank for the benefit of a nonmember bank would offer paper of the character mentioned, and we suggest, for the Board's consideration, an amendment to Regulation A, making such paper eligible without requiring a member bank to obtain special permission. Such paper is of a self-liquidating character, arises out of transactions involving the movement of commodities, and is acquired by our member banks in the due course of business. In all respects the paper is of a very high type- its creation doe's not contemplate the extended use of reserve bank credit, and while the Act provides that eligible paper of this character discounted may be held for a period not exceeding ninety days, our experience is that it is liquidated within from three to ten days.

In the particular case referred to we feel quite certain that the nonmember bank is without any knowledge that the draft was offered for discount to the Federal reserve bank by the member bank.

We should be glad to have the benefit of the Board's views on this matter.

Yours very truly,
(Sgd.) R.R. GILBERT
Deputy Governor.

COPY

X-6145-b

(PARAGRAPH (a) OF SECTION IX OF REGULATION A, IF AMENDED AS SUGGESTED.)

SECTION IX. PAPER ACQUIRED FROM NONMEMBER BANKS

(a) Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount any paper acquired by a member bank from a nonmember bank or bearing the signature or indorsement of a nonmember bank; except that Federal reserve banks may discount (1) bankers' acceptances and other eligible paper bearing the signature or indorsement of a nonmember bank, if such paper was bought by the offering bank in good faith on the open market from some party other than the nonmember bank, and (2) bills of exchange bearing the signature or indorsement of a nonmember bank which are payable at sight or on demand and which conform to the requirements of Section VII of this regulation.

COPY

X-6145-c

(Section VII of Regulation A, if amended as suggested.)

SECTION VII. SIGHT DRAFTS SECURED BY BILLS OF LADING.

A Federal reserve bank may discount for any of its member banks bills of exchange payable at sight or on demand which-

(a) Grow out of the domestic shipment or the exportation of nonperishable, readily marketable staples; and

(b) Are secured by bills of lading or other shipping documents conveying or securing title to such staples.

All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer instructs that they be held until arrival of car, in which event they must be presented for payment within a reasonable time after notice of arrival of such staples at their destination has been received. In no event shall any such bill be held by or for the account of a Federal reserve bank for a period in excess of 90 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 amount thus deducted after payment of such bills to conform to the actual life thereof.

X-6147

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 Wednesday morning,
October 3, at 11.30 a.m.
And not before.

Address delivered by

Governor Roy A. Young,

before the

American Bankers Association

at its

Annual Convention

at Philadelphia, Pa.

October 3, 1928.

THE BANKER'S RESPONSIBILITY

If the economic life of the country be compared to the automobile, the natural resources represent the machinery and human endeavor the fuel. The function of the banking system in this machine would be to provide proper lubrication. Banks can not create natural resources nor can they be a substitute for human labor, but they can work toward a more efficient use of resources and a more effective application of labor and thereby contribute to a smoother and more even-working of the mechanism to prevent overheated parts and possible explosions.

There is nothing in the country's business life that approaches the banks in the wide-spread influence of their activities which are not confined to any particular line of commerce or industry but reach and influence all lines of endeavor. It is for this reason that banking can not be considered as a purely private business and so banks are supervised by Government agencies and regulated by statutory limitations.

Essentially, the function of a bank is to convert a person's ability to pay in the future into ability to pay at once. A storekeeper who wishes to lay in a stock of goods may not be in a position to pay for all of them at the time, but will be able to pay for them after some of the goods have been sold to the public. It is the bank's function, by lending him money, to enable him to convert his future paying capacity into present paying capacity. This is a simple and fundamental function. It involves no great or complicated mechanism and contains no mysteries in its workings. The great Dunbar said many years ago: "These functions imply no very complex operations. They require prudence, integrity, and patience, but they have no mystery".

With this definition of the primary functions of banks in mind, let me analyze the nature and order of importance of their responsibilities. First and

foremost, their responsibility is to their depositors who have entrusted them with funds and are entitled to receive them either on demand or on dates stated in their deposit contract. In order to provide additional safeguard for the interests of the depositors, the owners of the banks contribute capital, and to this they gradually add undistributed profits in the form of surplus. These funds placed by the owners of the business in a bank, vouch for the good faith of the proprietors. They are also a buffer between the bank's liabilities to their depositors and their claims on their borrowers. An adequate proportion of capital funds is, therefore, essential to the discharge of a banker's responsibilities.

More important, however, than the capital contribution is the exercise of care in making loans and buying investments. A bad loan is rarely a kindness to the borrower. Too many bad loans are a betrayal of the trust placed in the banks by the depositors. Therefore, the banker must discharge his responsibility to depositors by a careful scrutiny of his loans. If it were possible for a banker to confine all his advances in his own community to conservative and safe loans based upon production and distribution, with the assurance of assistance from the Federal reserve bank for seasonal and emergency requirements, there could be no serious objection to his conducting his institution in such a manner. However, I know from my own experience that loans of this character are not always available and even if they were available, such a policy would result in the banker having his deposits employed only a part of the time.

Loans of a capital or speculative nature made locally, even though they are good, do not always represent good banking. A bank should not be entirely dependent for solvency on developments in its own community, but should, in the great majority of cases, carry secondary reserves in the form of liquid investments - funds placed on deposit with out-of-town banks, commercial paper, bankers' acceptances or security loans the liquidity of which depends upon the marketability

of the securities back of the loan. A certain proportion of funds not directly dependent upon the developments in a community has come to be considered as a fundamental condition of sound banking.

Second to the banker's responsibility to his depositors is his responsibility to the bank's stockholders. They have contributed capital to the enterprise and are entitled to as large a return on this capital as can be obtained by safe and legitimate use of the funds. It is the universal acceptance of the priority of the depositors' claims over those of the stockholders that indicates the extent to which a bank is a public utility. Fortunately, however, the concern of stockholders about bad loans is greater than that of the depositors; in fact, depositors begin to be concerned about bad loans only when their magnitude is such as to endanger the bank's ability to meet its liabilities. Stockholders, on the other hand, are constantly interested in the success of the bank's operations, because every profit made by the bank increases the value of the stockholders' equity in the business.

Responsibility of banks does not end with their depositors and stockholders. Banks also have a responsibility to the community in which they are located and from which they derive their deposits. If a bank invests all of its deposits in outside loans and securities, it is not fair to its community. If its outside loans and investments are safe and profitable, it is dealing fairly with its depositors and stockholders, but it fails in its responsibility to its own community. In so far as the use of a bank's funds in its own community is consistent with safety, local industries and enterprises are entitled to the first claim on these funds. This does not mean that bankers must be philanthropists. It simply means that their self-interest must be intelligent and far-sighted. For if a community should be constantly deprived of its funds by investment outside, sooner or later this is bound to arrest its growth and prosperity. Ultimately it would lead to a drying up of the flow of deposits which supplied the bank

with funds for its operations. The responsibility of the banker to his community is an application of enlightened self-interest. In popular parlance, the banker must play the game and do his bit in the community's work.

At this point I want to consider in what way the Federal reserve banks enter into the picture. Their capital, as you know, is supplied by their members. They are in substance a cooperative enterprise among banks for the purpose of taking care of seasonal and emergency needs for credit and currency. They prevent excessive strains by lending the support of the financial strength of the entire System to the needs of any community that requires and is entitled to it. Even more than the commercial banks, the Federal reserve banks are public institutions and the public interest is paramount in their responsibilities.

It is the business of the reserve banks to see to it that there is no shadow of doubt cast upon the validity of their note issue. The reserve banks must also safeguard their own deposits, which are the reserves of the other banks. These deposits must be used in such a way as not to permit the slightest doubt of their immediate availability upon demand. It is for this reason that the Federal Reserve Act prescribes rigid limitations about the use of reserve bank funds. While the direct responsibility of the reserve banks on deposits is to their member banks, it goes beyond that. It extends to the depositors of the member banks, because the safety of their funds depends to a certain extent upon the safety of their reserves carried with the reserve banks. Back of these reserve balances of the member banks are the reserves of the reserve banks themselves. These are the ultimate reserve basis of our entire banking structure. An all-important responsibility of the Federal Reserve System is the conservation of these reserves upon a proper gold basis.

At the risk of tiring you by stating what you already know, I remind you that for $100 of deposits carried by a member bank, the reserve bank receives on the average about $7.50 as a reserve balance. Against this reserve

balance of $7.50 the reserve bank must hold about $2.50 in gold or lawful money. Thus the $2.50 held by a reserve bank is the basis of $100 of member bank credit. This in turn may be the basis of a still larger amount of non-member bank credit, because a large part of the reserves of non-member banks is held with member banks. This apparently narrow base of our credit structure is sufficient for safety only because of the cooperation of the banks through the Federal Reserve System. It emphasizes the extent of the responsibility of the reserve banks in protecting these reserves. The reserve banks must take a far-sighted view of the needs of the community and must maintain a stock of gold sufficient to provide for the country's growing needs.

It is, therefore, a responsibility of the Federal Reserve System to shape its policy in such a manner as to protect our gold reserves against too rapid depletion. During the past year, we lost $500,000,000 in gold, and no one knows whether the redistribution of gold has been completed or whether the United States will lose additional gold to the rest of the world. Our gold reserves at the present time are $1,000,000,000 in excess of the legal requirements and it is fortunate that they are, because it puts the bankers in a position to handle further export movements of gold if they should develop and to meet the growing credit needs of the country. The loss of gold for the past year has been a desirable thing, not only from the point of view of those who received it and used it as the basis of monetary reconstruction, but also from the point of view of the United States. It has removed from the foreign trade of the United States the risks arising from unstable exchanges and disorganized conditions among its foreign customers. The Reserve System's responsibility is to make such use of its reserves as are in the interests of the country in the broadest sense of the word. This involves close attention to developments both here and abroad and makes the framing of Federal reserve policies not only a matter of national but of international importance of the first magnitude.

The Federal Reserve System has also a measure of responsibility for the rapidity of the growth of bank credit in this country, although the experience of the last 14 years has demonstrated conclusively that this movement frequently attains such momentum that it is some time before Federal reserve policies become effective. You are familiar with the methods at the disposal of the Reserve System to accomplish these ends. They are primarily changes in discount and open-market rates and open-market policies in the purchase and sale of Government securities. Through these means the System can be an influence toward easier or tighter conditions in the money market, even though the influence may be slow in operating. It can, therefore, to a certain extent, encourage or discourage the growth of bank credit. All loans and investments of the member banks result in the creation of deposits. The growth of deposits in turn increases reserve requirements of member banks and when these are met by rediscounting, reserve policies and rates begin to be effective. It is a mistake, therefore, to assume that only one or another class of loans or investments may be supported by the reserve banks, while other classes of loans and investments may not.

Since the Federal reserve banks furnish the basis of credit growth in any field, whether it be commerce, industry, agriculture or the trading in securities, the Reserve System feels concern about excessive growth in any line of credit. It is impossible for a reserve bank to earmark the credit it releases, but when too rapid growth in any line of credit threatens to upset the financial structure of the country and make undue demands on the reserve funds, which should be conserved for the legitimate growth of the country's business, the Reserve System can properly use its influence against these undesirable developments.

Within the limits of its powers, the responsibility of the Federal Reserve System is for the credit structure as a whole. A healthy banking situation must be forever the primary concern of the managers of the Federal reserve banks and of the Federal Reserve Board. These responsibilities are sufficient to

require our best efforts in the determination of the wise course of action. This is one of the reasons why it would be unfortunate if the Federal Reserve System were to be charged with still further responsibilities which are not directly related to banking, such as responsibility for the stability of the general price level or for the moderation of ups and downs in business conditions. It is my conviction, and I want to leave this thought with you in conclusion, that a healthy banking situation is the best guarantee of a healthy economic development in so far as it depends on the use of bank credit. It is towards sound banking conditions that the Federal reserve banks must work in cooperation with their member banks and with other banks which are a part of our banking structure. In my opinion, the country's entire banking system, from the smallest country bank to the greatest financial institution, and this includes the Federal Reserve System, can best discharge its public responsibility by concentrating its efforts on the maintenance of sound banking conditions.

COPY

THOMAS P. PATON
110 East 42nd Street
New York

X-6148

GENERAL COUNSEL
AMERICAN BANKERS ASSOCIATION

September 18, 1928.

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

Dear Mr. Wyatt:

Judge Paton and I were indeed agreeably surprised to receive from you your letter of September 13, together with a double file of enclosures containing the comments and criticisms of the various counsel of the Federal reserve banks. We are very grateful to you for the painstaking work which you have so successfully accomplished in our behalf and we might add that these constructive criticisms have been indispensable in the work of preparing the third tentative draft which we have this day completed.

We are enclosing at this time two copies of this draft for your files and will be glad to furnish you with additional copies if you desire them.

You will note from the circular letter sent out to the members of our State Legislative Committee that the code will be under discussion at the coming convention of our Association in Philadelphia on October 1.

I note that you call my attention to the fact that the criticisms which you have forwarded are the personal opinions of the counsel representing the Federal reserve banks and does not represent the views of the Federal reserve banks or the Federal reserve system. In this connection you have my assurance that these views will be treated strictly confidentially.

With many thanks for your splendid cooperation, I am,

Very truly yours,

(S) THOMAS B. PATON, JR.

TBPJr-b.
Encls.

FEDERAL RESERVE BOARD

WASHINGTON

X-6151

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 5, 1928.

Dear Sir:

Prior to the last several months the Federal Reserve Board in the exercise of its function of "review and determination" over rates of discount established by the directors of the Federal reserve banks has been obliged to rely upon data as to conditions in the respective districts furnished by its own research department and scattered information received from the Federal reserve banks. More recently, it adopted the informal procedure, upon receiving advice that the directors of any Federal reserve bank had voted to change the rate in effect, of wiring the officers of the bank to furnish it with a statement of the reasons for the change in rate. Responses received to these inquiries have proven to be of value to the Board in acting upon suggested rate changes.

The Board feels that it would be of very great assistance to it, if at the time the directors of the Federal reserve bank vote to make a change in the rediscount rate they would authorize the Chairman in advising the Board of their action to inform it also of the reasons which actuated them in making the change.

The Board, therefore, has formally requested me to have you state to your Board of Directors that if the suggested procedure is followed by them, it will be of great benefit to the Board.

Yours very truly,

R. A. Young,
Governor.

TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6152

October 8, 1928.

SUBJECT: Code Word to cover new Issue of Treasury Certificates of Indebtedness, Series TS-1929, in Telegraphic Transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks the code word "BIGOTED" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TS-1929, dated October 15, 1928, due September 15, 1929.

This word should be inserted in the Federal Reserve Telegraphic Code Book following the code word "BIGOT" at the bottom of page 27.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

X-6154

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 9, 1928.

SUBJECT: Eligibility of paper rediscounted for Federal Intermediate Credit Banks as collateral security for Federal reserve notes.

Dear Sir:

The Federal Reserve Board has recently been asked for a ruling on the question whether agricultural paper rediscounted by a Federal reserve bank for a Federal Intermediate Credit Bank under the provisions of Section 13(a) of the Federal Reserve Act may be used as collateral security for Federal reserve notes.

After considering this question the Board has reached the conclusion that notes, drafts and bills of exchange rediscounted by a Federal reserve bank for a Federal Intermediate Credit Bank under the provisions of Section 13(a) may lawfully be used as collateral security for Federal reserve notes. Section 13(a) provides that upon the endorsement of a member bank a Federal reserve bank may discount notes, drafts and bills of exchange issued or drawn for an agricultural purpose or based upon live stock and having a maturity not exceeding nine months and makes such notes, drafts and bills eligible as collateral security for Federal reserve notes. It is then provided that Federal reserve banks may "rediscount such notes, drafts and bills for any Federal Intermediate Credit Bank" (with a stated exception). In the Board's opinion it is the intention of the statute that all notes, drafts and bills lawfully discounted by a Federal reserve bank under the provisions of Section 13(a), whether rediscounted for a member bank or for a Federal Intermediate Credit Bank, may be used as collateral security for the issuance of Federal reserve notes. Where the maturity of such paper exceeds six months, it must, in order to be used as security for Federal reserve notes, be secured by warehouse receipts or other such documents as required by the statute.

In this connection it may be noted that the Federal Reserve Board is authorized to prescribe regulations and limitations governing the rediscount of notes, drafts and bills for Federal Intermediate Credit Banks. This authority clearly is broad enough to permit the Board to regulate, limit or prohibit the use of such paper rediscounted for Federal Intermediate Credit Banks as collateral security for Federal reserve notes, if at any time it sees fit to do so.

By order of the Federal Reserve Board.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6155

October 9, 1928.

SUBJECT: Changes in Inter-District
Time Schedule.

Dear Sir:

At the request of the Federal Reserve Bank of Philadelphia, the Federal Reserve Board has approved changes in the transit time from Philadelphia to Portland and Seattle from five days to four days.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-6156

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 11, 1928.

SUBJECT: Amendment to Regulation A.

Dear Sir:

This is to advise you that the Federal Reserve Board has amended Section XI (3) of Regulation A, Series of 1928, so as to read as follows:

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

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS AND CHAIRMEN.

COPY

X-6157

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF OREGON

THE FIRST NATIONAL BANK OF ILWACO, Complainant, -vs- THE ASTORIA NATIONAL BANK, W. C. CRAWLEY, RECEIVER OF THE ASTORIA NATIONAL BANK, and FEDERAL RESERVE BANK OF SAN FRANCISCO, CALIFORNIA, Defendants.	No. E-8994 SUBPOENA AND RESPONDENDUM

THE PRESIDENT OF THE UNITED STATES OF AMERICA

TO

The Astoria National Bank W. C. Crawley, Receiver of the Astoria National Bank, and Federal Reserve Bank of San Francisco,

GREETING:

You, and each of you, are hereby commanded that you be and appear in said District Court of the United States, for the District of Oregon, at the Court room thereof, in the City of Portland, in said District, to answer the exigency of a Bill of Complaint exhibited and filed against you in our said Court, wherein

The First National Bank of Ilwaco is

complainant, and you are defendants, and further to do and receive what our said District Court shall consider in this behalf, and this you are in nowise to omit under the pains and penalties of what may befall thereon.

And this is to command you, the marshall of said District, or your Deputy, to make due service of this our Writ of Subpoena, and to make due return of the same with your proceedings thereon into this Court within twenty days from this date.

Hereof fail not.

WITNESS, the Honorable Robert S. Bean and the Honorable John H. McNary Judges of said court, and the Seal thereof affixed at Portland, in said District, this 26th day of September, 1928

G. H. Marsh Clerk

By F. L. Buck, Chief Deputy Clerk

(SEAL)

A TRUE COPY
G. H. MARSH, Clerk By:
F. L. Buck, Chief Deputy Clerk.

MEMORANDUM, pursuant to Equity Rule No. 12 of the Supreme Court of the United States:

The defendant is required to file his answer or other defense in the clerk's office on or before the twentieth day after service, excluding the day thereof; otherwise the bill may be taken pro confesso.

COPY X-6157

IN THE DISTRICT COURT OF THE UNITED STATES

FOR THE DISTRICT OF OREGON

- - - - - - - -

THE FIRST NATIONAL BANK OF ILWACO, Plaintiff, vs. THE ASTORIA NATIONAL BANK, W. C. CRAWLEY, Receiver of the Astoria National Bank, and FEDERAL RESERVE BANK OF SAN FRANCISCO, CALIFORNIA, Defendants.	No._____ COMPLAINT

Comes now the plaintiff, and for cause of suit against the defendants, and each of them, alleges:

I.

The plaintiff is, and was at all times hereinafter mentioned, a national banking corporation, incorporated, organized and existing under and by virtue of an Act of Congress known and designated as The National Banking Act, and having its principal office and place of business at Ilwaco, Washington.

II.

The defendant Astoria National Bank is, and was at all times hereinafter mentioned, a national banking corporation, incorporated, organized and existing under and by virtue of an Act of Congress known and designated as The National Banking Act, and having its principal office and place of business at Astoria, Oregon.

III.

That the defendant Federal Reserve Bank of San Francisco, California, is, and was at all times hereinafter mentioned, a national banking corporation, incorporated, organized and existing under and by virtue of an Act of Congress

known and designated as the Federal Reserve Act, and having its principal office and place of business at San Francisco, California, having a branch office and place of business in Portland, Oregon.

IV.

That the defendant W. C. Crawley has been heretofore appointed by the United States Comptroller of Currency, the receiver of defendant Astoria National Bank, has duly qualified, and is now acting as such receiver.

V.

That on February 17th, 1928, the plaintiff had on deposit with defendant Astoria National Bank, subject to check, draft or order for payment, a sum in excess of Three Thousand ($3,000.00) Dollars.

VI.

That on February 17th, 1928, the plaintiff forwarded to the United States National Bank of Portland, Oregon, for collection and credit, its draft on defendant Astoria National Bank, in the sum of $3,000.00, against the funds of the plaintiff on deposit in said Astoria National Bank; that immediately upon receipt of said draft and prior to the 21st day of February, 1928, the United States National Bank of Portland, Oregon, deposited said draft with other drafts and orders for the payment of money, with the Portland Branch of defendant Federal Reserve Bank of San Francisco, California, and defendant Federal Reserve Bank of San Francisco, California, by and through its said Portland Branch, forwarded the drafts so deposited with it by the United States National Bank of Portland, Oregon, to defendant Astoria National Bank, for collection, and said drafts were received by defendant Astoria National Bank prior to the close of banking hours on February 21st, 1928.

VII.

That on February 21st, 1928, defendant Astoria National Bank had funds on deposit to its credit with the Portland Branch of defendant Federal Reserve Bank of San Francisco, California, subject to check, draft or order for payment, in excess of the sum of $3,000.00, represented by the draft of the plaintiff herein-

above described, and in excess of the total amount of the drafts forwarded for collection to said Astoria National Bank by said Portland Branch of the Federal Reserve Bank of San Francisco, California.

VIII.

That defendant Astoria National Bank continued to transact its usual and ordinary banking business up to the close of banking hours on February 21st, 1928, in the usual and ordinary manner; that it was, and had been at all times prior to February 21st, 1928, the usual and established custom of business and dealings between defendant Astoria National Bank and defendant Federal Reserve Bank of San Francisco, California, and the Portland Branch thereof, that charges should be made by said Federal Reserve Bank against funds of defendant Astoria National Bank on deposit with said Federal Reserve Bank in accordance with written instructions of the Astoria National Bank forwarded by United States mail to the Portland Branch of Federal Reserve Bank of San Francisco, California, upon printed blanks provided by the Federal Reserve Bank for that purpose.

IX.

That on February 21st, 1928, before the close of banking hours on said date, defendant Astoria National Bank paid plaintiff's said draft for $3,000.00 by forwarding to the Portland Branch of defendant Federal Reserve Bank of San Francisco, California, by United States mail, its written order that said draft, with other drafts therein specified, should be charged to the account of said Astoria National Bank, and by expressly authorizing defendant Federal Reserve Bank to make such charge against said account, and said draft was thereupon, and before the close of banking hours on said February 21st, 1928, duly marked "paid" by defendant Astoria National Bank, and was thereafter returned to the plaintiff, with statement of plaintiff's account, as voucher and evidence of such payment.

X.

That February 22nd, 1928, was a legal holiday, and the written authorization and letter of instructions from defendant Astoria National Bank to the Portland

Branch of defendant Federal Reserve Bank of San Francisco, California, was not delivered until the morning of February 23rd, 1928; that on February 23rd, 1928, defendant Astoria National Bank failed to open its doors or transact business, and thereafter W. C. Crawley was appointed receiver thereof by the United States Comptroller of Currency, and forthwith took possession of said bank.

XI.

That the plaintiff has made demand upon the defendants W. C. Crawley, as receiver of defendant Astoria National Bank, and upon the Portland Branch of defendant Federal Reserve Bank, for payment of said draft, but that the defendants, and each of them, have wholly refused, failed and neglected to pay the same.

XII.

That defendant Federal Reserve Bank of San Francisco, California, has refused to charge, in accordance with the written instructions and authorization of February 21st, 1922, from defendant Astoria National Bank, against the funds of Astoria National Bank on deposit with it, the amount of plaintiff's draft in the sum of $3,000.00 hereinabove described, and has charged the same back against the United States National Bank, and that the plaintiff has been compelled to reimburse said United States National Bank with the amount thereof.

XIII.

That plaintiff has no plain, speedy or adequate remedy at law.

WHEREFORE, plaintiff prays that the funds of defendant Astoria National Bank and W. C. Crawley, as receiver of defendant Astoria National Bank, on deposit with the Portland Branch of defendant Federal Reserve Bank of San Francisco, California, be charged with the sum of Three Thousand ($3,000.00) Dollars, and defendant Federal Reserve Bank of San Francisco, California be ordered and directed to remit the sum of $3,000.00 so charged to the plaintiff, and that the plaintiff have such other and further relief as to the court shall seem equitable in the premises.

JOHN K. KOLLOCK
Attorney for Plaintiff.

STATE OF WASHINGTON)
) ss.
COUNTY OF PACIFIC)

I, S. C. LOCHRIE, being first duly sworn, depose and say that I am the president of The First National Bank of Ilwaco, plaintiff in the above entitled suit; and that the foregoing complaint is true as I verily believe.

S. C. Lochrie

Subscribed and sworn to before me this 20th day of September 1928.

NORMAN A. HOWERTON
Notary Public for the state of Washington
My commission expires 2/27/31

STATE OF OREGON)
) ss.
COUNTY OF MULTNOMAH)

I, the undersigned, attorney for plaintiff do hereby certify that I have prepared the foregoing copy of complaint and have carefully compared the same with the original thereof; that it is a correct transcript therefrom and of the whole thereof.

Portland, Oregon, dated the 25th day of September 1928.

JOHN K. KOLLOCK

FEDERAL RESERVE BOARD

WASHINGTON

X-6159

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 12, 1928.

SUBJECT: Topic for Agents' Conference -
Classification of Member Banks
by Electoral Groups.

Dear Sir:

Section 4 of the Federal Reserve Act as originally passed provided that member banks in each Federal reserve district were to be classified into 3 groups or divisions for the purpose of electing directors, and that each group should contain as nearly as may be one-third of the aggregate number of member banks in the district and should consist of banks of similar capitalization. The September 26, 1918, amendment to the Act modified this provision by eliminating the requirement that one-third of the aggregate number of member banks in the district be included in each group. Following the adoption of the amendment and after obtaining suggestions from each Federal reserve bank, the Board on October 3, 1918, (letter X-1240) adopted a new classification of member banks into electoral groups for each Federal reserve district.

It now appears that owing to changes in membership and growth in capital accounts, the classification approved by the Board in 1918 does not work satisfactorily in some of the districts. Before authorizing any changes in the classification of member banks in these districts, the Board would like to have the present classification reviewed by all Federal reserve agents, and accordingly, has placed the subject on the program for discussion at the forthcoming agents' conference. In reviewing this question the Board would like to have you give consideration to the advisability of adopting the rule that whenever member banks are reclassified for electoral purposes group 2 shall contain approximately one-third of the total number of member banks and that groups 1 and 3 be determined with reference to both number of banks and aggregate amount of capital and surplus.

It will be appreciated if you will furnish the Board in advance of the forthcoming conference with a statement of the number of member banks in your district grouped according to capital and surplus, together with cumulative figures of both capital and surplus and number of banks. To facilitate its use, it will be appreciated if the information is set up in the following form:

NUMBER AND CAPITAL AND SURPLUS OF MEMBER BANKS IN_____ FEDERAL RESERVE DISTRICT, GROUPED ACCORDING TO CAPITAL AND SURPLUS

(Based on June 30, 1928 condition reports)

Capital and surplus	Number of banks with capital and surplus shown	Cumulative figures	
		Capital and surplus	Number of banks
$25,000	3	$75,000	3
26,000	2	127,000	5
27,000	2	181,000	7

The Board will welcome any suggestions your directors may have to make regarding the classification of member banks by electoral groups, and if practicable, would like to have you bring their suggestions to its attention at the time you furnish the figures above requested.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL CHAIRMEN.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6160

October 16, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, September, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6160-a and X-6160-b, covering in detail operations of the main line, Leased Wire System, during the month of September, 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,

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 SEPTEMBER, 1928

X-6160-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	27,982	844	28,826	3.19
New York	143,755	-	143,755	15.89
Philadelphia	33,352	866	34,218	3.78
Cleveland	83,072	2,249	85,321	9.43
Richmond	53,550	2,095	55,645	6.15
Atlanta	61,192	6,767	67,959	7.51
Chicago	102,608	2,439	105,047	11.61
St. Louis	76,395	508	76,903	8.50
Minneapolis	30,496	2,514	33,010	3.65
Kansas City	78,570	2,788	81,358	8.99
Dallas	74,447	8,463	82,910	9.16
San Francisco	107,337	2,514	109,851	12.14
Total	872,756	32,047	904,803	100.00

F. R. Board business . . . . . 229,882 — 1,134,685

Treasury Department business - Incoming and Outgoing 305,852

Total words transmitted over main lines 1,440,537

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-6160-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, SEPTEMBER, 1928.

X-6160-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	$ 2.00	$ -	$ 262.00	$ 576.81	$ 262.00	$ 314.81
New York	987.46	2.00	-	989.46	2,873.22	989.46	1,883.76
Philadelphia	225.00	- -	-	225.00	683.50	225.00	458.50
Cleveland	296.66	-	-	296.66	1,705.13	296.66	1,408.47
Richmond	225.00	-	230.00(&)	455.00	1,112.04	455.00	657.04
Atlanta	270.00	-	-	270.00	1,357.95	270.00	1,087.95
Chicago	3,967.17 (#)	5.00	-	3,972.17	2,099.31	3,972.17	1,872.86 (*)
St. Louis	205.00	-	-	205.00	1,536.96	205.00	1,331.96
Minneapolis	186.53	-	-	186.53	659.99	186.53	473.46
Kansas City	275.64	-	-	275.64	1,625.56	275.64	1,349.92
Dallas	251.00	.75	-	251.75	1,656.30	251.75	1,404.55
San Francisco	370.00	-	-	370.00	2,195.14	370.00	1,825.14
Federal Reserve Board	-	-	15,196.64	15,196.64	-	-	-
Total	$7,519.46	$ 9.75	$ 15,426.64	$22,955.85	$18,081.91	$7,759.21	$12,195.56
				4,873.94(a)			1,872.86(b)
				$18,081.91			$10,322.70

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $4,873.94 from Treasury Department covering business for the month of September, 1928.
(b) Amount reimbursable to Chicago.

X-6161

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

STATEMENT FOR THE PRESS

For immediate release. October 16, 1928.

In the absence of Governor Young, who is in Texas, Mr. Edmund Platt, Vice Governor of the Federal Reserve Board, gave out the following:

"The report of the death of Governor Benjamin Strong of the Federal Reserve Bank of New York was a surprise and a severe shock to the members of the Federal Reserve Board. He was the outstahding personality of the Federal Reserve System, a man of great force of character, of highest ideals, unsparing of himself in his devotion to duty. For several years he has been handicapped by recurring illness, but could rarely be persuaded to escape completely, even for a season, from the responsibilities of his position, and he was rarely so far away that he could not be reached for consultation. He played a large part in the original working out of the organization and functioning of the Federal Reserve Banks and was the leader in all conferences of the Federal Reserve Banks with the Federal Reserve Board so long as his health permitted. His advice and cooperation were eagerly sought by the Central bankers of Europe on the recent reconstruction of monetary systems from the demoralization caused by war.

The members of the Federal Reserve Board are profoundly grieved at his loss."

FEDERAL RESERVE BOARD

X-6162

WASHINGTON

October 17, 1928.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Holidays during November, 1928.

Dear Sir:

On Thursday, November 1st, the New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed in observance of All Saints' Day and the Havana Agency on account of Election Day. Please include credits for New Orleans Branch for November 1st in the Gold Fund clearing of November 2nd.

On Tuesday, November 6th, General Election Day, there will be neither Gold Settlement Fund nor Federal Reserve note clearing, and the books of the Board's Gold Settlement Fund will be closed. For your information, the offices of the Federal Reserve Board and the following banks and branches will be open for business on that day:

Boston

Cleveland)
Cincinnati) until 1 p.m. Eastern Standard time

Atlanta
New Orleans
Birmingham

Little Rock
Louisville

Omaha

Salt Lake City

On Monday, November 12th, in observance of Armistice Day which falls on Sunday, and on Thursday, November 29th, Thanksgiving Day, there will be neither Gold Settlement Fund nor Federal Reserve note clearing, and the books of the Board's Gold Settlement Fund will be closed. For your information, the offices of the Federal Reserve Board and the following banks and branches will be open for business on Monday, November 12th:

New York
Buffalo

Cleveland
Cincinnati

Detroit

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-6165

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, October 29, 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 September and October, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Volume of production and distribution of commodities increased seasonally in September and was larger than a year ago. There was a further advance in the general price level. Loans of member banks in leading cities increased in September and October in response to the seasonal demand for commercial credit.

Production--Industrial production increased further in September, and the output of manufactures was in larger volume than in any previous month. Factory employment and payrolls also increased. Production of iron and steel and of automobiles was unusually large during September and October, although there has recently been some curtailment of operations in these industries. There were also increases in September in the activity of the textile, meat-packing, and tire industries, and in the output of coal, petroleum, and copper, while lumber production showed a decline.

Building contracts awarded, after declining in volume for three months, increased considerably in September and exceeded all previous records for that month. The increase was due chiefly to certain large contracts for industrial plants and subway construction. During the first three weeks of October awards exceeded those for the same period last year, the excess being especially large in the eastern districts.

Department of Agriculture estimates of this year's crop yields indicate that the production of all crops in the aggregate will exceed last year's output by about 5 per cent. The corn crop is estimated at 2,903,000,000 bushels, or 5 per cent above last year's production. The October 8 estimate indicated a cotton crop of 13,993,000 bales, or 446,000 bales less than was forecast on September 8, compared with a yield of 12,955,000 in 1927.

Trade--Department store sales increased considerably in September and were larger than a year ago, reflecting in part the influence of cooler weather. Inventories of department stores at the end of the month were smaller than on the same date of last year. Wholesale distribution in all leading lines except meats was somewhat smaller than in September 1927. Freight-car loadings showed more than a seasonal increase in September and continued large in October. Shipments of miscellaneous commodities in recent weeks have continued in larger volume than in previous years.

Prices--Wholesale commodity prices increased further in September and the Bureau of Labor Statistics index advanced to 100.1 per cent of the 1926 average. Increases, which were largest in farm products and foods, occurred in nearly all groups except hides and leather and textiles, which showed slight declines. Since the latter part of September there have been decreases in the prices of livestock and meats, grains, wool, and hides, and increases in cotton, silk, rubber, and iron and steel.

Bank Credit--Demand for bank credit for commercial purposes increased between the middle of September and the middle of October reflecting seasonal activity in trade and the marketing of crops. There was also a growth in loans to brokers and dealers in securities, though total loans on securities of reporting member banks showed little change.

During the four weeks ending on October 24, a growth of about $40,000,000 in the total volume of reserve bank credit in use was due chiefly to continued increase in the demand for currency, offset in part by a small inflow of gold from abroad. Reserve bank holdings of acceptances increased by about $140,000,000 during the period, while the volume of discounts for member banks declined by about $100,000,000. United States security holdings remained practically unchanged.

Open market rates on commercial paper and on bank acceptances remained unchanged between the middle of September and the latter part of October, while rates on security loans declined in October.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6166

October 27, 1928.

SUBJECT: Holidays during November, 1928.

Dear Sir:

Referring to the Board's letter X-6162, subject, "Holidays during November", the Board is now advised that the Denver Branch of the Federal Reserve Bank of Kansas City will be open for business on Monday, November 12th.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6167

October 29, 1928.

SUBJECT: Expenses of Special Counsel in the Neoga National Bank case.

Dear Sir:

There is enclosed herewith a statement in the amount of $10,065.09 received from Honorable Newton D. Baker covering professional services and expenses in connection with the suit brought by the depositors of the Neoga National Bank of Neoga, Illinois, against the directors and receiver of that bank and against the Federal Reserve Bank of Chicago, in which the United States District Court for the Eastern District of Illinois sustained the motion of the Federal Reserve Bank of Chicago that it be dismissed from the suit. This statement has been approved by the Federal Reserve Board and the Federal Reserve Bank of Chicago and payment has been made by the Chicago Bank to Mr. Baker.

Inasmuch as Mr. Baker's services in the case were authorized by the Board as a system matter it is requested that each Federal Reserve Bank remit to the Federal Reserve Bank of Chicago its proportionate share of the expenses (based on capital and surplus as of September 26, 1928), as follows:

Boston	$ 742.36
New York	2,983.45
Philadelphia	958.28
Cleveland	1,018.02
Richmond	489.42
Atlanta	404.64
Chicago	1,358.35
St. Louis	419.56
Minneapolis	267.05
Kansas City	351.78
Dallas	340.94
San Francisco	731.24
Total	$10,065.09

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

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

X-6167-a

BAKER, HOSTETLER & SIDLO
Counsellors at Law,
Union Trust Building,
Cleveland.

Federal Reserve Bank of Chicago
Chicago, Illinois.

October 17, 1928.

To professional services in re preparation for trial of the case of J. F. Jarvis et al v. Otto Kepp, et al. (Neoga National Bank v. Federal Reserve Bank of Chicago) $10,000.00

Disbursements

1928			
June 19	Telegram to Mr. Baker at Hanover, New Hampshire	$1.09	
	Expenses (Mr. Baker) trip to St. Louis	64.00	65.09
			$10,065.09

X-6169

COPY

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

FRANK G. RAICHLE,

Plaintiff,

-against-

FEDERAL RESERVE BANK OF NEW YORK

Defendant.

E 46 - 113

Appearances

Frank G. Raichle, Attorney for Plaintiff,
(Carlos C. Alden, of Counsel);

Walter S. Logan, Counsel for Defendant,
(Newton D. Baker, of Counsel).

Winslow, D. J.

At this late day, the power of the Congress to establish a banking system will hardly be questioned. The necessary limitation or restraints and subjection of individual opinion to official discretion incidental to the establishment and present operation of the national banking system do not, in my judgment, run counter to the provisions of the Fifth Amendment.

A careful study of the bill of Complaint leads me to the inevitable conclusion that it does not state facts sufficient to constitute a cause of action. The bill will be dismissed.

New York, November 2, 1928.

Francis S. Winslow,
U. S. District Judge.

X-6170

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Cost of preparing Federal Reserve Notes during October, 1928.

Oct. 31, 1928. Federal Reserve Notes, series 1914.

35,000 sheets $10, New York, @ $35.50 per M, $1,242.50

Credit appropriations, 1929, as follows:

Comp. of employees,	Bur.	Eng. &	Prtg.	$670.25
Plate printing,	"	"	"	283.50
Mtls. & Miscel. Exp.	"	"	"	288.75

Bureau of Engraving and Printing,

Per C. R. Long
Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6171

November 7, 1928.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

Upon agreement between the Federal reserve banks involved, the Board has approved the following changes in the inter-district time schedule:

From	Cincinnati	to	Detroit	From	2 days	to	1 day
"	Cleveland	"	St. Louis	"	2 "	"	1 "
"	Cleveland	"	Louisville	"	2 "	"	1 "
"	Cleveland	"	Oklahoma City	"	3 "	"	2 days
"	Cincinnati	"	Oklahoma City	"	3 "	"	2 "
"	Pittsburgh	"	Oklahoma City	"	3 "	"	2 "
"	Cleveland	"	Dallas	"	3 "	"	2 "
"	Cincinnati	"	Dallas	"	3 "	"	2 "
"	Pittsburgh	"	Dallas	"	3 "	"	2 "
"	Cleveland	"	El Paso	"	4 "	"	3 "
"	Pittsburgh	"	El Paso	"	4 "	"	3 "
"	Cleveland	"	Los Angeles	"	5 "	"	4 "
"	Cleveland	"	Portland	"	5 "	"	4 "
"	Cleveland	"	San Francisco	"	5 "	"	4 "
"	Cleveland	"	Seattle	"	5 "	"	4 "
"	Cincinnati	"	Los Angeles	"	5 "	"	4 "
"	Cincinnati	"	San Francisco	"	5 "	"	4 "
"	Cincinnati	"	Seattle	"	5 "	"	4 "
"	Pittsburgh	"	Los Angeles	"	5 "	"	4 "
"	Pittsburgh	"	Portland	"	5 "	"	4 "
"	Pittsburgh	"	San Francisco	"	5 "	"	4 "
"	Pittsburgh	"	Seattle	"	5 "	"	4 "

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

FEDERAL RESERVE BOARD

X-6172

November 3, 1928

To Federal Reserve Board

From Governor Young

In view of the recent developments in reference to the granting of fiduciary powers, wherein the Board may be in the embarrassing position of having granted fiduciary powers to one institution in one district and almost simultaneously considering the refusal of the application of another national bank in another district surrounded by the same circumstances and conditions, I believe it is time for the Board to review the whole matter and lay down certain definite principles regarding the granting of fiduciary powers.

Briefly, the law states that national banks may exercise trust powers if not in contravention of State law, when so authorized and empowered by the Federal Reserve Board. The law is specific about many legal requirements, and with these the Board and the banks have had no difficulty because we have been able to be specific. The law also states, however, that the Board, in granting permission to exercise trust powers, may take into consideration the amount of capital and surplus of the applying bank, the needs of the community to be served, and any other facts and circumstances that seem to it proper. This is the discretionary part of the law. Just what is meant by it may be debated. The history of the legislation, however, leads me to believe that Congress intended to give to national banks, rights equal to those enjoyed by State banks. When the law specifically mentioned capital it obviously placed discretion with the Board as to whether or not a national bank with a capital of $100,000, located in a community of two hundred thousand or more inhabitants, should be granted fiduciary powers. Also, it obviously left discretion with the Federal Reserve Board as to whether or not a national bank with a capital of $25,000 in any community is entitled to fiduciary powers.

Past majority performance of the Federal Reserve Board has demonstrated conclusively to me that capital has been given little if any consideration by the Board and I believe it acted wisely, because if we assume that capital requirements of national banks are sufficient under existing law to meet the needs of the business of the bank and of the community, and recognize the fact demonstrated by information in our possession that in the great majority of cases national banks voluntarily increase their capital as their business expands, we must arrive at the conclusion that the capital requirements as established by the National Bank Act are sufficient for the exercise of fiduciary powers, and if they become insufficient the national banks voluntarily will increase their capital with the growth of their business.

The law is also specific in stating that the Board shall take into consideration the needs of the community to be served. Outside of a few isolated and crossroad communities in the United States, the need, in my opinion, exists in every community; in fact, the right to exercise fiduciary powers is one of the most valuable assets that can be acquired by any banking institution if it expects to continue in business. The national banks of America have not been thoroughly awakened to the possibilities of future profits from this business. Sooner or later they will discover it, and I am going to venture the prediction that within the next ten years fiduciary functions will be a house-to-house canvass with the strongest

competition between all banks that are permitted to exercise trust functions. In other words, not at the moment but in the years to come, trust business is going to be a source of profit for banks which, in periods of depression will contribute very materially toward their successful existence as well as being a safeguard to depositors and a possible factor for the continuation of our independent unit banking system which is rapidly slipping.

The law also states that the Board can take into consideration any other facts and circumstances that seem to it proper. When I was in Minneapolis my interpretation of this part of the law was that if a bank was properly conducted or if it got into difficulties and because of the resourcefulness of its management was able to put itself in good condition, it was entitled to everything Congress intended to give it. That was about all the consideration I did give to the application because I assumed that Congress intended that national banks should be granted fiduciary powers under such conditions.

I have since learned that some people associated with the Federal Reserve System feel that the exercise of trust powers is of far more importance than the exercise of the ordinary banking powers. In one way there is strength in their argument, but from a practical standpoint, experience has taught me that when a bank is performing both banking and trust functions, the combined institution will fail quicker because of its banking mistakes than it will because of mistakes in its trust functions. This is because there are no limits as to how a bank can lend its money except the amount it may lend upon real estate security or the amount it may lend to any one person, firm or corporation, while the investment of trust funds, in the great majority of cases, is safeguarded by wills, deeds of trust, State laws, court orders, etc. If fraud, embezzlement, or other criminal acts are to be taken into consideration, it seems to me that with the surveillance exercised over national banks, the opportunities for culpable acts are greater in the banking department than they are in the trust department.

In the case of new banks applying for fiduciary powers so that they can open their doors under the title of, "_____ Bank and Trust Company", I believe any bank that is entitled to banking powers is also entitled to trust powers. Others feel that in the majority of cases the organizers of new banks should demonstrate their ability to successfully conduct a banking business before fiduciary powers are granted. I take the position that if an organizing bank requests fiduciary powers at the start, if there is anything in the picture that would prompt the Board to refuse such powers, the reasons for the refusal should apply just as strongly to the application for banking powers.

I have therefore arrived at the conclusion that it should be the policy of the Board to grant fiduciary powers in every case where its appointed agent has recommended the granting of banking powers and where the Board is satisfied that the applying institution is entitled to banking powers. With existing banks I believe powers should be granted in all cases upon application where the report of examination discloses a well-managed institution and the information received from other sources leads the Board to believe that there is no question of the applicant's honesty and integrity.

November 5, 1928.

To Governor Young

From Mr. Wyatt- General Counsel

SUBJECT: Granting of trust powers to new national banks.

You have asked me to give you a memorandum of my views with regard to the Board's general policy of waiting a year after the organization of a new national bank before granting trust powers to it.

In my opinion, this policy is contrary to the policy of Congress in granting trust powers to national banks.

The purpose of Congress in granting trust powers to national banks was to preserve the existence of the National Banking System by enabling national banks to meet the competition of State banks and trust companies which had the advantage of being able to combine the exercise of trust powers with the exercise of ordinary commercial banking powers. Whether this was sound in theory or not is immaterial. Congress was confronted with a situation and adopted this means of meeting it. National banks were converting into State banks in order to engage in the trust business and persons organizing new banks were taking State charters instead of national charters in order to be able to combine the exercise of trust powers with the commercial banking business.

In order to meet this situation, Congress authorized the Federal Reserve Board to grant trust powers to national banks under certain conditions. The conditions prescribed were intended principally to enable national banks to exercise trust powers <u>on a basis of substantial equality</u> with competing corporations exercising such powers.

This purpose is defeated to a certain extent by the Board's policy of requiring newly organized national banks to wait a year after their organization before obtaining trust powers. Under the Board's present policy, persons desiring to organize a new institution to exercise both banking and trust functions can obtain a State charter and immediately embark upon the exercise of both functions; but if they take a national charter they must wait a year before they can exercise their trust functions. The natural result of this policy is to cause such persons to select a State charter instead of a national charter; and this defeats the purpose which Congress had in mind when it granted trust powers to national banks. It encourages the organization of State banks and trust companies in lieu of national banks.

This memorandum was prepared very hastily, because you asked me this morning to let you have it in time for today's Board meeting; but it contains a concise expression of my views on this matter.

Respectfully,

Walter Wyatt,
General Counsel.

COPY

X-6173

FEDERAL RESERVE
BOARD

DATE October 12, 1928

TO Federal Reserve Board

SUBJECT: Examination of State Member Banks

FROM Governor Young

I believe the resolution adopted by the Board last Wednesday morning is an excellent statement of the responsibilities of the Federal Reserve Board with reference to State member bank examinations, and it seems to me that it is now the duty of the Board to consider the mechanics by which it will discharge its responsibility. Obviously, it was not the intention of Congress that the detailed work was to be actually done by members of the Federal Reserve Board, but that they could employ assistants or delegate appointees to see that the responsibilities are administered properly. Therefore, the problem from now on is one of mechanical administration, and in an effort to avoid duplications, triplications and unnecessary expense of operation which now exist, I make the following proposals:

1. That the present set-up of the Federal Reserve Board, known as the Department of State Bank Examination, be abolished.

2. That the Federal reserve agents be acquainted by letter with the responsibilities of the Federal Reserve Board as the Board sees them, and that the agents be charged with the duty of seeing to it that the Board's views are carried out.

3. As protection to the Board that the agents function properly, I propose that this responsibility be placed under the Chief Examiner, who now does a good deal of this work, and that a qualified man travel with the examining force and spend sufficient time in the agents' departments of the reserve banks visited to investigate the agents' bank examination departments to see that the instructions of the Board are being carried out.

4. That the Federal reserve agents be instructed to discontinue their present practice of furnishing the Board with reports of examination of State member banks, except in extreme cases where the agents may wish to ask for advice or request the Board to cancel membership. In lieu of the complete report of examination, I suggest that the agents furnish the Board with a modified analysis of the bank's condition, a written statement as to its general condition, a list of violations of the law, and other violations affecting the terms of membership of the bank. This report should also be accompanied, if necessary, by a letter from the agent stating the corrective measures that have been taken by State authorities or by the Federal reserve agent himself.

5. That a letter of instruction be given to Mr. Herson as to what the Board wants him to watch particularly, and at any time he has a case where he feels everything is not being done that could be done by the agent, or where he feels the State member bank is in such a condition that its membership is not desirable, he should bring such situation to the attention of either the Governor or the Vice Governor for determination as to whether or not the matter should go before the Federal Reserve Board.

In order to carry this program out, I propose that the attached letter be sent to the Federal reserve agents.

October 12, 1928

Dear Sir:

The Federal Reserve Act requires that the cost of examinations of member banks made by the Federal reserve banks or the Federal Reserve Board through the Federal reserve agents, be assessed against the member bank examined. The Board has already recommended to Congress that the law be amended in such a way as to make the charges for member bank examinations discretionary with the Board. It will again present the amendment at the opening of Congress in December.

Upon several occasions in the past the Board has attempted, by circular letter, to define a credit investigation, but after several years experience it has arrived at the conclusion that a far too liberal interpretation has been placed upon credit investigations by the agents; in fact, those we have in our possession bear such a close resemblance to an examination that we are unable to distinguish the difference, except by the label. This procedure has developed an expense of approximately $630,000 a year with reimbursement for assessments against member banks of approximately $24,000.

The Board has had this matter under review for some time and on October 10 passed the following resolutions which deal with the responsibility of the Federal Reserve Board in reference to member banks as it interprets the law:

"BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks;

"BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to National banks;

"BE IT FURTHER RESOLVED, That whenever the reports of examination of State member banks furnished by the State authorities are not deemed satisfactory either to the Federal reserve bank of the district concerned or to the Federal Reserve Board, the Federal reserve bank or the Board shall cause to be made at least one examination or investigation each year of such character as to furnish satisfactory information, the cost of such examinations to be assessed against the member banks examined."

In order to avoid duplications, triplications, unnecessary expense of operation, which now exist, the Board has instructed me to advise you that the Department of State Bank Examination, now in operation in the Board's quarters in Washington, will be abolished and that you are charged with the duty of seeing to it that the Board's views, as covered in the above resolutions, are carried out in your district. This does not mean that the Board is attempting to relieve itself of all responsibility, and you are advised that through its examining force it will check carefully your bank examination department.

The following instructions will serve as a guide to you in performing your duties:

1. The Comptroller of the Currency is a member of the Federal Reserve Board and under the law is charged with the responsibility of enforcing the terms of the National Bank Act and also of the Federal Reserve Act. The Board therefore relies upon the Comptroller of the Currency to perform his duties and it will not be necessary for the Federal reserve agents to duplicate the work.

2. In our opinion, State reports of examination can be relied upon in the great majority of cases to furnish the necessary information to the agents.

3. If a State examination is unsatisfactory, a credit investigation will not be sufficient information for the agents to act intelligently upon and a complete examination should be made for which the member bank should be charged. This does not prohibit investigations of member banks by Federal reserve banks or Federal reserve agents without cost, because the Board realizes that unusual situations require unusual action. Therefore, the Board will act promptly by approving or disapproving the request of any Federal reserve bank or any Federal reserve agent for permission to make an investigation without cost. The Federal reserve banks, however, and the Federal reserve agents, in making such request for investigation without cost must bear in mind that if the investigation contemplates anything covered by the following language, which appears in Section 21 of the Federal Reserve Act, the Board cannot waive the cost: "The expense of such examinations shall be borne by the bank examined. Such examination 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."

4. If Federal reserve agents have evidence in the form of letters or otherwise, that officers and directors of State member banks have had their attention called to violations of the law and unsound banking practices by State authorities, it is not necessary for agents to duplicate this work.

5. If this supervision is not conducted by State authorities Federal reserve agents are directed to take such action, as in their opinion, will discharge the responsibilities of the Board.

6. When a State member bank fails to show any disposition whatever to correct these irregularities within a reasonable time so as to show improvement in its condition, the Federal reserve agent will be expected to lay the information before the directors of his bank and ask them to make a formal recommendation to the Federal Reserve Board, with reasons, as to whether or not the State member bank should continue as a member.

7. Federal reserve agents are instructed to discontinue their present practice of furnishing the Federal Reserve Board with reports of examination of State member banks, except in extreme cases where they

may wish to ask for advice or request the Board to cancel membership. In lieu of these reports, agents will furnish the Board with an analysis of each report received or made by them (form of analysis enclosed).

The Federal reserve agents are advised that the Board thoroughly realizes that it is utterly impossible to lay down uniform, detailed procedure in each and every district because of the local conditions which exist in the 48 states. It does believe, however, that certain fundamental policies can be laid down and asks your cooperation toward that end.

Yours very truly,

R. A. Young,
Governor.

TO ALL FEDERAL RESERVE AGENTS.

X-6175

SUGGESTED REVISION OF OPEN MARKET INVESTMENT PROCEDURE.

(1) That the Open Market Investment Committee, as at present constituted, be discontinued.

(2) That a Committee to be known as The Open Market Policy Conference be set up with a representative from each of the twelve Federal reserve banks, the representative to be designated by the Board of Directors of the bank.

(3) The Open Market Policy Conference to be under the chairmanship of the Governor of the Federal Reserve Board and to meet with the Federal Reserve Board at such times as may be arranged by or with the Federal Reserve Board.

(4) That it shall be the function of The Open Market Policy Conference to consider, prepare and recommend plans with regard to the purchase or sale of securities in the open market for account of the Federal Reserve System and participating Federal reserve banks.

(5) That the time, manner, character and volume of such purchases and sales shall be governed primarily with the view of accommodating commerce and business and with regard to their bearing upon the general credit situation.

(6) That for the purpose of executing such purchases and sales of securities for System account as may be approved by Federal reserve banks and the Federal Reserve Board there shall be constituted a committee to be known as The Open Market Executive Committee.

November 10, 1928.

COPY

X-6176

FEDERAL RESERVE
BOARD

October 27, 1928.

To Federal Reserve Board

SUBJECT: Topic for Advisory Council Meeting.

From Governor Young.

Section 19 of the Federal Reserve Act permits the Federal Reserve Board, upon the affirmative vote of five members, to reduce the reserve requirements of member banks on demand deposits when they are located in the outlying district of a reserve or central reserve city or in the territory added to such city by the extension of its corporate charter. The Board has already granted lower reserve requirements to some of its member banks and in such cases the determining factors have been distance and the character of the deposit business handled. In cases where the applying bank was conducting a country bank business, the Board has felt justified in denying the request, even though the bank was at a sufficient distance from the main financial section to grant the request on distance alone.

Recently several member banks in what could no doubt be properly defined as outlying districts of a reserve city have made application for lower reserve requirements. If the Board treats these banks fairly, which it must do, it will no doubt grant the requests in some cases because of precedents which have already been established and because similar conditions exist elsewhere where lower reserve requirements have been granted.

The directors of the Federal reserve bank in the district in which these applying banks are located recommend to the Federal Reserve Board that the lower reserve requirements be not granted, supporting their recommendation with reasons. If the Board cooperates with the directors of this particular reserve bank, which of course it wants to do, it will obviously be in the ridiculous position of granting a lower reserve requirement for an outlying bank in one district and denying it to a bank in another district similarly situated and with the same character of business.

It would appear, therefore, that the time is opportune to reconsider this whole matter and when conclusions are reached, have those conclusions apply both to future requests and also existing permits. In order to enable the Board to get the best opinions and information available, it would be appreciated if the Council would acquaint us with its views in reference to the following:

1. Should an outlying district be determined by distance alone and if so, what distance?

2. If distance alone is not a determining factor, should the Board give consideration to all of the following factors, or if not all, which ones:

(a) Outlying banks located in business districts which depend for their existence to any extent upon commercial business.

(b) Banks located in outlying districts but in the center of industrial activity and depending upon manufacturers and others to a large extent for their existence.

(c) Outlying banks which solicit and perform a city-wide business by mail, truck, solicitors, or otherwise.

(d) Outlying banks which depend largely upon savings accounts and checking accounts of individuals and small shopkeepers.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6178

November 17, 1928.

SUBJECT: Complimentary Copies of Federal Reserve Bulletin for State Bank Examiners.

Dear Sir:

The Federal Reserve Board, as heretofore, will furnish State bank examiners with a complimentary copy of the Federal Reserve Bulletin, and you are requested to furnish this office, not later than December 15th, with a list of the names of such examiners in your district to whom a complimentary copy should be sent during the year 1929.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6179

November 19, 1928.

SUBJECT: Holidays during December, 1928.

Dear Sir:

The Havana Agency of the Federal Reserve Bank of Atlanta will be closed on Friday, December 7th, Cuban Memorial Day.

On Christmas Day the offices of the Federal Reserve Board and all Federal reserve banks and branches will be closed.

Please advise branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6180

November 19, 1928.

Dear Sir:

Recently an officer of one of the Federal reserve banks expressed the desire to secure for the historic archives of his bank a complete set of impressions from the engraved plates, faces and backs, of all denominations of Federal reserve notes and Federal reserve bank notes of the old size. The matter was taken up with the proper officials of the Treasury Department and the Board advised that the Treasury "will be pleased to accede to the request of any Federal Reserve Bank for the preparation of complete sets of impressions of Federal reserve notes and/or Federal reserve bank notes of the old size, as issued by that bank, provided, of course, the bank bears the cost of preparing the set or sets. This cost is estimated by the Bureau of Engraving and Printing at $60, more or less, for each set of either Federal reserve notes or Federal reserve bank notes, imprints to be made on thin paper and mounted on boards ready for framing, - the framing not being included in the estimate of cost."

If you desire to obtain a set of the impressions for your bank, please so advise Mr. Wm. S. Broughton, Commissioner of the Public Debt, Treasury Department.

Very truly yours,

J. C. Noell,
Assistant Secretary.

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6181

November 21, 1928.

Dear Sir:

In May of this year the third paragraph of Section 13 of the Federal Reserve Act was amended to permit reserve banks to discount and purchase bills of exchange payable at sight or on demand which grow out of the domestic shipment or the exportation of nonperishable, readily marketable agricultural and other staples.

Inquiry has been made as to what extent the member banks have taken advantage of this liberalization of the law. Could you furnish the Board with figures in connection with this matter which could be referred to a member of the United States Senate?

Yours very truly,

R. A. Young,
Governor.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6183

November 23, 1928.

SUBJECT: Expense, Main Line, Leased Wire System,
October, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6183-a and X-6183-b, covering in detail operations of the main line, Leased Wire System, during the month of October, 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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 1928.

X-6183-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	32,582	1,435	34,017	3.27
New York	178,483	-	178,483	17.15
Philadelphia	38,420	1,195	39,615	3.80
Cleveland	95,972	2,701	98,673	9.48
Richmond	61,588	2,396	63,984	6.15
Atlanta	70,500	7,856	78,356	7.53
Chicago	120,308	2,657	122,965	11.81
St. Louis	83,203	2,223	85,426	8.21
Minneapolis	33,634	2,921	36,555	3.51
Kansas City	87,077	2,735	89,812	8.63
Dallas	86,796	11,627	98,423	9.45
San Francisco	111,936	2,678	114,614	11.01
Total	1,000,499	40,424	1,040,923	100.00

F. R. Board business 258,876 1,299,799

Treasury Department business - Incoming and Outgoing 197,872

Total words transmitted over main lines 1,497,671

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6183-b).

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

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, OCTOBER, 1928.

X-6183-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	$ 649.33	$ 260.00	$ 389.33
New York	987.46	1.00	-	988.46	3,405.50	988.46	2,417.04
Philadelphia	225.00	-	-	225.00	754.57	225.00	529.57
Cleveland	296.66	-	-	296.66	1,882.46	296.66	1,585.80
Richmond	190.00	-	230.00 (&)	420.00	1,221.22	420.00	801.22
Atlanta	270.00	-	-	270.00	1,495.25	270.00	1,225.25
Chicago	3,940.69 (#)	1.00	-	3,941.69	2,345.13	3,941.69	1,596.56 (*)
St. Louis	205.00	6.00	-	211.00	1,630.27	211.00	1,419.27
Minneapolis	177.90	-	-	177.90	696.99	177.90	519.09
Kansas City	275.64	-	-	275.64	1,713.67	275.64	1,438.03
Dallas	251.00	-	-	251.00	1,876.50	251.00	1,625.50
San Francisco	370.00	-	-	370.00	2,186.27	370.00	1,816.27
Federal Reserve Board	-	-	15,192.72	15,192.72	-	-	-
Total	$7,449.35	$ 8.00	$15,422.72	$22,880.07	$19,857.16	$7,687.35	$13,766.37
				3,022.91(a)			1,596.56(b)
				$19,857.16			$12,169.81

(&) Main Line rental, Richmond--Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $3,022.91 from Treasury Department covering business for the month of October, 1928.
(b) Amount reimbursable to Chicago.

X-6124

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, November 24, 1928.

Address delivered by

Governor Roy A. Young,

before the

Annual Dinner Meeting

of the

Academy of Political Science,

on

Friday, November 23, 1928,

at the

Hotel Astor, New York City.

- - - - - -

In the eighteenth century Frederick the Great, who knew whereof he spoke, said that there were three things necessary for war: first - money; second - money, and third - money. This statement made more than two hundred years ago is even more completely true at the present time. Changes in methods of doing business, however, have changed the character of money which was then primarily specie, and now consists largely of bank credit. The fundamental importance of money and, therefore, of banks to the prosecution of wars makes banks carry the chief financial burden of the struggles, and central banks which conduct their business primarily with reference to the public interest feel the strain of war even more than do commercial banks. It is the central bank that supplies to the government whatever currency it may need during periods of war inflation, and central bank reserves in times of war are put at the disposal of the nation and, therefore, become one of the stakes whose fate depends on the fortunes of war.

The terrible experiences of the struggles of 1914-1918 have demonstrated that the soundness of monetary conditions cannot withstand the onslaught of war. Central banks at the present time, therefore, are interested in maintaining peace and for that purpose of maintaining international goodwill. As a matter of fact, cooperation between the central banks rather than mutual jealousies, has characterized the post-war period. The United States, for example, has come to the assistance of all the principal central banks when they have undertaken the reconstruction of their currencies, and all the important banks of issue have joined together in supporting the endeavors of smaller countries to reestablish their currencies on a sound basis. When Belgium stabilized her currency there were fourteen or fifteen central banks that lent their support to the undertaking and the same was true at the time

of stabilization in Italy and in Poland. This cooperation between central banks towards a common end has contributed to the establishment of mutual respect and understanding which will be helpful in finding solutions to international financial problems long before they can develop into causes of misunderstanding or friction, to say nothing of war.

In playing its part in the world's monetary reconstruction, the Federal reserve system has been placed in a position that has enabled it to render more valuable assistance to other countries than could at this time be rendered by any other central banking system. As a consequence of the war, the United States has 40 per cent, or more, of the world's monetary gold stock; and also has larger foreign investments than any other country in the world. In these circumstances, the Federal reserve system has realized that cooperation with other countries towards the reestablishment of sound monetary conditions is not merely an act of international comity, but is also essential in the interests of this country itself. Sound money conditions abroad enable American producers to supply the needs of their foreign customers without running the hazards arising from unstable foreign exchanges. They also increase and stabilize the buying power of foreign countries and thus contribute to the ability of these countries to purchase our goods. In these post war days, the United States can no longer remain economically aloof from the affairs of the world. Her foreign trade amounts to close to $10,000,000,000 a year; her foreign investments aggregate no less than $25,000,000,000, and her financial and commercial relations with the outside world have become a much greater factor in national prosperity than they were fifteen or twenty years ago. Sound domestic credit policy, therefore, as well as the desire to be of service in world reconstruction, have caused the Federal reserve system, in formulating

its credit policies, to take into consideration the effect that these policies may have on the reestablishment and maintenance of the international gold standard.

The course of credit developments in the United States since the middle of 1927 illustrates the manner in which foreign conditions may enter into the consideration on which Federal reserve policy is based and it will be of interest to review briefly events during this period. In the summer of 1927 credit conditions in Europe were extremely tight. Of the great countries England, though on the gold standard for over two years, was struggling under the handicap of a serious economic depression; France and Italy had maintained stable the value of their currencies, but had not yet established a definite legal relationship between their monetary units and gold. Autumn was approaching, when foreign countries import the largest volume of American products, and when their exchanges are under the severest pressure for making payments to the United States. It appeared as though it would be impossible for European countries to pass through the period of autumn strain without either losing gold, which they could ill afford, or tightening interest rates, which would further delay the recovery of trade and industry. In the United States trade and industry were showing signs of recession. Commodity prices had been declining for about two years; the temper of the business community was cautious, though the stock exchange was active and the volume of credit it employed was large and growing. After carefully canvassing the situation the Federal reserve system reached the conclusion that its influence should be exerted towards easier money conditions in this country, which would encourage business at home and simultaneously would assist the foreign countries to pass safely through a period which otherwise might endanger the maintenance of the gold standard. Although the system realized that easy money in this country might

be an encouragement to further stock exchange activity, nevertheless it determined that this would be the lesser of two evils and decided to adopt a policy of easing the money market.

In carrying out this plan discount rates at all the twelve Federal reserve banks were reduced from 4 to 3 1/2 per cent in August and September and the system also purchased a moderate amount of Government securities. By thus placing funds at the disposal of member banks the reserve banks enabled them to reduce their indebtedness at the reserve banks and to put themselves in a position of granting loans to their customers at relatively low rates. This policy had a good effect on business in the United States and particularly on the volume of agricultural exports. At the same time, it not only obviated the necessity for foreign countries of shipping gold to the United States, but brought about a reversal in the direction of gold movements, so that gold began to move in large volume out of the United States. Owing to the lower rates of interest in this country a part of the financing, which would normally have been done in England and on the Continent, was done in the United States. Also surplus funds, which always flow to the most profitable market, were moved from the United States to Europe thus further relieving the tension. Sterling exchange advanced sharply and the Bank of England was able to maintain its discount rate without losing gold.

The gold movement, which began at that time and in the aggregate amounted to about $500,000,000, has been an important factor in strengthening the reserve position of European central banks. Italy and France have now legally stabilized their currencies, and financial conditions have been so much strengthened by this autumn that the firm money policy adopted by the reserve system with reference to domestic conditions has caused no embarrassment to foreign countries.

In the autumn of 1927, when the gold movement first began, the Federal reserve system, in pursuance of its policy of easier money, purchased Government securities to offset the effects of gold exports on the money market, but when the period of greatest strain was passed it discontinued this process and since that time exports of gold have been permitted to exert their influence on credit conditions in this country. Speculation on the stock exchange continued, and in view of a rapid expansion of loans on securities with only a moderate demand for credit from trade and industry, the Federal reserve system not only permitted the gold exports to operate as a tightening influence on credit conditions, but also exerted its influence in other ways toward firmer money conditions. Beginning in January the reserve banks sold a large amount of Government securities, and early in the year began gradually to advance discount rates from 3 1/2 per cent to a level of 5 per cent at eight of the reserve banks and 4 1/2 per cent at the remaining four banks.

Because of the loss of gold and of the system's firm money policy, together with a growth in the early part of the year in the volume of bank credit, money conditions became increasingly firm and interest rates in the autumn of this year have been higher than at any time since 1921. These firm conditions in the money market have resulted in discontinuance of the outward gold movement, and in fact, since the middle of the summer there have been gold imports amounting to nearly $50,000,000. The advance in money rates has been felt particularly by dealers in securities, as the call rate has frequently been as high as 8 per cent this autumn. The growth in the volume of bank credit, which had been very rapid in the early part of the year, slowed down in the late spring and after considerable fluctuations was not as high in November as in May. The decline has been in the banks' investments and in loans on securities, which include loans to brokers and dealers. Brokers'

loans by banks, as distinguished from those by corporations and others, are smaller now than in the middle of May. Commercial loans, on the other hand, continue to increase and the demands of business in connection with autumn trade expansion and the marketing of crops were met by the banks without difficulty. It is true that the cost of credit to industry advanced somewhat, but the advance was much less than the rise in the cost of credit to traders in securities, and the advance in money rates appears not to have had any bad effects on business conditions. Inquiries made by the Federal Reserve Board on this point have brought in replies from all Federal Reserve banks to the effect that business conditions have not been unfavorably affected by higher interest rates, and the latest business reports indicate continued and growing prosperity.

This story of reserve bank policy during the past year, which I have given in some detail, brings out the manner in which conditions abroad have been taken into consideration in the system's deliberations about its credit policies, and the way these policies have worked out. It shows that conditions abroad have become an important factor in the domestic and credit situation in the United States and as such receive consideration in the formulation of credit policies. The need of keeping informed on foreign conditions has brought about the necessity of broadening the system's sources of information, and for this reason the system has participated in international conferences of business economists. Last spring it sent delegates to a conference of central bank economists held in Paris, and at this moment it is represented at a conference of business statisticians in Geneva.

The conclusion that I have reached during the year that I have been with the Federal Reserve Board, is that participation in world affairs is a matter of enlightened self-interest for the United States. I feel confident

that a similar attitude towards international cooperation prevails among the authorities of the principal European central banks. The mutual respect and confidence which have developed as a result of joint undertakings by the central banks and the consideration shown by them for each other's problems and difficulties augur well for the maintenance of cordial relations between nations; in other words, peace and world prosperity.

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, November 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 October and November, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industry continued active in October and the distribution of commodities was in large volume. Wholesale commodity prices declined sharply owing chiefly to decreases in the prices of farm products. Member bank credit in use increased in October and November, while reserve bank credit outstanding showed little change. Conditions in the money market were somewhat easier.

Production--Industrial production continued in October at the high level of September and considerably above the level of a year ago. Output of minerals increased over September, while the production of manufactures declined slightly. Factory employment and payrolls increased to the highest level since early in 1927. The production of pig iron was particularly large in October and the first half of November, and the output of steel continued in record volume. Automobile production declined considerably in October after exceptional activity in September, and showed further reduction in November, as is usual at this season. Activity increased in October in meat-packing and in the textile industries, with the exception of silk. Copper mining and smelting continued at a high level, and the output of coal and petroleum increased by more than the usual seasonal amount, while the production of zinc declined. There was also a decline in the output of lumber and building materials.

Building contracts awarded continued to increase in October and were larger than in that month of any previous year, but declined sharply during the first two weeks of November. The increase in October was due principally to large contracts for engineering and industrial projects.

The November cotton crop estimate of the Department of Agriculture was slightly larger than the October estimate and indicated a yield of 14, 133,000 bales, 1,178,000 more than the production of 1927. Ginnings of the current crop prior to November 14 totaled 11,320,302 bales, compared with 10,894,912 in the similar period of a year ago. Indicated yields of wheat, corn, oats, potatoes, and tobacco were larger than the 1927 crops, while estimates of hay, rye, and flaxseed were smaller.

Trade--Department store sales in October were in about the same volume as in the same period in the preceding year, but showed somewhat less than the seasonal increase from the high level of September. Inventories of these stores increased during the month, but continued smaller than a year ago. The volume of distribution at wholesale was larger than in September and showed a substantial gain over October, 1927. Freight car loadings continued larger in October and November than a year ago, reflecting chiefly large loadings of miscellaneous freight.

Prices--Wholesale commodity prices declined in October after a continuous increase for three months, and the Bureau of Labor Statistics index for October, at 97.8 per cent of the 1926 average, was over 2 per cent below that for September. This decline reflected chiefly large decreases in prices of farm and food products and hides and leather. Prices of industrial commodities increased slightly, with small gains recorded in metals, building materials, and chemicals and drugs. The principal increases occurred in prices of iron and steel, copper, and raw silk. During the first three weeks of November prices of cotton, pig iron, copper and petroleum increased, and prices of most farm and food products, except corn, pork,

and sugar, recovered somewhat after the October decline.

Bank Credit--Between October 24 and November 21 there was a considerable increase in loans and investments of member banks in leading cities, but at the end of this period the total was still below the large volume outstanding at the middle of the year. Loans chiefly for commercial purposes remained at a high level during the period and loans on securities showed further growth, reflecting a marked increase in the volume of loans to brokers and dealers in securities. Investments showed further decline.

During the four weeks ending November 21 there was little change in the volume of reserve bank credit in use. Reserve bank holdings of acceptances increased further and discounts for member banks declined.

During the last week of October and the first three weeks of November conditions in the money market were somewhat easier; the rate on four to six months commercial paper declined from a level of 5 1/2 per cent to a range of from 5 1/4 to 5 1/2 per cent, and rates on call and time loans in the open market also declined slightly.

COPY

X-6186

Filed 11/23/28
David S. Lansden, Clerk.

For Publication - Green.

LOUISVILLE & NASHVILLE RAILROAD COMPANY

V. Davidson Equity.

FEDERAL RESERVE BANK OF ATLANTA
(NASHVILLE BRANCH), ET AL.

O P I N I O N

This suit was brought by the Louisville & Nashville Railroad Company against the Federal Reserve Bank of Atlanta (Nashville Branch) and the American National Bank of Nashville to recover the amount of three checks on a Springfield bank deposited by the Railroad Company with the National Bank and cleared by that bank for collection through the Federal Reserve Bank. The Federal Reserve Bank sent these checks directly to the Springfield bank upon which they were drawn for payment. The Springfield bank was closed before any remittance was made on account of said checks and was wound up as an insolvent institution. The basis of the suit is the rule of law announced in Winchester Milling Company v. Bank of Winchester, 120 Tenn. 225, and other cases, that a collecting bank, taking for collection checks payable at a distance, is guilty of negligence in sending such checks direct to the bank upon which they are drawn.

The chancellor, while conceding that the law had been so declared in Tennessee, was of opinion that the collecting banks in this case were absolved by reason of a rule of the Federal Reserve System which authorizes Federal Reserve Banks to forward checks entrusted to them for collection direct to the payer bank. Such rule having been made under authority of an Act of Congress authoriz-

ing the Federal Reserve Bank to prescribe rules for the conduct of its business, the chancellor thought that said rule had force of a Federal statute and superseded the State law. This conclusion has been sharply challenged in this Court and the power of the Federal Reserve Bank to make a rule with such an effect has been ably discussed and many authorities bearing on the question pressed upon our attention.

A careful analysis of the proof offered, the facts of the record, precludes, or at least renders unnecessary an attempt to resolve this controversy. Regardless of any negligence that might be imputed to the collecting banks before us, the case of the Railroad Company must fail.

The American National Bank was a depository of the Louisville & Nashville Railroad Company. Agents of the Railroad Company within a designated territory were required each day to forward the receipts of their offices to the American National Bank for deposit. It was the custom of the agent at Springfield to take his receipts every day to the Peoples Bank at Springfield and exchange them for a cashier's check drawn on said bank. The cashier's check would then be sent to the American Bank to be credited on the Railroad Company's account with that institution.

Three such cashier's checks amounting to $3,995.00 are involved in this suit. They were deposited according to custom with the American National Bank and that bank cleared them through the Nashville Branch of the Federal Reserve Bank of Atlanta. No undue delay is charged against either bank in forwarding the checks to Springfield. There were three other banks in Springfield besides the Peoples Bank, and the contention of the Railroad Company is that the Federal Reserve Bank should have, in the exercise of due care, sent these checks to one of the other banks for presentment.

It was the custom of the Federal Reserve Bank at Nashville to send to each bank in Springfield daily all the checks coming into the hands of the Federal

Reserve Bank drawn on such Springfield Bank.

On July 9, 1924, the Federal Reserve Bank sent a cash letter to the Peoples Bank of Springfield containing checks amounting to $9,696.26 drawn on the latter concern. This letter reached the Springfield bank July 10. It contained two of the checks here involved. On July 10 a similar letter containing checks so drawn amounting to $11,944.24 was sent in the same manner. This letter reached the Springfield bank July 11 and contained the other check here involved. The Springfield bank remained open up to and including July 14. No remittance was made to the Federal Reserve Bank on account of either of the cash letters just mentioned.

The testimony of a former bookkeeper of the Springfield bank is offered on behalf of the Railroad Company in which he points out that the Springfield bank transacted business as usual on July 10, 11, 12, and 14. July 13 was Sunday. He says that so far as he knows all checks presented at the countor of the Springfield bank during these days were duly paid. The argument for the Railroad Company is that the checks drawn in its favor would have been paid had they been sent to another bank for collection and presented. We are not satisfied that this argument is well founded.

In a suit for damages for negligence of a bank in the collection of a check entrusted to it for that purpose, actual damage must be alleged and proven. Such a suit is to be treated as an action in assumpsit, sounding damages, for a breach of the bank's implied contract to use due diligence to collect the check, or as an action on the case for negligence in respect to the duties imposed by law in consequence of such bank having received the check for collection.

Jefferson County Savings Bank v. Hendrix, (Ala.) 1 L. R. A. (N. S.) 246.

Speaking of a like situation, this court said:

"The onus was upon the plaintiff to show negligence of defendant and loss resulting to itself in consequence. Having selected an agent for collecting its

claims, which it seeks to hold liable for non-collection, it must show that the claim was good and collectible. Bruce v. Baxter, 7 Lea, 477; Collier v. Pulliam, 13 Lea, 114-118." Sahlien v. Bank, 90 Tenn., 221, 232.

The same conclusion was reached by the Supreme Court of Alabama upon a careful consideration of authority. Jefferson County Savings Bank v. Hendrix, supra. See other cases in accord collected in Note 1, L. R. A. (N. S.) 246.

Judge Story states the law this way:

"It is a good excuse that the misconduct of the agent has been followed by no loss or damage whatsoever to the principal; for then the rule applies that although it is a wrong, yet is without any damage; and to maintain an action both much concur, for damnum absque injuria and injuria absque damno are, in general, equal objections to any recovery." Story on agency, 236.

In order, therefore, for the Railroad Company to hold these collecting banks for the loss alleged to have resulted from sending the items in question direct to the payer bank, the Railroad Company must show there would have been no such loss had these items been sent for collection to another of the banks in Springfield. Morse on Banks and Banking, (5 Ed.) Sec. 236a; 3 R. C. L., 628; Givan v. Bank of Alexandria, (Tenn.) 52 S. W., 923; 47 L. R. A., 270.

When the cash letter amounting to $9,696.26, containing two of the checks involved, reached the Springfield bank on July 10, there were two similar cash letters of earlier date from the Federal Reserve Bank on the counter of the Springfield bank containing checks on the latter bank awaiting payment aggregating $56,825.74. On this day its books show that the Springfield bank had cash resources, money, cash items and bank balances amounting to $37,271.44. Of this amount, $10,657.11 seems to have been money of the Springfield bank on deposit with other banks "under contract" and therefore not immediately available. So that the total cash resources of the Springfield bank, applicable to the payment of checks, were $26,614.33. So manifestly the Springfield bank could not have

paid the items contained in the cash letter which reached Springfield July 10, no matter how such items were presented, unless said items were given precedence over other items previously presented and entitled to priority of payment.

On July 11 when the cash letter from the Federal Reserve Bank with items amounting to $11,944.24 and containing the other check here involved reached the Springfield bank, the cash resources of the latter bank, exclusive of the $10,657.11 on deposit under contract, amounted to $32,292.41. There still remained unpaid on the counter of the Springfield bank, in addition to the $9,696.26 letter, checks drawn upon it aggregating $33,482.97, which checks had been previously presented and were entitled to be paid before any of the three checks here involved. So that the items contained in the cash letter which reached Springfield on July 11, including the third item here involved, could not have been paid, however presented to the Springfield bank, except as the result of an unlawful preference.

There was no time after the three checks reached Springfield and up to the closing of the Peoples Bank when there were not checks on the counter at that bank, presented before any of the Railroad Company's checks, of an aggregate amount exceeding the cash resources of the payer bank. Checks must be paid in the order in which they are presented. No payee has a right to demand that his check be given priority over a check that came in for payment earlier. Morse on Banks and Banking, Sec. 450, Sec. 354; 7 C. J. 681.

When a bundle of checks is presented through a clearing house, all must be paid, or none. The payer bank is not entitled to select checks for payment, if funds to pay all are insufficient. Morse on Banks and Banking, Sec. 354.

A cashier's check is not an assignment of a fund but only an evidence of indebtedness on the part of the bank. It is not entitled to any priority over checks of the bank's customers. Clark v. Chicago Title & Trust Co., 186 Ill. 440; 53 L. R. A. 232.

No matter, therefore, how the three checks with respect to which suit is brought had been presented to the Peoples Bank, whether they had come directly or through another bank at Springfield, there was not a time while the Peoples Bank remained open that it had sufficient cash resources to pay these checks after paying checks previously presented.

The Railroad Company could not have expected the Federal Reserve Bank to have handled these cashier's checks separately. The utmost contention must be that the Federal Reserve Bank should have sent all the checks accumulated each day on the Peoples Bank to another bank in Springfield for collection. Had this course been followed and had the cash letters from the Federal Reserve Bank, one for $9,696.26 and the other for $11,944.24, reaching Springfield July 10 and July 11, respectively, been sent to another bank in that place, the proof wholly fails to show that any such amount of demands could or would have been paid by the Peoples Bank upon presentation. As above seen, the items in each letter must have been paid in full. Particular items could not have been selected for payment. The collecting bank in Springfield would have been without authority to permit preferences.

There is no showing that those in charge of the Peoples Bank would have attempted to prefer items presented through a local bank to items presented by cash letter from an out of town bank and earlier on the counter. At any rate the Railroad Company had no right to the payment of its cashier's checks until all checks drawn on the Springfield bank and previously presented had been paid. Having no right to preferential payment, there was no correlative duty upon any agent to attempt to procure for the Railroad Company such a preferance. An agent cannot be held because he fails to procure for his principal something to which the latter is not entitled. There is no predicate for actionable negligence unless some legal right is invaded or lost.

In referring to the financial condition of the Peoples Bank on the days

immediately before its failure, we have discussed its resources as though its bank balances were real. As a matter of fact, these balances were fictitious according to the record, the result of kiting operations. Had the Federal Reserve Bank sent its checks on the Peoples Bank to another bank in Springfield, reaching Springfield July 10 and July 11, there was not enough money in the Peoples Bank on either day to have paid such checks. Any payment must have been made by exchange. It is a bare conjecture to say that any apparent balance of the Peoples Bank in another bank would have stood up until a draft issued by the Peoples Bank on July 10 or July 11 could have reached its correspondent.

In this State, when a bank receiving a check for deposit exercises due diligence in the selection of an intermediate bank for the collection of the check, the depository bank discharges its duty to its customer. The intermediate bank so selected becomes the agent of the customer and if the debt be lost by the negligence of this agent so selected, the owner of the paper has a right of action directly against such agent. Bank v. Cummings, 89 Tenn. 609; Givan v. Bank of Alexandria, supra; Winchester Milling Co. v. Bank of Winchester, supra.

Unless, therefore, the choice of the Federal Reserve Bank to make the collection of the checks in question involved negligence on the part of the American National Bank, there seems no basis for a suit on this account against the latter institution. It would be too strong a thing to say that a National bank is guilty of negligence in clearing through a Federal Reserve bank, particularly when the testimony of the officers of the national bank showed that such officers were not advised as to the particular method employed by the Federal Reserve bank in making collections.

For the reasons stated the decree of the chancellor must be affirmed.

Green, C. J.

COPY

X-6190

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Cost of preparing Federal Reserve Notes during November, 1928.

Nov. 1 to 30, 1928, Federal Reserve Notes, Series of 1914.

546,000 sheets, $10, New York, @ $35.50 per M, $19,383.00

Credit appropriations, 1929, as follows:

Comp. of Emp.,	Bur. Eng. & Prtg.	$9,909.90
Plate Printing,	" " "	4,422.60
Mtls. & Miscel.Exp.	" " "	5,050.50

Bureau of Engraving and Printing

Per C. R. Long
Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6191

December 10, 1928.

SUBJECT: Action on Conference Recommendations.

Dear Sir:

There are enclosed herewith, for your information, copies of letters addressed to the Secretary of the Governors' Conference and the Chairman of the Conference of Federal Reserve Agents, with respect to the status before the Board of the various matters considered by either or both of the Conferences.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

COPY X-6191-a

December 6, 1928.

Dear Governor Harrison:

The Federal Reserve Board has given careful consideration to the various topics discussed at the recent conference of Governors of the Federal Reserve Banks, as reported to it in the Secretary's minutes which you forwarded to the Board under date of December 1, 1928. The status here of the various matters, as well as definite actions which have been taken with respect to some of them, are as follows:

Topic I-a- Suggested revision of Open Market Investment Procedure.
The Board still has this matter under advisement and consideration is being given to the recommendation of the Governors, as amended and adopted by the Joint Conference of Governors and Federal Reserve Agents. The matter will be made the subject of a communication to all Federal Reserve Banks at a later date.

Topic I-b - Discount rates and open market policies.
The Board noted that the Conference appointed a Committee to make a study and to report to each Governor as soon as practicable any conclusions or recommendations which the Committee deems necessary with respect to Federal Reserve credit operations, objectives and policies. It is requested that you arrange to have a copy of the Committee's report forwarded to the Board at the time it is submitted to the Governors.

Topic I-c - Loans by Federal Reserve Banks to their member banks.
The Board concurs in the recommendation of the Conference, made after discussion of the several related subjects listed under this general topic, that it would be advisable to require all reporting member banks each week to report in the same manner now required of banks in some of the principal cities, the amount of their call and time loans to brokers and dealers, secured by stocks and bonds. At an early date appropriate instructions will go forward to all Federal Reserve Banks.

Topic I-c-5 - Minimum maturity on member bank collateral notes.
Upon further consideration of the suggestion contained in the Board's letter of September 4, 1928 (X-6124) relative to the establishment of a minimum maturity on member banks' collateral notes, the Board voted not to adopt the suggestion.

Topic I-c-6 - Suggestion that special effort be made to impress upon member banks the desirability of maintaining adequate portfolios of eligible paper and acquainting them with the kinds of paper eligible for rediscount (Board's letter of August 24, 1928 - X-6118).

The Board has voted to adopt the recommendation made by the Conference that it issue a statement in the Federal Reserve bulletin dealing with the above question and an appropriate statement is in the course of preparation and will appear in an early issue of the bulletin.

Topic I-d - Report on relations with foreign banks.

In the minute entry relating to this topic the statement is made that in addition to your review of the various matters relating to operations of foreign banks of issue, you reviewed plans which are now pending for the stabilization of certain currencies abroad. The minutes do not indicate whether or not this report was a written one, and members of the Board have requested that if a written report was not prepared, copy of which can be forwarded to the Board, you furnish the Board with a memorandum setting forth in substance your remarks concerning the various matters, particularly those relating to stabilization plans which are pending at this time.

Topic IV-a - Proposed revision of functional expense report.

The Board noted the concurrence of the Conference in the views set forth in the report submitted by Messrs. Smead and Rounds, and has voted to approve their recommendation that the functional expense report be continued in its present form.

Topic IV-b-1 - Separate financial statements of corporations or firms closely affiliated with the borrower.

The Board noted the view of the Conference that inasmuch as the relative provisions of Regulation A were amended only recently, it would be preferable as a practical matter not to suggest another amendment to the regulation pending further experience.

Topic IV-b-2 - Desirability of amending Sections 7 and 9 of Regulation A so as to except from the prohibition on the discount of paper bearing the signature or endorsement of nonmember banks, bills of exchange payable at sight or on demand of the kind described in Section 7 (Board's letter X-6145 dated September 26, 1928).

In view of the understanding had at the Joint Conference on November 16th, that the situation giving rise to this question can be handled under the regulation as it now stands, it was voted that no amendment to the regulation be made at this time.

Topic IV-b-3 - Right of Federal Reserve Bank to charge items to the reserve account of banks "at any time when in any particular case such Federal Reserve Bank deems it necessary to do so." (Section 5 Regulation J)

The Board has voted to amend Section 5 of Regulation J by eliminating from paragraph 4 thereof the phrase "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." This amendment will not be made effective, however, until after consultation with the various Federal Reserve Banks.

Topic IV-c - Deduction of foreign balances in computing member bank reserves - (Board's letter X-6125 dated September 4, 1928.)

The views of the Conference on this topic were noted and the Board voted that the ruling made by it in 1919, to the effect that balances due from foreign banks may not be deducted from balances due to other banks by a member bank in calculating its reserves, should not be revoked.

Topic IV-d - Suggestion that meetings between the Federal Reserve Board and the directors of the Federal Reserve Banks be held annually in Washington. (Board's letter X-6142 dated September 22, 1928).

The Board concurs in the position of the Conference that no further action is necessary on this question.

Topic IV-e - Report of Leased Wire Committee.

The summary appearing in the Secretary's minutes relating to this report was noted and the Board will request the Chairman of the Committee to furnish it with a copy of the report for its records.

Topic IV-g - Report of Pension Committee.

The action of the Conference in voting to accept this report was noted and the Board requests that it be furnished at this time with a complete copy of the report for its files and, later, with a copy of the new bill which the Committee plans to offer.

Topic IV-h - Report of Subcommittee of General Committee on bankers' acceptances.

The action of the Conference in approving this report and its instructions to the Committee were noted by the Board, which requests that a complete copy of this report also be furnished to it.

Topic III-b - Future policy with respect to Gold certificate circulation.

The Board concurs in the view of the Conference that no change should be made in the present policy under which gold certificate circulation has been maintained at about one billion dollars.

Topic V-b - Collateral for war loan deposits.

The Board noted with approval the recommendation to be made by the Conference to the Secretary of the Treasury that it would be advisable to make only government securities eligible as collateral for war loan deposits.

Canadian Currency.

For the purpose of making a further study and report on this question the Board has appointed a Committee consisting of Managing Director Schneckenburger of the Buffalo Branch, Managing Director Cation of the Detroit Branch, Managing Director Shaw of the Seattle Branch and Deputy Governor Moore of the Federal Reserve Bank of Minneapolis. The Board later will make this matter the subject of special communications to the Governors of those Federal Reserve Banks having representatives on the Committee.

X-6191-a

Governor Harrison....4

Granting of fiduciary powers to national banks (Memo X-6172 dated November 3, 1928.)

The Board noted that the Conference was favorably inclined to the suggestions contained in the memorandum but is not prepared, however, to immediately take definite action with respect thereto. The Board will advise all Federal Reserve Banks in due course of whatever action is taken.

Waiver of six months' notice by state banks voluntarily withdrawing from the Federal Reserve System.

In accordance with the recommendation of the Conference the Board voted to suggest an amendment, at the proper time, which would give it the option of waiving the six months' notice required of state member banks voluntarily withdrawing from the system. If the amendment is passed the reserve banks will be given an opportunity to express to the Board in each individual case their views with respect to the wisdom of a waiver of notice.

The several other matters covered in the Secretary's report do not appear to require any action by the Federal Reserve Board.

Copy of this letter will be forwarded to the Governor of each of the Federal Reserve Banks for his information.

Very truly yours,

R. A. Young,
Governor.

Mr. George L. Harrison, Secretary,
Governors' Conference,
Care Federal Reserve Bank,
New York, N. Y.

COPY X-6191-b

December 8, 1928.

Dear Mr. Martin:

The Federal Reserve Board has considered the various topics discussed at the recent Conference of Federal Reserve Agents, as reported in the Secretary's minutes forwarded to the Board with your letter of November 28, 1928.

The status here or action taken on the several topics considered jointly by the Federal Reserve Agents and the Governors are reported in a letter dated December 6th to the Secretary of the Governors' Conference, copy of which is enclosed herewith. The other matters discussed by the Federal Reserve Agents were dealt with by the Board as follows:

Topic I-a - Suggestion that special effort be made to impress upon member banks the desirability of maintaining adequate portfolios of eligible paper and acquainting them with the kinds of paper eligible for rediscount. (Board's letter X-6118, dated August 24, 1928.)

In addition to the action of the Board reported in the attached letter to the Secretary of the Governors' Conference in approving the suggestion that a statement on this question be published in the Federal Reserve bulletin, the Board will confer with the Comptroller of the Currency, as recommended by the Federal Reserve Agents, with a view to having his examiners cooperate in the matter of acquainting officers of national banks with eligibility requirements.

Topic I-f - Classification of member banks by electoral groups.

The Board noted the view of the Conference that the classification and grouping must be determined by the needs of each individual district. The replies to the Board's letter of October 12, 1928, X-6159, requesting certain information and suggestions are now being compiled and will be ready for submission to the Board shortly after the first of the year. At that time the Board will again communicate with the Chairman regarding this subject.

Topic I-k - Examination of state member banks (Memo. X-6173 dated October 12, 1928.)

The Board has voted to abolish its Department of State Bank Examinations, effective Febraury 1, 1929. In due course a special communication with reference to this action will be addressed to each Federal Reserve Agent.

Topic I-k - Applications for reduction in reserve requirements. (Memo X-6176, dated October 27, 1928)

The Board has noted the recommendation of the Federal Reserve Agents' Conference on this topic but is not prepared to take immediate action relative thereto.

Topic II-c - Report of Bank and Public Relations Committee.

The action of the Conference in accepting this report has been noted by the Board but no action relative to it will be taken at this time.

Topic II-d - Report of Committee on National Summary of Business Conditions.

The recommendation contained in this report and adopted by the Conference that efforts be made to standardize the length of the summary at about 700 words has been noted and the matter has been referred to the Director of the Board's Division of Research and Statistics.

Topic III-e - When such a thing as a run occurs, how should officers of Reserve Banks and Branches answer questions?

The Board has noted with approval the view of the Conference with respect to the position which should be taken by Federal Reserve Banks and Branches in replying to inquiries regarding bank disturbances.

Topic III-g - Unretired stock in Federal Reserve Banks held by banks in process of liquidation.

In its last annual report the Board recommended an amendment to the Act 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, and has now requested its Counsel to prepare a specific form of amendment which will be considered by the Board in due course.

Topic III-n - Auditing Departments.

The Board approved the action of the Conference in voting that a meeting of the General Auditors of the twelve Federal Reserve Banks and a representative of the Federal Reserve Board be called in the near future for the purpose of discussing problems incident to their work. Mr. Smead will represent the Board at this Conference and it is requested that you communicate with him regarding the time at which it should be held.

The other matters reported in the Secretary's minutes do not require action by the Board.

A copy of this letter and enclosure is being forwarded to the Chairman of each Federal Reserve Bank for his information.

Very truly yours,

R. A. Young,
Governor.

Mr. Wm. McC. Martin, Chairman,
Federal Reserve Agents' Conference,
care Federal Reserve Bank,
St. Louis, Missouri.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6192

December 8, 1928.

SUBJECT: Code words to cover issue Treasury Certificates of Indebtedness, Series TS2-1929 and TD-1929.

Dear Sir:

In connection with telegraphic transactions between Federal Reserve Banks in Government securities, the code word NOWHESPER has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TS2-1929, dated December 15, 1928, due September 15, 1929, and the code word NOWHESSIAN covering Series TD-1929, dated December 15, 1928, and due December 15, 1929.

These new words should be inserted on page 165 of the code book.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6193

December 10, 1928.

CONFIDENTIAL.

SUBJECT: Code words for use between Federal Reserve Banks, in connection with certain telegraphic transactions in foreign accounts.

Dear Sir:

Referring to the code words in use between the Federal Reserve Bank of New York and other Federal Reserve Banks in connection with telegraphic transactions in foreign accounts, it has been suggested that in order to simplify the procedure, certain code words and phrases be cancelled and others substituted therefor.

The Board has approved this suggestion, and effective Monday, December 17th, the following code words are cancelled:

F. R. Board's letter of July 16, 1925 (X-4383)

JURISTS	JURYMAN	JUSTIFY
JURYBOX	JUSTICE	

F. R. Board's letter of June 20, 1927 (X-4879)

KISSABLE	KITCHEN	KITTISH
KISSED	KITTENISH	KLICK
KISSING		

F. R. Board's letter of July 28, 1927 (X-4912)

KLICKED

F. R. Board's letter of June 20, 1928 (X-6074)

KNABBLE

In lieu of the code words referred to, the following words have been adopted for use beginning December 17th:

JUMBERRY: In addition to daily accrual our telegram_____ we credit you through settlement today $_____ your share earnings up to and including today. We will credit you tomorrow and daily until further notice $_____ your share of daily accrual.

JUMBERTH: In connection with the participation of the "Investments through Foreign Banks" account, participations have been made in a number of instances subsequent to date on which actual investments were made abroad. Your bank has, however, received earnings from date of investment, making necessary an adjustment on Form 171. In preparing this form for the month of ____ your bank should add $_____ on second line in column three (3). With this adjustment your reported holdings will correspond with your earnings.

JUMBEST: No adjustment necessary "Investments through Foreign Banks" on Form 171 for Month_____.

JUMBID: No purchases "Investments through Foreign Banks" for Form A Month_____. No adjustment necessary on Form 171.

JUMBILE: Please make following entries your books for your share of interest on balance employed (Due from Foreign Banks-Special Interest Account) for week ended (date) _____: Debit "Due from Foreign Banks" and credit "Miscellaneous Income" or other appropriate account $_____.

JUMPSEDGE: Your participation "Contingent liability on Bills Purchased for Foreign Correspondents" $_____. Please make necessary entries to conform.

JUMPSEED: Your participation "Due to Foreign Banks" $_____ "Contingent liability on Bills Purchased for Foreign Correspondents" $_____. Please make necessary changes your books to conform and credit us $___ to adjust "Due to Foreign Banks".

JUMPSELL: Your participation "Due to Foreign Banks" $_____. "Contingent Liability on Bills Purchased for Foreign Correspondents" $_____. Please make necessary changes your books to conform. We credit you $_____ to adjust "Due to Foreign Banks".

JUMPSENSE: Your participation "Due to Foreign Banks" $_____. Credit us $_____ to adjust.

JUMPSERVE: Your participation "Due to Foreign Banks" $_____. We credit you $_____ to adjust.

JUMPSHADE: Your participation "Due from Foreign Banks" $_____. Please make following entries your books to conform: Debit "Due from Foreign Banks" and credit us $_____.

JUMPSHAFT: Your participation "Due from Foreign Banks" $_____. We credit you $_____ to adjust. Please credit that amount to "Due from Foreign Banks".

JUMPSOME: Your participation "Due from Foreign Banks-Special Interest Account" $_____. Please make following entries your books to conform: Debit "Due from Foreign Banks" and credit "Due from Foreign Banks-Special Interest Account".

JUMPWEB: Your participation "Due from Foreign Banks-Special Interest Account" $_____. Please make following entries your books to conform: Debit "Due from Foreign Banks-Special Interest Account" and credit "Due from Foreign Banks" $_____.

JUMPWELD: Your participation "Due from Foreign Banks-Special Interest Account" unchanged.

JUMPWING: Your participation "Investments through Foreign Banks" $_____. Please make following entries your books to conform: Debit: "Investments through Foreign Banks" and credit "Due from Foreign Banks" $_____.

JULPWIRE: Your participation "Investments through Foreign Banks" $_____. Please make following entries your books to conform: Debit "Due from Foreign Banks" and credit "Investments through Foreign Banks" $_____.

JUMPWORT: Your proportion of daily accrual on "Investments through Foreign Banks" beginning (date) _____ is $_____ daily. Until further notice we shall credit you daily through settlement with this amount. Charge us and credit appropriate earning account.

These new words should be inserted in the code book, following page 130.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6194

December 10, 1928.

SUBJECT: Articles for End of the Year Publications.

Dear Sir:

The individual members of the Federal Reserve Board are receiving the customary requests from newspapers and other publications for articles to be included in the end of the year editions. The members are refraining from furnishing such articles, because of existing conditions and the possibility that unfavorable interpretations will be put upon the statements regardless of how carefully they may be prepared.

Advice of the position being taken here is sent you for the information of your directors and for such consideration as they may care to give it in connection with similar requests which may be received at your bank.

Very truly yours,

R. A. Young,
Governor.

TO CHAIRMEN OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6195

December 11, 1928.

SUBJECT: Amendment to Regulation "J".

Dear Sir:

In accordance with the recommendation of the recent Governors' Conference, the Federal Reserve Board has voted to amend paragraph (4) of Section V of Regulation J, to read as follows:

> "(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."

This amendment is effective February 1, 1929.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

COPY X-6197

IN THE DISTRICT COURT OF THE UNITED STATES

FOR THE DISTRICT OF OREGON.

THE FIRST NATIONAL BANK OF ILWACO, Plaintiff,	:	
vs.	:	No. E-8994
THE ASTORIA NATIONAL BANK, W. C. CRAWLEY, Receiver of the Astoria National Bank, and THE FEDERAL RESERVE BANK OF SAN FRANCISCO, CALIFORNIA, Defendants.	:	November 26, 1928.

John K. Kollock for Plaintiff;

Wilbur, Beckett, Howell & Oppenheimer and Albert C. Agnew, for defendants.

McNARY, DISTRICT JUDGE: (Memo.)

It is contended that the Astoria National Bank paid the draft in question by marking it "Paid" and by depositing in the United States mail its written instructions directing the Federal Reserve Bank to pay the draft from its general deposit.

A payment is not complete until the obligation is discharged. In this case it remained for the Federal Reserve Bank to receive the written instructions before it was authorized to separate the amount of the draft from the deposit of the Astoria National Bank, and as this authorization was not received by the officers of the Federal Reserve Bank before the insolvency of the Astoria National Bank, the payment was not completed. The authority giving the Federal Reserve Bank the right to transfer funds from the reserve account of the Astoria National Bank to pay the plaintiff's draft was revoked by the insolvency of the Astoria Bank.

The authorities have recognized a payment as complete where a debtor has transmitted to his creditor a draft or check through the mails by the creditor's express direction, or where the course of dealings between the parties has been such that an agreement could be inferred.

In the case of McDonald, Receiver, v. Chemical National Bank, 174 U. S. 610, 620, the court says: "There was plainly a general agreement that remittances were to be made by mail, and that their proceeds were not to be returned to the Capital National Bank, but were to be credited to its constantly overdrawn account.*** It is sufficient, for present purposes, to say that the inference is warranted that it was understood between the parties that these remittances were to be made through the mails, and that they were in the nature of payments on general account."

In that case the implied understanding grew out of frequent remittances from time to time during a long course of business between the banks concerned. But no understanding of like effect can be inferred in this case.

The demurrer will be sustained.

COPY X-6198

No. 174 Hennepin County Dibell, J

Midland National Bank & Trust Company of Minneapolis,

Respondent

26678 -vs-

First State Bank of Sioux Falls, F. R. Smith, Superintendent of Banks of the State of South Dakota and W. E. Ward, Examiner-in-charge of the First State Bank of Sioux Falls,

Appellants.

Endorsed

Filed November 30th, 1928.

Grace Kaercher Davis, Clerk.

- - - - - - - -

S Y L L A B U S

1. A contract of pledge of collateral securities to secure any indebtedness or obligation owing by defendant bank to the plaintiff bank made and to be performed in Minnesota is a Minnesota contract and is not ultra vires though forbidden by a statute of South Dakota.

2. The plaintiff received checks and drafts from its customers and credited their accounts with the understanding that they should not draw against them until they were paid, and if not paid that the plaintiff bank might charge against the credits given. The plaintiff sent them to the defendant bank for collection. The defendant collected them and sent a draft therefor to the plaintiff drawn upon the plaintiff. It had no funds with the plaintiff, and immediately suspended. The drafts were dishonored. The bank charged against its depositors the uncollected items. Held that it was entitled to foreclose the collateral under the pledge contract and apply on the amounts collected by the defendant and not paid.

Order affirmed.

OPINION

Action by the plaintiff to foreclose collateral deposited with it by the defendant First State Bank of Sioux Falls, South Dakota, as security for obligations which it owed or might owe. There were findings for the plaintiff and defendants appeal from the order denying their motion for a new trial.

The defendant First State Bank is organized under the laws of South Dakota. The defendant Smith is superintendent of banks of that state, and the defendant Ward is the examiner in charge of the defendant bank which became insolvent and suspended on October 27, 1925.

The plaintiff was the correspondent bank in Minneapolis of the First State Bank. It did a considerable amount of business with it, loaned it money, and rediscounted its paper. The First State Bank deposited with it collateral to secure such obligations as existed or might arise. The pledge agreement was dated May 25, 1925, and in part provided as follows:

> "Know all Men By These Presents, That the undersigned (First State Bank of Sioux Falls), in consideration of Financial accomodations given or to be given or continued to the undersigned by the Midland National Bank of Minneapolis, Minnesota, hereby agree with the said Bank that whenever the undersigned shall become or remain directly or contingently indebted to the said Bank for money lent or for money paid for the use or account of the undersigned or for any overdraft or upon any endorsement, draft, guarantee or in any other manner whatsoever or upon any other claim, the said Bank shall then and thereafter have the following rights, in addition to those credited by the circumstances from which such indebtedness may arise, against the undersigned, or his or their executors, administrators or assigns, namely:
>
> "1. All securities deposited by the undersigned with said Bank, as collateral to any such loan or indebtedness of the undersigned to said Bank, shall also be held by said Bank as security for any other liability of the undersigned to said Bank, whether then existing or thereafter contracted; and said bank shall also have a lien upon any balance of the deposit account of the undersigned with said bank existing from time to time, and upon all property of

of the undersigned of every description left with said Bank for safekeeping or otherwise, or coming to the hands of said Bank in any way as security for any liability of the undersigned to said Bank now existing or hereafter contracted."

On October 22, 1925, October 23, 1925, and October 24, 1925, the plaintiff forwarded to the defendant bank for collection and remittance checks and drafts drawn on various banks in Sioux Falls, totaling $19,843.59, which it had received from various customers. All of them were collected by the Sioux Falls Bank except one item of $3. The defendant bank, through its drafts in payment upon the plaintiff and in its favor, covered the amount collected, $19,840.59. The Sioux Falls bank failed on October 27, 1925, before the drafts reached the plaintiff. It had no funds with the plaintiff, payment was refused, and the drafts were dishonored.

Checks were deposited with the plaintiff bank with the understanding that they would be credited to the various accounts of their customers, but that they should not have the right to withdraw them until paid and, if not collected, that the plaintiff might charge them against the depositors. When the drafts on the South Dakota bank were dishonored the plaintiff charged against its customers the amounts of the checks and drafts which they had deposited, except one item of a few hundred dollars which a depositor had been permitted to withdraw.

The plaintiff collected and applied part of the collateral and now asks for a foreclosure and sale of that remaining. It is the contention of the defendants:

(1) That the pledge agreement was ultra vires and void.

(2) That, if not void, the plaintiff, having charged

against
/its various customers the amounts which it had credited them as it had the right by contract to do cannot recover of the defendant bank and therefore cannot foreclose the collateral.

1. The statute of South Dakota, Rev. Code 1919, ¶ 3948, reads:

> "No bank shall give preference to any depositor or creditor by pledging the assets of the bank as collateral security; * * * provided further that any bank may borrow money for temporary purposes, and may pledge as collateral security therefor the assets of such bank in an amount not exceeding fifty per cent in excess of the paidup capital and surplus of said bank."

The contract of pledge was not in a proper sense an ultra vires contract. It was a forbidden one. The statute was enacted in furtherance of what was deemed better banking. It prohibited and made criminal the act against which it was directed. If it were a South Dakota contract it would be invalid there. This is the effect of Smith v. Continental State Bank, 11 Fed. (2 ed.) 907, where Judge Sanborn held that a pledge contract made in South Dakota securing a Minnesota bank whose representative came to South Dakota and made his contract of pledge was invalid. The contract before us was made in Minnesota and was to be performed in Minnesota and is a Minnesota contract. The situation presented is not at all like that before us in Farmers etc. Consolidated School District, 174 Minn. 286. There the bank's assets were pledged to secure deposits.

2. The contention that the plaintiff, having charged back the credits against its customers, cannot apply the collateral in discharge of the obligation arising from the default of the Sioux Falls Bank, is without merit.

Immediately upon the failure of the Sioux Falls bank to pay, the plaintiff had a cause of action against it for the amount which it had collected and did not pay. It had the legal title, so to speak, to the dishonored drafts drawn by the Sioux Falls bank. Whatever right it had arose

upon the failure of the bank to remit what it received and its right was protected by the security of the pledge agreement. There is no reason why the Sioux Falls bank or its creditors should have the $19,000 which came from its collections for the plaintiff when the pledge agreement secured its payment to the plaintiff, and the plaintiff be compelled to seek a remedy by participating in the insolvent estate of the bank. It was right that the collateral held under the pledge agreemtnt should respond to the payment of the moneys collected. The charging off of the credits was a matter between the plaintiff bank and its customers. Neither the South Dakota bank nor its creditors nor those representing them in this action should gain by it. There is being kept from the South Dakota bank only the amount by which its assets were enhanced through the collections made immediately prior to its suspension. We have examined all the cases cited. Brusegaard v. Neland, 72 Minn. 283 and In re State Bank, 56 Minn. 119 are much relied upon. We find in them nothing controlling in favor of the defendants; nor do we in Eifel v. Veigel, 169 Minn. 281. Whatever the rights between the depositors and the plaintiff may be, or would be if the plaintiff had not charged back the credits, the right of the plaintiff to foreclose the collateral and apply on the unpaid collections is clear.

Order affirmed.

Holt, J. did not sit.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6200

December 19, 1928.

SUBJECT: Holidays during January, 1929.

Dear Sir:

On New Year's Day, there will be neither Gold Settlement Fund nor Federal reserve note clearing, and the offices of the Federal Reserve Board will be closed.

In addition to the New Year's holiday, the following Federal reserve banks and branches will observe holidays during the month of January:

Tuesday	January 8	New Orleans	Battle of New Orleans
Saturday	January 19	Richmond Charlotte Atlanta Birmingham Nashville Jacksonville Louisville Memphis	Birthday of Robert E. Lee
Monday	January 28	Havana Agency	Birthday of Jose Marti

Therefore, on the dates indicated, the banks affected will not participate in either the Gold Fund clearing or the Federal reserve note clearing. Please include your credits for the banks affected on each of the holidays with your credits for the following business day in your Gold Fund clearing telegrams, and make no shipment of Federal reserve notes, fit or unfit, for account of the Federal Reserve Banks of Richmond or Atlanta on January 19th.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

COPY X-6201 389

FEDERAL RESERVE
BOARD

DATE Dec. 17, 1928.

TO Law Committee SUBJECT Proposed Amendments to the

FROM Mr. Wyatt - General Counsel. Federal Reserve Act.

It appears from the attached memorandum (which was not received in this office until December 13th) that, on November 15th, the Board voted to request the Law Committee "to report to the Board with respect to the more important amendments on which prompt action by Congress should be requested."

It would seem that before it can report to the Board on this matter it will be necessary for the Law Committee to consider all proposed amendments to the Federal Reserve Act which have been considered by the Board during the past year and decide which ones are sufficiently important to make prompt action by Congress desirable. As a preliminary step, therefore, I shall, in this memorandum, call attention to the various proposed amendments which have been considered during the past year and comment briefly on the status and importance of each one.

Unless the Committee desires to have a formal meeting to consider this subject, I respectfully suggest that each member of the Committee place his initials opposite the bills on which he thinks prompt action should be requested, and that the Committee report to the Federal Reserve Board the amendments on which the majority of the Committee thus indicate their desire for prompt action.

AMENDMENTS RECOMMENDED IN ANNUAL REPORT.

In its Annual Report for the year 1927 (pages 46 to 50, inclusive) the Board recommended the enactment of the following amendments, drafts of which were prepared but not published in the Annual Report:

(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. - The Board stated that this amendment should be enacted as soon as possible.

(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 or Class C director of a Federal reserve bank. - Such an amendment probably would not meet with much opposition and might be enacted at the short session, but it would not seem to be very important or urgent.

(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. - This matter is not of great importance and is usually handled satisfactorily by every Federal reserve bank except Chicago; but it seems to be giving the Federal Reserve Bank of Chicago much annoyance and the enactment of such an amendment "at an opportune time" was recommended by the last Conference of Federal Reserve Agents. In a circular letter dated October 12th (X-6173-a) addressed to all Federal Reserve Agents, which was presented by Governor Young to the Conference of Federal Reserve Agents, it was stated that this proposed amendment will again be presented to Congress "at the opening of Congress in December"; and this state-

ment was "noted with gratification" by the Conference of Federal Reserve Agents. This office knew nothing of it, however, until I discovered it by accident on December 17th.

(4) An amendment making it discretionary with the Federal Reserve Board to assess the costs of examining State member banks against the banks examined. - Such an amendment is believed to be the key to the entire problem of obtaining more adequate examinations of State member banks and, therefore, may well be considered both urgent and important.

(5) An amendment exempting Federal reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding. - Such an amendment is very desirable and further delay in its enactment might result in embarrassment and inconvenience to Federal reserve banks. The present session, however, may not be an opportune time to urge its enactment.

(6) An amendment to the Judicial Code restoring to the United States District Courts jurisdiction of suits by and against Federal reserve banks. - Such an amendment is very much to be desired, and its enactment should be urged upon Congress at the earliest favorable opportunity. I doubt, however, that the present time is a favorable time to urge such an amendment, because of the fact that there is now pending in Congress a bill further to restrict the jurisdiction of the Federal courts and a very bitter fight over that bill has developed.

(7) An amendment to Section 13 of the Federal Reserve Act increasing from fifteen 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 by Federal reserve banks. - Under date of March 23, 1928, Congressman Sumners of Texas introduced a bill, H.R. 12349, which would have extended to 90 days the maximum maturity of member bank promissory notes secured not only by eligible paper but also by the deposit or pledge of bonds or notes of the United States. In response to a letter from Congressman McFadden requesting the Board's views on this bill, the Board on April 24th, stated that it was in sympathy with the general purposes of the bill but would prefer that the increased maturity be limited to promissory notes secured by paper eligible for rediscount or for purchase by Federal reserve banks and that no change be made in the maximum maturity of advances against such promissory notes secured by the deposit or pledge of bonds or notes of the United States. The bill was never reported out by the Banking and Currency Committee, but it would seem to have a good chance of enactment if it should be reported out at this time, because of the fact that it would be especially helpful to country banks and indirectly to the farmers.

AMENDMENTS CONSIDERED BY BOARD LAST JANUARY, BUT NOT RECOMMENDED IN ANNUAL REPORT.

In addition to the above, the Board last January considered the following proposed amendments, but did not recommend their enactment in its Annual Report:

(1) A proposed amendment to the first paragraph of Section 19 of the Federal Reserve Act 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. - Some legislation of this kind is badly needed.

(2) An amendment to Section 19 of the Federal Reserve Act 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. - It has been suggested that such an amendment should be obtained in order to give the country banks the same advantages in this respect as are now enjoyed by the city banks, and there has been considerable agitation for such an amendment.

(3) A complete revision of Section 19, adjusting, clarifying and simplifying the reserve requirements. - Mr. Smead and I have drafted such a bill based upon a careful analysis and study of this subject made by Mr. Smead. The bill so drafted was submitted to all the Federal Reserve Agents for their criticism and comment, and a revised draft has been prepared, which is generally believed to be the best thing along this line yet produced. The Board, however, has never approved it and there is some doubt whether the Board would approve it in its present form.

BILLS RECOMMENDED BY CONFERENCES OF GOVERNORS AND AGENTS.

In addition to some of the above bills, the enactment of some of which was favored by the recent Conferences of Governors and Federal Reserve Agents, the following bills were discussed at those Conferences:

(1) To require the approval of the Federal Reserve Board before charters are granted to new national banks.- Such an amendment was recommended by the Conference of Federal Reserve Agents in 1927, on the ground that all national banks, when chartered, automatically become members of the Federal Reserve System; and the last Conference of Federal Reserve Agents again called attention to this recommendation.

(2) To require the appointment of a liquidating agent by the stockholders of any liquidating national bank and in the event of their failure to do so to empower the Comptroller of the Currency to appoint a liquidating agent and further to require all liquidating agents to report regularly to the Comptroller of the Currency. - Such an amendment was recommended at the recent Conference of Federal Reserve Agents in connection with the recommendation providing for the cancellation of Federal reserve bank stock held by member banks which have ceased to do a banking business without a receiver or liquidating agent having been appointed therefor. A similar amendment was recommended by the Comptroller of the Currency in his last Annual Report, page 4.

(3) An amendment authorizing the Federal Reserve Board to waive six months' notice of the intended withdrawal of a State member bank from the Federal Reserve System. - Such an amendment was favored by the recent Governors' Conference, but opposed by the recent Conference of Federal Reserve Agents. After considering the recommendations of both Conferences, the Board voted to suggest the enactment of such an amendment to Congress "at the proper time".

(4) Pension Bill. - In the report of the recent Governors' Conference it was stated that the proposed Federal Reserve Pension Bill would be

reintroduced in Congress at this session and an attempt made to obtain its enactment. This bill, however, has been handled exclusively by the Federal reserve banks and the Board heretofore has purposely refrained from making any formal recommendations with regard thereto.

OTHER AMENDMENTS.

In addition to the above, the following amendments have been considered in some form or another, and may be entitled to some consideration at this time:

(1) The bill to exempt joint stock land banks and similar non-commercial banking institutions from the provisions of the Clayton Anti-Trust Act. - Such a bill (S. 4039) passed the Senate during the last session of the present Congress, but was never reported out by the Banking and Currency Committee of the House. There are strong reasons for the enactment of such a bill; and it would seem that an effort should be made to have this bill reported out by the House Banking and Currency Committee and passed by the House at the present session, in order that the advantage gained by its passage in the Senate might not be lost through the death of this bill at the expiration of the present Congress.

(2) An amendment to the fourth paragraph of Section 13 of the Federal Reserve Act making the limitations preseribed by that paragraph conform to Section 5200 of the Revised Statutes, as amended by the McFadden Act. - This section pertains to the amount of paper of any one borrower which may be discounted by a Federal reserve bank for any one member bank; and the provision of the Federal Reserve Act does not contain many of the exceptions contained in Section 5200. At present, therefore, a national bank may not rediscount with a Federal reserve bank all the paper of any one borrower which it may acquire lawfully under Section 5200 of the Revised Statutes. This question was considered by the Conference of Governors in April, 1928, and a resolution asking the Board to urge the enactment of such an amendment was defeated by a vote of ten to two.

(3) An amendment to Section 9 requiring all State banks heretofore or hereafter admitted to membership in the Federal Reserve System to comply at all times with the banking laws of the States in which they are located. - Such an amendment has never been formally considered by the Board, but was discussed informally by Governor Young and the undersigned in connection with a letter addressed to the State Bank of Payson, Payson, Utah, by Mr. Sargent, Assistant Federal Reserve Agent at San Francisco, wherein Mr. Sargent erroneously stated that any violation of State law by a State member bank is considered a violation of its conditions of membership. Such an amendment would enable the Board to expel from the Federal Reserve System a State member bank which habitually violates the State banking laws; but would also impose upon the Federal Reserve Board the duty of ascertaining whether State member banks are complying with the laws of their respective States.

C O N C L U S I O N.

Drafts of nearly all of the above bills have been prepared and are available in this office. As soon as the Committee decides on which of these

bills prompt action should be requested of Congress, this office will be glad to prepare a report to the Board, drafts of letters, and any other documents desired by the Committee.

Respectfully,

(S)

Walter Wyatt,
General Counsel.

Memorandum attached.

WW-sad

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6203

December 20, 1928.

SUBJECT: Expense, Main Line, Leased Wire System, November, 1928.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6203-a and X-6203-b, covering in detail operations of the main line, Leased Wire System, during the month of November, 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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 1928

X-6203-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	29,507	1,232	30,739	3.29
New York	157,644	-	157,644	16.89
Philadelphia	33,602	1,060	34,662	3.72
Cleveland	85,439	3,147	88,586	9.49
Richmond	53,613	2,754	56,367	6.04
Atlanta	61,332	7,985	69,317	7.43
Chicago	109,855	3,068	112,923	12.10
St. Louis	74,165	1,123	75,288	8.07
Minneapolis	32,921	3,202	36,123	3.87
Kansas City	77,902	385	78,287	8.39
Dallas	75,544	12,149	87,693	9.40
San Francisco	102,148	3,360	105,508	11.31
Total	$ 893,672	39,465	933,137	100.00

F. R. Board business	232,420	1,165,557
Treasury Department business - Incoming and Outgoing		117,070
Total words transmitted over main lines		1,282,627

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6203-b).

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

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, NOVEMBER, 1928.

X-6203-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	$ 695.77	$260.00	$ 435.77
New York	987.46	-	-	987.46	3,571.92	987.46	2,584.46
Philadelphia	225.00	-	-	225.00	786.71	225.00	561.71
Cleveland	296.66	-	-	296.66	2,006.96	296.66	1,710.30
Richmond	190.00	-	230.00(&)	420.00	1,277.35	420.00	857.35
Atlanta	270.00	-	-	270.00	1,571.31	270.00	1,301.31
Chicago	4,015.30 (#)	-	-	4,015.30	2,558.92	4,015.30	1,456.38 (*)
St. Louis	205.00	1.00	-	206.00	1,706.65	206.00	1,500.65
Minneapolis	177.90	-	-	177.90	818.43	177.90	640.53
Kansas City	275.64	-	-	275.64	1,774.33	275.64	1,498.69
Dallas	251.00	-	-	251.00	1,987.93	251.00	1,736.93
San Francisco	370.00	-	-	370.00	2,391.85	370.00	2,021.85
Federal Reserve Board	-	-	15,517.32	15,517.32	-	-	-
Total	$7,523.96	$ 1.00	$15,747.32	$ 23,272.28	$ 21,148.13	$7,754.96	$14,849.55
				2,124.15(a)			1,456.38(b)
				$ 21,148.13			$13,393.17

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2,124.15 from Treasury Department covering business for the month of November, 1928.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6204

December 21, 1928.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JANUARY 1 TO JUNE 30, 1929.

Dear Sir:

Confirming telegraphic advice, there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks of an amount equal to ninety-seven thousandths of one per cent (.00097) of the total paid-in capital stock and surplus of such banks at close of business December 31, 1928, to defray the estimated general expenses of the Board from January 1 to June 30, 1929.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books January 1, 1929, and one-half March 1, 1929, 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,

W. M. IMLAY
Fiscal Agent

Enclosure.

X-6204-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 ninety-seven thousandths of one per cent of the total paid-in capital stock and surplus of the Federal reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes; Now, therefore,

BE IT RESOLVED, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal reserve banks of an amount equal to ninety-seven thousandths of one per cent of the total paid-in capital and surplus of such banks as of December 31, 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 January 1, 1929, and the second half on March 1, 1929.

X-6205

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

STATEMENT FOR THE PRESS

For release in Morning Papers,
Friday, December 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 November and December, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial activity declined somewhat in November, but continued above the level of a year ago. Wholesale commodity prices declined further, reflecting principally a continued decrease in the prices of farm products. Security loans of member banks declined sharply after the first week of December, while other loans increased.

Production--Total output of manufactures was somewhat lower in November, reflecting primarily a decrease in production of automobiles and steel, larger than is usual at this season, but total output continued larger than a year ago. Production of pig iron and copper continued to increase in November, and textile mills remained active. Meat-packing and sugar refining declined seasonally during the month, and the production of building materials was smaller. Factory employment and payrolls were seasonally reduced but were larger than in 1927. Mineral production was in about the same volume as in October, according to the Federal Reserve Board's index which makes allowance for seasonal variations. Increases occurred in the production of copper, zinc, and tin, while both anthracite and bituminous coal decreased and the output of petroleum was somewhat smaller. The value of building contracts awarded in November and the early part of December receded sharply from the record figures of the two preceding months. The November total was slightly larger than in the corresponding month in 1927, and the volume of contracts for the first two weeks of December was smaller than a year ago.

The December forecast of the Department of Agriculture increased the estimated 1928 production of cotton by 240,000 bales to a total of 14,373,000 bales, which is nearly 11 per cent larger than a year ago. The total value of crops, based on December farm prices, is estimated at $8,456,052,000 as compared with $8,522,563,000 in 1927.

Trade--Department store sales showed a seasonal increase in November when allowance is made for the number of business days, and approximated those of a year ago, while inventories continued smaller than in 1927. Sales at wholesale declined seasonally, but were larger than in the same month of last year. Railroad freight shipments decreased in volume during November and the early part of December, but continued larger than in 1927. The decrease from October was especially marked in loadings of miscellaneous freight.

Prices--Wholesale commodity prices decreased further in November and the first two weeks of December. The largest price declines during the six-week period were in farm and food products and leather, while several groups of industrial products, notably iron and steel, nonferrous metals, and cotton goods, were generally higher. Wholesale prices of gasoline and automobile tires declined. Among the agricultural products, prices of raw silk, corn, livestock, and meats were lower during November, while raw cotton and wool, wheat and oats increased somewhat. During the first two weeks of December, however, prices of all these products, with the exception of raw silk, declined. Building materials were generally higher in November, but declined somewhat in the middle of December.

Bank credit--Loans and investments of member banks in leading cities increased $329,000,000 during the four-week period ending December 19. The advance during the first two weeks reflected chiefly a rapid increase in security loans, which include loans to brokers and dealers in securities. Subsequently, a sharp decline

in loans on securities was more than offset by a rapid increase in all other loans and in holdings of investments. The increase in all other loans, which include loans for commercial purposes, was contrary to the usual movement at this season and carried the total to the highest figure in eight years.

Seasonal growth in the demand for currency in November and December, together with increases in member bank reserve requirements, consequent upon an increase in their deposits, have been reflected in larger borrowings by the member banks from the reserve banks. This recent growth, following upon demand caused by the loss of gold in earlier months, has carried the total volume of reserve bank credit to the highest level in seven years.

The rates on call and time loans on security collateral increased during the last week in November and the first part of December, while rates for commercial paper were generally steady. Rates on certain maturities of bankers bills increased somewhat.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6207

December 28, 1928.

Gentlemen:

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 directed its Chief Examiner, through its Division of Examination, to make an examination of each Federal reserve bank at least once during the calendar year.

Accordingly, Mr. James F. Herson, the Board's Chief Examiner, will make at least one examination of the Federal Reserve Bank of during the year 1929, beginning such examinations on such dates as he may select.

You are requested to give Mr. Herson and his force all proper assistance in making the examinations.

Very truly yours,

R. A. Young,
Governor.

TO ALL FEDERAL RESERVE BANKS.

C O P Y

FEDERAL RESERVE
BOARD

X-6208

Date December 20, 1928.

To Governor Young

From Mr. Goldenweiser

Subject: Effect on gold reserves of retirement of national bank notes.

At the present time the Federal reserve system has about $1,150,000,000 of gold in excess of its reserve requirements, but owing to the familiar complication about collateral, the gold in excess of collateral requirements against notes and reserve requirements against deposits is somewhat smaller, $1,086,000,000. The future growth of reserve requirements to meet increased currency needs and growing reserve balances of member banks cannot be accurately estimated, but on the basis of the average for the past six years would be about $45,000,000 a year. At this rate the excess gold would be consumed in 25 years, and if the gold certificates in circulation were retired the gold would last for about 35 years. If to the amount of annual growth in requirements were added an additional requirement for collateral against notes issued in place of retired national bank notes, our gold reserves would be consumed in about 9 years, if the national bank notes are retired over a period of 10 years, and in about 13 years, if they are to be retired over a period of 20 years. All of these estimates are conservative because the growth both in currency and in reserve balances during the past 6 years has been unusually small. In any case, over whatever period the operation takes place, the net result would be a useless reduction of our available gold by the full amount of the retired notes, that is, about $675,000,000.

The difficulty can be obviated by permitting the Federal reserve banks to count United States securities as collateral for Federal reserve notes up to the amount of national bank notes retired through the cancellation of the bonds back of them. The program for the retirement of bank notes should, therefore, include a

recommendation that the Federal Reserve Act be amended in the way suggested. This ought not to create much opposition because it would add nothing to the existing volume of currency secured by Government obligations and would merely continue that volume. Giving the Federal reserve banks discretion in the matter would also be a valuable source of ammunition for open-market policy.

A detailed memorandum with calculations has been prepared in this office and will be submitted if you wish it. I thought, however, that a brief summary would probably serve your purpose.

(COPY) X-6208-a

To Governor Young April 28, 1928

From Mr. Riefler (and Mr. Parry) Subject: The Effect of the Retirement of National Bank Note Circulation on Reserve Bank Credit.

In this memorandum I shall try to describe as simply as possible, the complicated series of steps by which a retirement of national bank notes from circulation due to the maturing of those bonds now bearing the circulation privilege would lead to a commensurate increase in reserve bank credit. First, however, it is necessary to clear up a misunderstanding which may arise from the statement contained in the article entitled "Currency Under the Federal Reserve System" in the Federal Reserve Bulletin for July, 1926, page 472; "Under present conditions it is changes in the whole of the currency in circulation which affect the volume of reserve bank credit in use and not changes in any particular kind of currency." This statement remains true so far as national bank notes are concerned only under the "present circumstances" implied in its qualifying introduction, namely, that the volume of bonds bearing the circulation privilege remain constant and that all of these bonds are actually employed as a basis for currency issue. Under such circumstances, the total volume of national bank notes outside the Treasury remains relatively constant and fluctuations in the circulation of national banks are reflected in corresponding fluctuations in the national bank note holdings of the reserve banks. If, under these conditions, there was a decrease in the public demand for circulation, and national bank notes were sent to the reserve banks, the member banks sending the notes would receive credit in their reserve balances similar to that received for any other notes, and could use this credit for the retirement of reserve bank credit outstanding similar to that for any other notes. The fact that the decrease in public demand for circulation happened to take place in national bank notes would not change the effect upon

reserve bank credit, therefore, but would simply mean that the reserve banks were forced to hold more non-reserve cash. So far as the volume of reserve bank credit outstanding is concerned, the situation would be exactly similar to what would happen were the retirement of circulation from the public to take place in gold certificates or Federal reserve notes. As between these cases, the reduction in total bills and securities of the reserve banks would be unchanged. If the retirement were to take place in gold certificates, however, the cash reserves of the reserve banks would increase, while if it were to take place in Federal reserve notes, the note liabilities of the reserve banks would decrease. So long as the volume of currency outstanding on Treasury credit remains constant, only fluctuations in the total demand for currency by the public are reflected in corresponding fluctuations in the demand for reserve bank credit, and fluctuations in the individual elements composing the currency, provided that the total in circulation remains unchanged, are reflected, not in the bill and security holdings of the reserve banks, but in their cash reserves, non-reserve cash, or their note liabilities.

The present memorandum is directed toward a situation essentially different from that outlined above. If the bonds bearing the circulation privilege are retired, national bank notes to an equivalent amount will be taken both from circulation and from the non-reserve cash holdings of the reserve banks. This will be reflected in a corresponding increase in reserve bank credit since the operation will not affect the public demand for circulation. Let me illustrate the steps by which this will result.

At the present time, the total volume of bonds bearing the circulation privilege amount to about $675,000,000, practically all of which are on deposit in the Treasury as the basis for national bank notes outstanding. In addition to this,

there is usually about $25,000,000 in cash in the national bank note redemption fund. Against these two items, national bank notes to the extent of about $700,-000,000 are usually outstanding. Of these about $20,000,000 are held in the Treasury in process of redemption, $50,000,000 more are in the reserve banks as non-reserve cash and about $630,000,000 are in circulation. We will assume these amounts to be representative of the situation on April 1, 1930, when $600,000,000 of the bonds now securing the national bank note issue become payable. We will further assume that the Treasury at that time retires these bonds and also calls (as it is able to do) the remaining $75,000,000 in bonds baaring the circulation privilege which are now callable but do not finally mature until 1936 and 1938. The steps by which the retirement of these $675,000,000 in bonds bearing the circulation privilege will lead to an increase of $675,000,000 in reserve bank credit outstanding are as follows:

When the bonds mature, the Treasury does not pay out any funds to the national bank which has deposited them to secure the circulation, but instead cancels the bonds and assumes liability for the notes outstanding against them. To meet this liability it will have to provide for $675,000,000 in general revenues either from taxation or security flotations. We will assume that such provision has been made and that the Treasury has on deposit at special depositories $675,000,000. As this amount is free of reserve requirements changes in reserves required will not complicate the analysis.

On April 1, 1930, when the whole issue securing the national bank note circulation matures, the first event will be the cancellation of the $20,000,000 in national bank notes already presented to the Treasury for redemption. This will use up $20,000,000 of the $25,000,000 in the national bank note redemption fund which will be turned over to the general cash fund of the Treasury. The

second step will be the presentation for redemption by the reserve banks of $50,-000,000 in national bank notes which they hold in their non-reserve cash. Of this amount $5,000,000 will be redeemed by the remaining cash in the redemption fund for national bank notes. The cash reserves of the reserve banks will thereby increase by $5,000,000. The remaining $45,000,000 will be redeemed by drawing on Treasury deposits with special depository banks. As these banks presumably would have reserves equal to requirements and as their reserve requirements would not be diminished by the loss of Government deposits, they would either have to borrow $45,000,000 directly from the reserve banks in order to meet this withdrawal, or else would have to obtain $45,000,000 through adjustment of their secondary reserves, thus leading other banks to borrow $45,000,000 at the reserve banks. In either case, if we assume that the reserve banks are not buying any more securities, member bank borrowing would be increased by $45,000,000.

The third step would be the gradual presentation of $630,000,000 of national bank notes in circulation to the reserve banks in exchange for Federal reserve notes to take their place in the circulation. The reserve banks would then present the $630,000,000 in national bank notes to the Treasury which would redeem them by drawing on its deposits in special depositories for an equivalent amount. Again, these special depositories would have presumably no surplus reserves with which to meet the withdrawal and would either be forced to borrow that amount from the reserve banks directly or to adjust their secondary reserves in the market in such a way as to force other banks to borrow $630,000,000 from the reserve banks. In either case, still assuming that the reserve banks are not buying any more securities, there would be an increase of $630,000,000 in the volume of member bank borrowing at the reserve banks.

The retirement of the whole national bank note issue, in 1931, therefore,

would result (unless the reserve banks purchase securities) in an increase of $675,000,000 in discounts for member banks, of which $45,000,000 would reflect the redemption of national bank notes now held in the non-reserve cash of the reserve banks and $630,000,000 the redemption of national bank notes in circulation.

It is to be considered, as indicated, that this effect on member bank borrowing could be avoided, partially or entirely, by coincident purchase of securities by the reserve banks. It is to be noted, however, that even if this should prove to be possible and should be done the effect of the retirement of the whole issue of national bank notes would nevertheless be to increase the volume of reserve bank credit outstanding by $675,000,000. But the possibility is not so evident upon examination as it seems at first sight, largely because the purchase of securities does not bring into the system any material eligible as cover for the Federal reserve notes that would be needed to replace the national bank notes now in actual circulation. These notes must be covered by gold to the extent of at least 40 per cent; 40 per cent of $630,000,000 is about $250,000,000. The other 60 per cent, about $380,000,000, may be in the form of discounts for member banks, rediscounts, and purchased acceptances, but open market operations in securities bring in none of these. Almost all of these that the system now has, furthermore, are already serving as cover for Federal reserve notes already outstanding.

The question consequently arises as to where the cover for $630,000,000 of additional notes is to come from. If it should all be set aside in gold the amount of gold tied up, in such manner that it could not be exported, would be very large--equivalent to at least three years' supply of monetary gold from the mines. In any case $250,000,000 in gold, a large amount in itself, would have to be tied up. A small increase in purchased bills, eligible as cover, may be expected, but it is evident that the main reliance for eligible cover would have to be paper arising

from member bank borrowings. Thus it appears that substitution of Federal reserve notes for national bank notes, in any substantial volume, is an operation that must either tie up a large amount of gold or else occasion a large increase in the indebtedness of member banks.

An obvious alternative is to retain the national bank note circulation, which neither ties up gold nor necessitates as cover so-called eligible paper. This alternative is so obvious, in fact, that it would seem to be more likely of adoption by the Treasury that any other and possibly better alternative, unless the merits of other alternatives are properly brought to the Treasury's attention. The only form of Federal reserve currency that requires as cover neither gold nor so-called eligible paper is the Federal reserve bank note. Federal reserve bank notes, however, appear to require as lawful cover U. S. securities bearing the circulating privilege, and while there appears to be no doubt as to the authority of the Federal reserve banks to purchase such bonds, if any are available, there does appear to be some doubt as to whether the Treasury, in the absence of new legislation, can issue any more of them.

X-6209

FEDERAL RESERVE BOARD

COMMITTEE APPOINTMENTS EFFECTIVE JANUARY 1, 1929.

EXECUTIVE:
Mr. Young, Chairman,
Mr. Platt
Mr. Hamlin 1st quarter
Mr. Miller 2nd "
Mr. James 3rd "
Mr. Cunningham 4th "

LAW:
Mr. Hamlin, Chairman,
Mr. Platt

EXAMINATIONS:
Mr. Platt, Chairman,
Mr. Cunningham

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

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

DISTRICT COMMITTEES:

Boston:
Mr. Hamlin, Chairman,
Mr. Platt

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

Philadelphia:
Mr. Miller, Chairman,
Mr. Platt

Cleveland:
Mr. Pole, Chairman,
Mr. Hamlin

Richmond:
Mr. Hamlin, Chairman,
Mr. Cunningham

Atlanta:
Mr. James, Chairman,
Mr. Pole

Chicago:
Mr. Cunningham, Chairman,
Mr. Miller

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

Minneapolis:
Mr. Cunningham, Chairman,
Mr. Miller

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

Dallas:
Mr. Platt, Chairman,
Mr. James

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 16, 1928,
St. 5846.

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 June, 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 July 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 11, 1928,
St. 5872.

SUBJECT: Condition of Member Banks
as of June 30, 1928.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of June 30, 1928. The Board's Member Bank Call Report (No. 40) 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 13, 1928,
St. 5878.

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 July, 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 August 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 20, 1928
St. 5883

SUBJECT: Reports of Condition of State Banks and Trust Companies

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on June 30, 1928. If no call was issued as of June 30, 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,

E. M. McClelland,
Assistant Secretary.

Enclosure

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 20, 1928
St. 5883a

SUBJECT: Reports of Condition of State Banks and Trust Companies

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on June 30, 1928. If no call was issued as of June 30, will you kindly advise the date of the 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, 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,

E. M. McClelland,
Assistant Secretary.

Enclosure

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 8, 1928,
St. 5892.

SUBJECT: Functional Expenses
First Half, 1928.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense exhibit for the half year ending June 30, 1928. A copy of the exhibit is also being mailed to the Governor of the bank.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

LETTER TO CHAIRMAN OF EACH FEDERAL RESERVE BANK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 12, 1928,
St. 5906.

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 August, 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 September 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 17, 1928,
St. 5909.

SUBJECT: Member Bank Call Report showing Condition of All Member banks on June 30, 1928.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 40, showing the condition of all member banks on June 30, 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.

COPY TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 1, 1928
St. 5930

SUBJECT: Condition Report of State Bank Members, Form 105.

Dear Sir:

There is attached hereto a copy of revised form 105, Condition Report of State Bank Members, and of the revised instructions governing the preparation of the report. Under separate cover we are forwarding copies of the form and copies of the instructions for use of state bank members in submitting condition reports on the next call.

Both the form and instructions adopted by the Comptroller for use of national banks are identical with those to be used by state bank members, except in the case of a few items, principally the redemption fund and amounts due from U. S. Treasurer and circulating notes outstanding, which are in the Comptroller's form but not the Board's, and mortgage bonds and participation certificates outstanding, which are in the Board's form but not the Comptroller's.

While the form and instructions as transmitted herewith do not differ materially from the proof copies sent you with the Board's letter St. 5759 of April 24, certain modifications were made after consideration of suggestions submitted by the Federal reserve agents and chief national bank examiners.

It is requested that 3 copies of the revised form and 1 copy of the instructions be forwarded to each state bank member as soon as practicable with a letter of transmittal calling the bank's particular attention to the following points:

1. That the present form is the result of an exhaustive study of numerous suggestions made from time to time, and that it is the intention to use it for each call, instead of having a more detailed report on June 30 than on other dates.

2. That every blank space in the body of the report and in the schedules must be filled in, and that where there are no figures to report the word "none" should be written or stamped.

3. That care be exercised to see that the report is made out in accordance with the instructions, which should be preserved by the bank for future reference.

4. That the report should be made out promptly upon receipt of call and two copies forwarded to your bank.

In view of the substantial change in the form and in order that the completion of the Board's consolidated call report may be expedited as much as practicable, it is requested that particular care be exercised by your office to see that the reports are promptly and properly made out. It would facilitate matters greatly if you would make special efforts to see that all reports are received at your bank within 12 days after notice of call is mailed to the member banks, and if, upon receipt of the reports, they were checked to see that -

(a) Every blank space is filled out and that the word "none" is written or stamped where they are no figures to report, in both the body of the report and in the schedules.

(b) Items 1, 3, 4, 9, 13, 19, 20, 21, 25, and 30 in the body of the report agree with the totals of the corresponding schedules, and also that per contra asset items 11 and 12 agree with per contra liability items 26 and 29, respectively.

Whenever a report is not complete or discrepancies are found on checking, kindly write the bank in regard thereto, but forward a copy of the report to the Board as soon as a substantial number of reports are on hand, together with copies of your letters or a memorandum indicating the points taken up with the banks, and advise the Board of necessary changes upon receipt of advice from the reporting banks.

In this connection, you are advised that at the end of this year it is proposed to issue revised instructions governing the preparation of the weekly member bank condition report, form St. 51, in order to bring that report into agreement with the call report, but that for the time being if any weekly reporting member bank should make inquiry, it should be advised that no change should now be made in the preparation of that report.

A separate letter is being sent you today requesting reports on form 105-b covering assets and liabilities of trust departments of state bank members.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 1, 1928
St. 5931

SUBJECT: Assets and Liabilities of Trust Departments of State Bank Members.

Dear Sir:

Both the Board and the Comptroller of the Currency have decided to ask member banks operating trust departments to submit condition reports covering such departments as of the date of the next call for condition reports. A copy of the form to be used by state bank members is attached hereto, and copies of the form are being mailed to you under separate cover. It is requested that 3 copies of the form be sent to each state bank member at the same time that form 105 is sent to such banks, with the request that a report on form 105-b be submitted by each state bank member that operates a separate trust department. The report should be prepared in triplicate, one copy to be retained by the bank and two copies forwarded to the Federal reserve bank.

If a bank does not operate a trust department in which the assets and liabilities are kept separate and distinct from the assets and liabilities of the commercial department, the word "none" should be written or stamped on one copy of form 105-b and the form returned to your office signed by the proper officer. State banks with branches that operate trust departments should combine the figures for the branches with those of the head office in the preparation of reports on form 105-b.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

Federal Reserve Board
Form 105 b
September, 1928.

TRUST DEPARTMENT BALANCE SHEET

Reserve Dist. No. .....

REPORT OF THE TRUST DEPARTMENT OF "THE .....
(Name of Bank)
of ....," in the State of ....., at the close of
(Location)
business on ....., 1928.

ASSETS

	Dollars			Cts.
1. Investments (Other than Deposits in banks)				
2. Deposits in Savings Banks				
3. Deposits in other Banks				
4. Deposits in Commercial or Savings Dept. of Own Bank . .				
5. Cash on hand (Held in Trust Dept.)				
6. Advances to Trusts				
7. Other Assets				
TOTAL ASSETS OF TRUST DEPARTMENT				

LIABILITIES

	Dollars			Cts.
1. Private Trust Accounts (Principal)				
2. " " " Income				
3. Court Trusts (Executor, Administrator, etc.) Principal . .				
4. " " " " " Income . . .				
5. Other Liabilities				
TOTAL LIABILITIES OF TRUST DEPARTMENT				

1. Total amount of collateral trust bonds outstanding where bank acts as trustee . . . . . $.....

(a) Ledger value of securities deposited in Trust Department to secure collateral trust issues as above . $.....

2 Total amount of other bonds and notes outstanding under deeds of trust or mortgages to bank as trustee . . . $.....

Number of individual trusts being administered . . . .
Number of corporate trusts being administered . . . .
TOTAL number of trusts being administered . . . . . .

I certify that the foregoing statement is correct:

.....
(To be signed by the Cashier or other officer)

Title .....

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 16, 1928,
St. 5943.

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 September, 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 October 29, 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*

FEDERAL RESERVE BOARD

WASHINGTON

October 23, 1928,
St. 5947.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Forms for use during 1929.

Dear Sir:

It will be appreciated if you will kindly advise the Board at your early convenience the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1929.

Form Number	Title
34	Daily balance sheet. Please state the number required for the head office and each branch separately and also give any special punching that may be desired.
F. R. A. - 5	Daily statement of Federal reserve agent.
E	Semi-annual functional expense report.
38	Classification of discounted and purchased bills held at the end of the month.
95	Monthly report of earnings.
96	Monthly report of current expenses.
97	Monthly report of income and expense - Other real estate.

Please show separately the number of copies of each form, except form 34, required if it is revised and the number if not revised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 25, 1928,
St. 5950.

SUBJECT: Daily Condensed Statement of Condition of F. R. Banks.

Dear Sir:

For some time past we have been preparing daily a mimeographed statement for the Board's use showing bill and security holdings, reserves, note circulation, deposits, and the reserve percentages of each F. R. Bank for the current day, as compared with the preceding day and with the average for the preceding month, and it occurs to me that perhaps you would like to have us mail you copies of this statement daily. I shall appreciate it, therefore, if you will advise whether or not you would like to receive this mimeographed statement each day, and if so, how many copies are desired, also whether you would like to have us continue to telegraph the reserve percentages to you daily, as we have been doing for a number of years past. A copy of the statement referred to is enclosed.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON 20

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 23, 1928,
St. 5970.

SUBJECT: Closing of Books on December 31, 1928.

Dear Sir:

In accordance with the usual custom it will be appreciated if the resolution of your Board of Directors for the payment of the semi-annual dividend and requests for authority to charge earnings with depreciation allowances, reserves for probable losses, etc., are received at the Board's offices not later than December 10, 1928, and are accompanied with the following information:

1. Estimated gross earnings, current expenses, additions to and proposed deductions from current net earnings, and net earnings available for surplus and franchise tax for the calendar year 1928.

2. Indebtedness to the Federal reserve bank of (a) suspended banks and (b) banks considered to be in a seriously overextended condition, giving the names of the banks, indebtedness of each on November 30, character of security, if any, and probable loss in the case of each bank.

The general procedure followed in the past with reference to charge-offs, depreciation and other reserves, transfers to surplus account and payment of franchise tax, which is covered by the attached memorandum, will be followed at the end of this year.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL CHAIRMEN*

GENERAL PRACTICE OF FEDERAL RESERVE BOARD REGARDING DEPRECIATION RESERVES ON BANK PREMISES, RESERVES FOR LOSSES ON PAPER OF FAILED BANKS, AND OTHER CHARGES TO CURRENT NET EARNINGS, AND METHOD OF DETERMINING FRANCHISE TAXES TO BE PAID BY FEDERAL RESERVE BANKS

1. Bank Premises. (a) Land. No charges against current net earnings will be authorized by the Board to cover depreciation on land where the estimated market value of the land is equal to or in excess of its net book value.

(b) Buildings. The Board will in general authorize the banks to charge current net earnings each year with a depreciation reserve on bank buildings, including vaults but excluding fixed machinery and equipment, of not exceeding 2 per cent of their estimated replacement cost, such replacement cost to be determined in a manner approved by the Board. Where the book value of a building is in excess of replacement cost, the Board will consider a request for permission to charge off an amount sufficient to reduce the book value to estimated replacement cost.

(c) Fixed machinery and equipment. The Board will authorize the banks to charge current net earnings each year with a depreciation reserve of not to exceed 10 per cent of the cost of fixed machinery and equipment, such as boilers, engines, dynamos, motors, power pumps, elevators, heating, plumbing, lighting, and ventilating systems, pneumatic tubes, refrigeration plant, automatic fire sprinkler equipment, and vacuum cleaners.

2. Reserves for losses on paper of suspended banks and banks in an over-extended condition. Authorizations to set aside reserves to cover losses on paper of suspended banks or banks in an over-extended condition will be limited to such actual losses, in excess of reserves already carried, as the bank may reasonably be expected to sustain on such paper.

3. Furniture and equipment. It will be the general practice of the Board to authorize the banks to charge off at the end of the year all furniture and equipment purchased during the current year.

4. Other charges to current net earnings. Where a bank desires to set up any reserve other than those mentioned above or to make any other unusual charge against current earnings at the end of the year, full and complete information should be furnished the Board regarding the necessity for such charge.

5. Surplus and franchise taxes. After all current expenses, dividends, depreciation and other reserves, and charge-offs authorized by the Board have been provided for, any remaining net earnings shall be distributed as follows:

(a) Transfer to surplus account all net earnings unless such transfer will result in the bank's surplus account being in excess of its subscribed capital, in which case only such amount should be transferred as is necessary to increase the surplus account to an amount equal to the subscribed capital.

(b) Distribute all available net earnings after the bank's surplus account is equal to its subscribed capital as follows:

(1) Transfer 10 per cent to surplus account.

(2) Pay 90 per cent to United States Government as a franchise tax.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 13, 1928,
St. 5974.

SUBJECT: Revision of Federal Reserve Bank Balance sheet form 34 for use during 1929.

Dear Sir:

There is enclosed herewith an unruled proof copy of daily balance sheet form 34 to be used by the Federal reserve banks during 1929. It will be noted that only a few changes have been made in the form now in use, all of which it is believed are self-explanatory.

The year's supply of the form will be mailed as soon as received from the printer, which should be about the middle of December.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

LETTER TO ALL GOVERNORS.*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 14, 1928,
St. 5975.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of October, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before November 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

November 20, 1928,
St. 5976.

SUBJECT: Federal Reserve Bank Salaries.

Dear Sir:

Will you kindly have prepared and forwarded to the Board for its approval, on or before December 10, a list of the employees of the bank with the salaries paid to them as of December 1 and the salaries provided by your Board of Directors to be paid beginning January 1, 1929. The list should be prepared in accordance with the sample forms attached hereto, which are the same as those used last year. As in the past, the schedules should cover all employees on the bank's payroll, including those whose salaries are reimbursable to the bank either in whole or in part from notary fees, cafeteria receipts, etc. The schedule should be accompanied with a statement showing the total salary payments to employees during 1928 (December estimated) and the estimated salary requirements for employees during 1929, classified by functions in accordance with the enclosed form.

In order that the Board may have time to act before the end of January upon the salaries to be paid to the officers of your bank in 1929, the salaries provided by your board of directors at its first meeting in January should be submitted to the Board for its approval as promptly as possible. Please submit these salaries in accordance with the attached form, showing separately the annual retainer fee, and any additional compensation for clerk hire or other assistance, provided for the bank's counsel in case he is not an officer of the bank.

A detailed statement of the budget approved for the head office and each branch, if any, for the calendar year 1929 should be forwarded to the Federal Reserve Board as soon after January 1, 1929 as practicable. In case the budget is prepared in time it should accompany the schedule of official salaries submitted to the Federal Reserve Board for its approval. The budget statement as submitted to the Board should be in the same form and detail as approved by the bank's budget committee, and should show in comparison the budget and actual expenditures for 1928.

Very truly yours,

Walter L. Eddy,
Secretary.

(Enclosures)

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS, EXCEPT NEW YORK*

St. 5976-a

SALARIES OF OFFICERS, DECEMBER 31, 1928, AND AS PROPOSED FOR 1929.

Federal Reserve Bank - Branch _____

Name	Title	Functions supervised	Annual Salary Dec.31,1928	Annual Salary Proposed for 1929

Total, ____officers

St. 5976-b

EMPLOYEES TO RECEIVE MORE THAN $2,500 PER ANNUM

Federal Reserve Bank - Branch _____, Dec. 1, 1928

Name	Title	Functions to which assigned	Present annual salary	Proposed salary Jan. 1, 1929

Total, _____ employees

St. 5976-c

EMPLOYEES RECEIVING $2,500 OR LESS PER ANNUM.

Federal Reserve Bank - Branch _____, Dec. 1, 1928.

Name	Title	Salary on Jan. 1, 1928*	Proposed salary Jan. 1, 1929
	_____function		

Total, _____ employees

NOTE: Employees should be grouped according to the functions given in the functional expense report, form E, and totals shown for all functions. An employee assigned to more than one function should be listed in the function to which he devotes the greater part of his time, with a note indicating in what other functions he is employed. The report should not include extra help or temporary employees, but it should include all regular employees whose salaries are reimbursable to the bank either in whole or in part. In the case of employees who are on a per diem or hourly basis, the estimated total annual compensation should also be shown.

*If hired during 1928, please show the initial salary.

St. 5976-d

SALARIES* PAID EMPLOYEES DURING 1928 AND ESTIMATED PAYMENTS DURING 1929

Federal Reserve Bank (including branches)_____

Functions (Form E classification)	Paid during 1928 (December estimated)	Estimated payments during 1929
General Overhead		
Provision of Space		
Provision of Personnel		
General Service		
Failed Banks		
Loans, Rediscounts and Acceptances		
Securities		
Currency and coin		
Check collections		
Non-cash collections		
Accounting		
Fiscal Agency		
Legal		
Auditing		
Bank Relations		
Federal Reserve Note Issues		
Bank Examination		
Statistical and Analytical		
Total		

*Includes extra help, overtime and supper money.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 26, 1928
St. 5988

SUBJECT: Condition of Member Banks
as of October 3, 1928.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of October 3, 1928. The Board's Member Bank Call Report (No. 41) 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.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 26, 1928
St. 5989

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 October 3, 1928. If no call was issued as of October 3, 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.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 26, 1928
St. 5989a

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 October 3, 1928. If no call was issued as of October 3, will you kindly advise the date of the 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, also that the figures be segregated by Federal reserve districts.

A franked and self-addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 3, 1928,
St. 5998.

SUBJECT: Branches of Member and
Nonmember banks.

Dear Sir:

There is enclosed herewith a copy of a memorandum and accompanying statistical data, prepared for the Board's information, on the subject of branches of member and nonmember banks on June 30, 1928, and February 25, 1927, when the McFadden bill became a law.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 14, 1928,
St. 6010.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of November. The statement also includes any corrections made in the lists previously sent to you. No banks previously suspended were reported as having resumed business during November.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before December 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*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 18, 1928,
St. 6014.

SUBJECT: Reports of Earnings, Expenses, Dividends, and Franchise Tax Payments for 1928.

Dear Sir:

In order that the Board may have information regarding the financial results of operations of Federal reserve banks during the present calendar year as soon as practicable after January 1, it is requested that a statement be telegraphed or mailed in time to reach the Board's offices on Wednesday morning, January 2, 1929, showing the following information:

(Code)			
EARL - Earnings from discounted bills . . .	$_____		
EDGE - Earnings from purchased bills	_____		
ESPY - Earnings from U. S. securities . . .	_____		
ETCH - Other earnings (items 4-7 on form 95)	_____		
EACH - Gross earnings	=====		
EASY - Cost of Federal Reserve Currency . .	_____		
EDIT - Other current expenses	_____		
EADS - Total current expenses	=====		
EARN - Current net earnings		$_____	
ELBA - Additions to Current net earnings . .	_____		
ENID - Deductions from Current net earnings	_____		
Net additions to or deductions from current net earnings			_____
EAST - Net earnings available for dividends, franchise tax, and surplus			_____
EYRE - Dividends paid			_____
EMET - Paid to Government as franchise tax			_____
EVEN - Transferred to surplus account			_____
Total (to agree with item EAST)			_____
CAPP - Subscribed capital January 1, 1929			_____
CEDE - Surplus January 1, 1929			_____

It is also requested that the regular monthly reports of earnings and expenses on forms 95, 96 and 97 be accompanied with an itemized statement showing in detail all additions to and deductions from current net earnings (Profit and Loss account) during the year, and that in addition to the regular balance sheet form 34 for the last day of the year representing the condition of the bank after final closing of the books, a form 34 be submitted showing the condition of the bank at close of business but prior to the making of any adjusting, closing or other entries not regularly made at the end of each month.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 19, 1928
St. 6015.

SUBJECT: 1929 Budget for Statistical and Analytical Work.

Dear Sir:

In continuation of the policy adopted in 1925, it will be appreciated if you will kindly prepare and submit to the Board for approval a budget of expenditures covering work in the Statistical and Analytical function of your bank (including branches, if any), to be carried on during the year 1929. The budget should be submitted in accordance with the attached form which corresponds with the functional expense report, form E, and which provides for showing in parallel columns the budget approved for and amounts actually expended during 1928 and the proposed budget for the calendar year 1929. The proposed salary payments as shown in the budget for 1929 should be based on the salary recommendations made for next year and, if practicable, the budget should accompany the schedule of official salaries to be submitted to the Board for its approval.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO FEDERAL RESERVE AGENTS AT ALL BANKS, EXCEPT PHILADELPHIA*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 19, 1928
St. 6016

SUBJECT: Form F.R.A.- 5, Daily Statement of Federal Reserve Agent.

Dear Sir:

There are being forwarded to you today under separate cover, by registered mail, copies of form F.R.A. - 5, Daily Statement of Federal Reserve Agent (1928 edition) for use during the year 1929.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 21, 1928,
St. 6020.

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 December 31, 1928.

You will note that the form is the same as that used for the last report. In case any of the banks make inquiry as to whether or not it will be necessary, in the reports for the current six months, to make the undivided profits and reserve items on form 107 agree with those reported in their condition reports form 105, it is suggested that they be advised to report the items in accordance with their previous practice. It is expected that instructions for their future guidance in preparing reports on form 107 will be issued before the next call.

In continuation of the policy heretofore followed and in order that all reports may be as complete and accurate as possible, it will be appreciated if you will write for additional information to all banks which fail to report an amount or write the word "none" against any item on the report, or which write the word "none" where there is good reason to believe that a figure should have been reported, e.g., interest received on investments or on balances with other banks or interest paid on time deposits.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 22, 1928,
St. 6022.

SUBJECT: Condition Reports of State Bank Members, 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.

It is requested that the procedure followed at the time of the last call, as outlined in the Board's letter St. 5930 of October 1, be again observed in examining the reports and forwarding them to the Board.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 27, 1928,
St. 6023.

SUBJECT: Revision of Weekly Member Bank Condition Statement, Form St. 51.

Dear Sir:

There is attached hereto a copy of revised form St. 51-a, Weekly Condition Report of Member Banks in Selected Cities, which it is requested be put into use beginning with reports submitted as of January 16, 1929.

It will be noted that the revised form eliminates the distinction between loans secured by U. S. Government and other securities, but provides for reporting separately the amount of loans on securities made (for own account) to brokers and dealers in securities in New York City. This addition is made in view of the recommendation made by the recent Governors' conference, that reports on brokers' loans be obtained from all weekly reporting member banks. It is not the intention of the Board to publish these brokers' loans figures in the weekly member bank statement, for the present at least. As early as practicable in 1929 the stub of the Board's weekly member bank statement will be changed as indicated below. You will be advised by wire of the date of the change.

Loans and investments - total	_____
Loans - total	_____
On securities	_____
All other	_____
Investments - total	_____
U.S. Government securities	_____
Other securities	_____
Reserve with Federal reserve banks . .	_____
Cash in vault	_____
Net demand deposits	_____
Time deposits	_____
Government deposits	_____
Due from banks	_____
Due to banks	_____
Borrowings at F. R. banks	_____

It will be noted that the proposed stub is the same as that used at present, except that loans on securities will be shown in total, in place of separate figures of loans on Government and on

other securities, and borrowings will be shown only in total, instead of showing separately the amount secured by Government obligations and the amount otherwise secured or unsecured. In order, however, that the figures for the present year may be on the same basis as those that will be reported beginning January 16, 1929, the 1928 figures are being revised in three particulars, as follows:

1. In a number of districts separate figures have been submitted during the present year showing the amount of real estate mortgages and mortgage loans included by certain reporting member banks in "Other bonds, stocks and securities." In accordance with the Board's letter St. 5579 of November 23, 1927, the figures of "All other loans and discounts" and of "Other bonds, stocks and securities" are now being revised by adding to the first item and deducting from the second, the amount of real estate mortgages and mortgage loans included in "Other bonds, stocks and securities."

When the revised form St. 51-a is put into effect all real estate loans, mortgages, deeds of trust and other liens on real estate should, of course, be reported in loans, and this fact should be emphasized in the letters transmitting the revised form St. 51-a to reporting member banks. Upon receipt of the reports for January 16, 1929, the Federal reserve agents that are at present receiving separate figures from selected banks, showing the amount of real estate mortgages and mortgage loans included in investments, should carefully compare the reports of those banks with their reports for January 9, 1929, in order to make sure that, in the new reports, all real estate mortgages and mortgage loans have been included in item 1-b.

2. The second revision that is being made is the deduction of "Acceptances of other banks and bills of exchange or drafts sold with endorsement" from "All other loans and discounts," from "Total loans and discounts," and from "Total loans and investments." The amount of such bills has been estimated for reporting member banks in each district on the basis of the quarterly call reports.

3. It has also been found necessary to eliminate, from the 1928 totals, the figures for a large reporting bank in Los Angeles, due to its recent withdrawal from the Federal reserve system upon consolidation with a nonmember bank.

As soon as the revised figures are available they will be published in the Federal Reserve Bulletin.

In addition to the items reported by member banks themselves, your weekly report to the Board should continue to show the amount of reserve balances, Government deposits, and borrowings at Federal reserve bank, which items are taken from the Federal reserve

bank's books. The item of borrowings should, however, be shown in total only beginning with January 16, 1929, instead of being subdivided into paper secured by Government obligations and paper otherwise secured or unsecured, as at present.

It would facilitate the tabulation of the consolidated district figures at the Board's offices if, in your report to the Board, the items or columns were arranged in the order indicated on the sheet enclosed herewith, and if not inconvenient it will be appreciated if your report is so arranged. It is, of course, desired that separate totals for each city be shown on the detailed report as at present, in addition to the district total.

No supply of revised form St. 51-a is being sent to you, as it is assumed that you will, as heretofore, desire to have the form printed or duplicated locally. When the revised form is sent to reporting member banks, it is suggested that your letter of transmittal be accompanied with a copy of form 105, quarterly condition report, and of the instructions governing the preparation of that report, and that the member banks be requested to follow form 105 and instructions in preparing the weekly report on revised form St. 51-a. For this purpose, a supply of form 105 and instructions is being sent you under separate cover.

In order to make sure that the banks submit their weekly reports on the same basis as the quarterly condition reports, it is suggested that the weekly reports for January 16 be compared with the December call report and any apparent discrepancies reconciled, also that the same practice be followed on future calls for quarterly condition reports. In comparing weekly reports for January 16, 1929, it is suggested that particular attention be paid to see that the loans and discounts figures include all real estate mortgages and mortgage loans, that acceptances of other banks and bills of exchange or drafts sold with endorsement are not included in loans, and that the figures of U. S. Government and of other securities include securities sold under repurchase agreement and securities pledged against national-bank note circulation, deposits, etc.

Very truly yours,

Walter L. Eddy,
Secretary.

SUGGESTED ARRANGEMENT OF ITEMS IN WEEKLY MEMBER BANK CONDITION REPORT OF FEDERAL RESERVE AGENTS TO FEDERAL RESERVE BOARD

Column	Code	Item
1	PILF	Total loans and investments
2	PIPE	Total loans
		Loans secured by U. S. Government and other securities:
3	POOR	To brokers and dealers in New York
4	PAID	To others
5	PALE	All other loans
6	PELL	Total investments
7	PORT	U. S. Government securities
8	PADE	Other securities
9	PENT	Reserve with Federal reserve bank
10	PICT	Cash in vault
11	POSE	Net demand deposits
12	PUMM	Time deposits
13	PAWN	Government deposits
14	HOTE	Due from banks
15	HUPE	Due to banks
16	PART	Borrowings at Federal reserve bank
17	ROWL	Total of items reported (item 1 plus items 9-16)
18	REEM	Number of reporting banks

St. 6023

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 26, 1928,
St. 6024.

SUBJECT: Member Bank Call Report Showing Condition of All Member Banks on October 3, 1928.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 41, showing the condition of all member banks on October 3, 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*