X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 4, 1929.

CHANGES IN STATE BANK MEMBERSHIP.

Admitted to Membership:

Dist. No.		Capital	Surplus	Total Resources	Date
5	American Bank & Trust Co., Richmond, Va.	$1,200,000	$150,000	$3,204,104	12-31-28

Absorption by State Member:

1 Rhode Island Hospital Trust Co., Providence, R. I., has absorbed the following banks:

Mechanics Savings Bank, Woonsocket, R. I., nonmember.	12- 3-28
National Globe Bank, Woonsocket, R. I.	12- 3-28

2 Bank of the Manhattan Co., New York, N. Y., has absorbed the following banks:

Bronx Borough Bank, New York, N. Y., nonmember.	12-27-28
First Bank of Brooklyn, Brooklyn, N. Y., nonmember. (succession to First National Bank of Brooklyn)	12-29-28

Consolidation of State Members:

1 The Liberty Trust Co., Boston, Mass., member, has consolidated with and under title of the Beacon Trust Co., Boston, Mass., a member. 12- 6-28

5 The Shenandoah Valley Bank & Trust Co., Martinsburg, W. Va., member, has consolidated with and under the title of the Peoples Trust Co., Martinsburg, W. Va., a member. 12-31-28

Voluntary Withdrawal:

4 Lodi State Bank, Lodi, Ohio. 12-29-28

Absorbed by National Bank:

8 Farmers & Merchants Trust Co., St. Louis, Mo., has been absorbed by the South Side National Bank of St. Louis. 12-31-28

11 Lamar State Bank & Trust Co., Paris, Texas, has been absorbed by the First National Bank of Paris, Texas. 12-31-28

Closed:

11 State Bank of Commerce, Commerce, Texas. 12-28-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2 Washington County National Bank, Granville, N. Y.(Supplemental) 1-3-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 11, 1929

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Succeeded by Nonmember Bank:	
11	First State Bank & Trust Co., Waxahachie, Texas (Succeeded by Republic Bank & Trust Co., Waxahachie, Texas, nonmember).	12-31-28

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

5	National Bank of Norton, Norton, Va.	1- 8-29
8	South Side National Bank, St. Louis, Mo.	1-11-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 18, 1929

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist.		Capital	Surplus	Total resources	Date
2	Colonial Trust Co., Newark, N. J.	$300,000	$150,000	$2,069,960	1-18-29
2	Rochelle Park Bank, Rochelle Park, N. J.	50,000	20,000	75,033	1-18-29

Consolidation of State Members:

7	The First State Savings Bank, Croswell, Mich., a member, has consolidated with and under the title of the State Bank of Croswell, Mich., a member.	1- 2-29
7	The Carroll County State Bank and the First State Bank, both of Mt. Carroll, Ill., members, have consolidated under the title of First Carroll County State Bank, a nonmember.	1-11-29

Voluntary Withdrawal:

11	Farmers State Bank, Georgetown, Texas.	1-12-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 25, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist.		Capital	Surplus	Total resources	Date
2	Midtown Bank of New York, New York, N. Y.	$500,000	$250,000	$3,844,608	1-25-29
7	Merchants Trust & Savings Bank, Battle Creek, Mich.	250,000	125,000	4,564,279	1-24-29

Closed:

12	Bank of Farmington, Farmington, Wash.	1-18-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Somerville National Bank, Somerville, Mass.	1-23-29
5	Riggs National Bank, Washington, D. C. (Confirmatory)	1-23-29
6	Unaka and City National Bank, Johnson City, Tenn.	1-23-29
7	American National Bank, Beaver Dam, Wis.	1-23-29
10	Security National Bank, Norman, Okla.	1-23-29
12	First National Bank, Beverly Hills, Calif.	1-23-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 1, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
7	Central Trust Company of Illinois, Chicago, Ill. (A consolidation of Central Trust Company of Illinois and the Bank of America, both of Chicago, under new charter)	$10,500,000	$7,500,000	$168,599,063	2- 2-29

Closed:

11	First State Bank of Idalou, Idalou, Texas.	1-30-29

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

2	Chatham Phenix National Bank & Trust Co., New York, N. Y.	1-28-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 8, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
3	Miners Savings Bank, Olyphant, Pa.	$100,000	$100,000	$1,305,201	2-2-29

Absorption of Nonmember:

2 The Manufacturers Trust Co., New York, N. Y., a member, has absorbed the State Bank & Trust Co., New York, N. Y., nonmember. 1-26-29

Absorption of National Bank:

2 The Bank of the Manhattan Co., New York, N. Y., a member, has absorbed the Little Neck National Bank, Little Neck, New York, N. Y. 1-26-29

Change of Title:

2 The American Exchange-Irving Trust Co., New York, N. Y., has changed its title to Irving Trust Company. 2-1-29

12 The Monterey County Bank, Salinas, Calif., has changed its title to Monterey County Trust & Savings Bank. 1-23-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Thomaston National Bank, Thomaston, Maine	2-2-29
5	National Bank of Rising Sun, Rising Sun, Md.(Supplemental)	2-8-29
7	Millikin National Bank, Decatur, Ill. (Supplemental)	2-2-29
10	First National Bank, Alliance, Nebr.	2-4-29
11	First National Bank in Childress, Childress, Texas	2-2-29
12	First National Bank, Medford, Oreg.	2-2-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 15, 1929

CHANGES IN STATE BANK MEMBERSHIP:

DIST.		DATE
	Merged with State Member:	
2	The Mechanics Bank, Brooklyn, N. Y., has merged into the Brooklyn Trust Co., Brooklyn, N. Y.	2- 8-29
	Closed:	
6	Bank of Henry County, McDonough, Ga.	2-11-29
	Consolidation:	
7	The First Trust & Savings Bank and the Union Trust Co., both of Chicago, Ill., both members, have consolidated under a new charter.	2-11-29
	Voluntary Withdrawals:	
5	Farmers & Merchants Bank, Walterboro, S. C.	2- 9-29
8	Peoples Savings Bank & Trust Co., Pine Bluff, Ark.	2-13-29
11	First State Bank & Trust Co., Snyder, Texas	2- 9-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Huntington, N. Y.	2-14-29
10	First National Bank, Omaha, Nebr. (Supplemental)	2-14-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 22, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Closed:	
6	Citizens Banking Company, Eastman, Ga.	2-19-29
	Absorption by State Member:	
7	The Farmers Trust & Savings Bank, Seneca, Ill., a member, has been absorbed by the State Bank of Seneca, Ill., member.	1- 7-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Chase National Bank, New York, N. Y. (Confirmatory)	2-19-29
3	Wernersville National Bank & Trust Co., Wernersville, Pa.	2-18-29

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 1, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
3	Integrity Trust Co., Philadelphia, Pa.	$1,000,000	$6,000,000	$32,129,174	3- 1-29
4	Midland Bank, Cleveland, Ohio. (Succession to Midland Bank, a member)	4,000,000	2,000,000	32,382,447	2-28-29
11	Mercantile Bank & Trust Co. of Texas, Dallas, Tex.	2,000,000	100,000	17,316,714	2-27-29

Succeeded by State Member:

4	The Midland Bank, Cleveland, O., a member, has been succeeded by the Midland Bank, Cleveland, O., a member.	2-28-29

Consolidated with National Bank:

7	The Griswold-First State Bank, Detroit, Mich., a member, has consolidated with the National Bank oc Commerce, Detroit.	3- 1-29

Consolidated with Nonmember:

11	The Texas State Bank & Trust Co., San Antonio, Tex., member, has consolidated with the Central Trust Co., San Antonio, Tex., a nonmember.	2-23-29

Succeeded by Nonmember:

12	The Farmers State Bank, Moro, Oreg., a member, has been succeeded by the State Bank of Moro, Moro, Oreg., nonmember.	2-25-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First and Ocean National Bank, Newburyport, Mass.	2-27-29
4	First National Bank & Trust Co., Springfield, O.(Confirmatory)	2-27-29
4	Monongahela National Bank, Pittsburgh, Pa.(Supplemental)	2-27-29
5	National Bank of Orange, Orange, Va.	2-27-29
7	First National Bank, Des Plaines, Ill.	2-27-29
7	Shelby National Bank, Shelbyville, Ind.	2-27-29
7	St. Charles National Bank, St. Charles, Ill.	3- 1-29
8	First National Bank, West Point, Miss.	3- 1-29
9	National Bank of Huron, Huron, S. Dak.	2-27-29
10	Fidelity Nat. Bank & Trust Co., Kansas City, Mo.(Confirmatory)	2-27-29
11	Guaranty National Bank, Houston, Tex.	2-27-29
11	First National Bank, Kingsville, Tex.	2-25-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 8, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.

Admitted to Membership:

None.

Succeeded by Nonmember:

8	The Union & Planters Bank & Trust Company, Memphis, Tenn., a member has been succeeded by Union Planters Bank & Trust Co., a new nonmember institution.	2-28-29.

Closed:

6	The Middle Georgia Bank, Eatonton, Ga.	3-5-29.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Glen Rock National Bank, Glen Rock, N. J.	3-7-29.
3	The Industrial National Bank of West York, York, Pa. (Supplemental)	3-7-29.
3	The First National Bank of Palmerton, Palmerton, Pa.	3-7-29.
3	The First Milton National Bank, Milton, Pa. (Confirmatory)	3-7-29.
4	The Champaign National Bank of Urbana, Urbana, Ohio. (Confirmatory)	3-7-29.
11	Del Rio National Bank, Del Rio, Texas.	3-7-29.
11	Farmers-First National Bank of Stephenville, Stephenville, Texas.	3-7-29.
12	The La Jolla National Bank of San Diego, San Diego, Cal.	3-7-29.
12	The Citizens National Bank and Trust Co., Everett, Wash.	3-7-29.

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 15, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
8	Peoples Trust Co., Little Rock, Ark.	$300,000	$100,000	$3,873,286	3-12-29
8	Midland Savings Bank, St. Louis County, Mo.	30,000	12,500	85,257	3-15-29
12	First Security Bank, Boise, Idaho	150,000	100,000	4,810,085	3-11-29

Absorption of National Bank:

5	The Baltimore Trust Co., Baltimore, Md., a member, has absorbed the National Union Bank, Baltimore, Md.	3-11-29

Voluntary Withdrawal:

7	Austin State Bank, Chicago, Ill.	3-15-29

Converted to National Bank:

11	The Gray County State Bank, Pampa, Texas, has converted into the Pampa National Bank, Pampa, Texas.	3- 8-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Baldwinsville, N. Y.	3-11-29
2	National Bank of Watervliet, Watervliet, N. Y.	3-11-29
1	Millers River National Bank, Athol, Mass.	3-12-29
2	Sterling National Bank & Trust Co., New York, N. Y.	3-13-29
7	First National Bank, Dundee, Ill.	3-12-29
10	Fidelity National Bank, Oklahoma City, Okla.(Supplemental)	3-14-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 22, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

DIST. NO.		Capital	Surplus	DATE
7	Continental Illinois Bank and Trust Co., Chicago, Ill.	$75,000,000	$65,000,000	3-18-29

Succeeded by State Member:

7 The Illinois Merchants Trust Co., Chicago, Ill., has been succeeded by the Continental Illinois Bank and Trust Co., Chicago, Ill., a member. 3-18-29

Consolidation with Nonmember:

9 The Security Bank & Trust Co., Red Wing, Minn., a member, has consolidated with the Red Wing State Bank, Red Wing, Minn., a nonmember, under the title of Security Bank & Trust Co. 3- 2-29

Converted to National Bank:

12 The Citizens Bank, Portland, Oreg., a member, has converted into the Citizens National Bank of Portland, Oreg. 3-19-29

Voluntary Withdrawal:

7 Benton Harbor State Bank, Benton Harbor, Mich. 3-22-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Palisades Park National Bank, Palisades Park, N. J.	3-18-29
2	Sterling National Bank & Trust Co., New York, N. Y.	3-13-29
2	Briggs National Bank, Clyde, N. Y.	3-18-29
3	First National Bank, Harrington, Del.	3-18-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 29, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
3	Interboro Bank & Trust Co., Prospect Park, Pa.	$125,000	$87,500	$1,156,745	3-28-29

Voluntary Withdrawal:

7	Schaller Savings Bank, Schaller, Iowa	3-25-29

Absorption of Nonmember:

5	The Peoples Trust Co., Martinsburg, W. Va., member, has absorbed the Bank of Martinsburg, Martinsburg, W. Va., nonmember.	3-28-29

Consolidated with National Bank:

8	Liberty Central Trust Co., St. Louis, Mo. (Consolidated with First National Bank in St. Louis, Mo.)	3-23-29
12	American Exchange Bank, Portland, Oreg. (Consolidated with Portland National Bank, Portland, Oreg.)	2-28-29

Absorption of National Bank:

12	The Aurora State Bank, Aurora, Oreg., has absorbed the First National Bank of Aurora, Oreg.	3-25-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	National Bank of Lebanon, Lebanon, N. H.	3-26-29
2	Clifton National Bank, Clifton, N. J.	3-26-29
4	First Nat. Bank & Trust Co., Lexington, Ky. (Confirmatory)	3-26-29
8	First National Bank, Clinton, [illegible].	3-26-29
8	St. Louis National Bank, St. Louis, Mo.	3-23-29
11	Midland National Bank, Midland, Tex.	3-23-29
11	First National Bank, Smithville, Tex.	3-26-29
12	United States National Bank, McMinnville, Oreg. (Confirmatory)	3-26-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 5, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Fleetwood Bank, Mount Vernon, N. Y.	$ 200,000	$ 100,000	$ 316,158	4- 1-29
2	Bank of Commerce in New York, N. Y. (Succession to National Bank of Commerce in New York)	25,000,000	40,000,000	730,387,814	4- 5-29

Consolidated with Nonmember:

3	The Federal Trust Company, Philadelphia, Pa. (Consolidated with Bankers Trust Company, Philadelphia, Pa., a nonmember).	3-20-29

Consolidation of State Members:

3	West Philadelphia Title & Trust Co., Philadelphia, Pa. (Consolidated with Integrity Trust Co., Philadelphia, Pa.,member).	2-28-29
6	Citizens Bank, Metter, Ga. (Absorbed by Bank of Candler County, Metter, Ga., member).	3-21-28

Absorption of National Banks:

2	The Globe Exchange Bank, Brooklyn, N. Y., member, has absorbed the Bushwick National Bank, New York, N. Y.	4- 1-29
9	The Farmers State Bank, Fullerton, N. Dak., member, has absorbed the First National Bank of Fullerton, N. Dak.	3-14-29

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

2	Bank of Commerce in New York, New York, N. Y.	4- 5-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Abington National Bank, Abington, Mass.	4- 2-29
1	National Whaling Bank, New London, Conn.	4- 1-29
5	First National Bank, Rocky Mount, N. C. (Confirmatory)	4- 1-29
5	Peoples National Bank, Rock Hill, S. C.	4- 6-29
5	Charleston National Bank, Charleston, W. Va.(Confirmatory)	3-30-29
6	First National Bank, Rome, Ga.	4- 5-29
11	Frost National Bank, San Antonio, Tex. (Confirmatory)	4- 5-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 12, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
5	Broadway Bank & Trust Co., Richmond, Va.	$300,000	$25,000	$2,430,089	4-10-29

Converted to National Bank:

7	The Niles City Bank, Niles City, Mich., has converted into the City National Bank & Trust Co., Niles City, Mich.	4- 1-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Nassau National Bank of Brooklyn in New York, N. Y. (Confirmatory)	4- 9-29
2	Lefcourt Normandie National Bank, New York, N. Y.	4- 9-29
2	Citizens National Bank, Waverly, N. Y.	4- 9-29
5	Farmers & Merchants National Bank, Stanley, Va.	4- 9-29
5	Bluefield National Bank, Bluefield, W. Va.	4- 9-29
7	Tipton National Bank, Tipton, Iowa	4- 9-29
7	City National Bank & Trust Co., Niles, Mich.	4- 1-29
10	First National Bank, Leavenworth, Kans.	4-11-29
10	Genoa National Bank, Genoa, Nebr.	4-11-29
11	First National Bank, Amarillo, Tex. (Supplemental)	4- 9-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 19, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Plaza Trust Co., New York, N. Y.	$2,000,000	$1,000,000	$3,158,099	4-17-29

Absorption of Nonmembers:

2	The Commercial Trust Company of New Jersey, Jersey City, N. J., member, has absorbed the Mercantile Trust Company, Jersey City, N. J., nonmember.	4- 1-29
2	The Bank of United States, New York, N. Y., member, has absorbed the Colonial Bank, New York, N. Y., and the Bank of the Rockaways, Far Rockaway, N. Y., nonmembers.	4- 1-29

Change of Title:

6	The Leesburg State Bank, Leesburg, Fla., has changed its title to Leesburg State Bank and Trust Co.	3-19-29
7	The Fordson State Bank, Fordson, Mich., has changed its title to Bank of Dearborn, Dearborn, Mich.	3-23-29

Withdrawal:

7	State Bank of Ellsworth, Ellsworth, Iowa.	4-16-29

Consolidated with National Bank:

12	The Security Trust & Savings Bank, Los Angeles, Calif., has consolidated with and under the charter of the Los Angeles-First National Trust & Savings Bank, Los Angeles, Calif.	3-30-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Hampden National Bank, Westfield, Mass.	4-16-29
1	Rockingham National Bank, Exeter, N. H.	4-16-29
2	City National Bank, Hackensack, N. J.	4-16-29
2	Cazenovia National Bank, Cazenovia, N. Y.	4-16-29
2	Sidney National Bank, Sidney, N. Y.	4-16-29
7	Peoples National Bank & Trust Co., Chicago, Ill.	4-13-29
7	Farmers National Bank, Webster City, Iowa (Supplemental)	4-16-29
10	First National Bank, Leavenworth, Kans.	4-11-29
10	Genoa National Bank, Genoa, Nebr.	4-11-29

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 26, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Hanover Bank of the City of New York, N. Y.	$10,000,000	$15,000,000	$320,273,000	4-24-29
4	Peoples Savings & Trust Co., Pittsburgh, Pa.	4,000,000	9,000,000	54,264,931	4-22-29
8	University City Bank & Trust Co., University City, Mo.	100,000	26,200	1,053,305	4-25-29

Change of Title:

2 The Bloomfield Trust Co., Bloomfield, N. J., has changed its title to Bloomfield Bank & Trust Co. 4-15-29

7 The Kent State Bank, Grand Rapids, Mich., has changed its title to Old Kent Bank. 4-22-29

Closed:

6 Peoples Bank, Sardis, Ga. 4-19-29

Voluntary Withdrawal:

8 Fidelity Bank & Trust Co., Memphis, Tenn. 4-19-29

Absorbed by Nonmember:

7 The Central State Bank, Jackson, Mich., has been absorbed by the Jackson City Bank & Trust Co., Jackson, Mich., a nonmember. 4-13-29

Absorption of National Banks:

2 The Bloomfield Trust Co., Bloomfield, N. J., a member, has absorbed the Bloomfield National Bank, Bloomfield, N.J. 4-15-29

7 The Kent State Bank, Grand Rapids, Mich., a member, has absorbed the Old National Bank, Grand Rapids, Mich. 4-22-29

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

6 First National Bank, Lake Charles, La. 4-25-29

Dist. No.		Date
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:	
3	Point Pleasant Beach National Bank, Point Pleasant Beach, N.J.	4-26-29
3	Mifflin County National Bank, Lewistown, Pa.	4-26-29
5	Second National Bank, Culpeper, Va.	4-23-29
11	First National Bank in Lubbock, Lubbock, Tex.	4-25-29
12	Security-First National Bank, Los Angeles, Calif. (Confirmatory)	4-23-29
12	National Bank of Commerce, Seattle, Wash. (Confirmatory)	4-23-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 3, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	Chemical Bank & Trust Co., New York, N. Y.	$10,000,000	$15,000,000	$252,888,000	5- 3-29

Merged with Nonmember:

2	Claremnnt Bank of Jersey City, N. J. (Merged with Trust Company of New Jersey, Jersey City, N. J., nonmember)	4-30-29

Absorption of National Banks:

2	First Trust & Deposit Co., Syracuse, N. Y., member, has absorbed the following national banks:	
	Liberty National Bank & Trust Co., Syracuse, N. Y.	4-27-29
	Third National Bank, Syracuse, N. Y.	4-27-29

Voluntary Withdrawal:

7	Second Security Bank, Chicago, Ill.	5- 3-29

Consolidated with National Bank:

6	The Chattanooga Savings Bank & Trust Co., Chattanooga, Tenn., a member, has consolidated with and under the title of the First National Bank of Chattanooga.	2- 2-29

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

2	Chemical Bank and Trust Co., New York, N. Y.	5- 3-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Callicoon National Bank, Callicoon, N. Y.	4-29-29
2	Brooklyn National Bank, New York, N. Y.	4-30-29
7	First National Bank, Wyandotte, Mich.	4-30-29
10	Federal National Bank, Shawnee, Okla.	4-29-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 10, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Dist. No.		Date
	Admitted to Membership:	
	None.	
	Mergers Between State Members:	
2	The Municipal Bank and Trust Co., Brooklyn, N. Y., has merged with and under the title of Bank of United States, New York, N. Y.	5-10-29
2	The Bank of Commerce in New York, N. Y., has merged with and under the title of the Guaranty Trust Co., New York, N.Y.	5- 4-29
	Voluntary Withdrawal:	
10	First Security Bank, Rock Springs, Wyo.	5- 4-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

4	Painesville National Bank & Trust Co., Painesville, O.	5- 9-29
7	Old National Bank, Bluffton, Ind.	5- 7-29
7	First National Bank, Charlotte, Mich.	5- 7-29
9	First and American National Bank, Duluth, Minn. (Confirmatory and supplemental)	5- 3-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 17, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
2	J. Henry Schroder Trust Co., New York, N. Y.	$700,000	$350,000	$1,050,000	5-16-29

Change of Title:

5	The Savings Bank of Richmond, Va., has changed its title to Savings Bank and Trust Company, Richmond, Va.	5-16-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

7	Central National Bank & Trust Co., Des Moines, Iowa	5-15-29
8	First National Bank, Carrollton, Ky.	5-15-29
9	Merchants National Bank & Trust Co., Fargo, N. Dak.	5-15-29
12	First National Bank, Stockton, Calif. (Supplemental)	5-17-29
12	Citizens Security National Bank, Everett, Wash. (Confirmatory)	5-17-29

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 24, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
8	State Savings Bank, Lebanon, Mo.	$25,000	$15,000	$368,415	5-23-29
8	Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.	10,000,000	5,000,000	149,666,288	5-20-29
10	Park County Bank, Powell, Wyo.	25,000	2,500	171,605	5-20-29

Change of Title:

2 The Corn Exchange Bank, New York, N. Y., has changed its title to Corn Exchange Bank Trust Company. 5-20-29

Merger of State Members:

2 The Hanover Bank of the City of New York, N. Y., has merged with the Central Union Trust Co., New York, N. Y., under the title of Central Hanover Bank & Trust Co. 5-15-29

Voluntary Withdrawal:

4 Antwerp Exchange Bank Co., Antwerp, O. 5- 1-29

Converted to National Bank:

7 The Central State Bank, Des Moines, Iowa, has converted into the Central National Bank & Trust Co., Des Moines, Iowa. 5-15-29

Closed:

7 American State Bank, Fort Madison, Iowa. 5-20-29

Succeeded by State Member:

8 The Mercantile Trust Co., St. Louis, Mo., a member, has been succeeded by the Mercantile-Commerce Bank & Trust Co., a member. 5-20-29

Absorption of Nonmember:

9 The Swift County Bank, Inc., Benson, Minn., a member, has absorbed the Farmers & Merchants State Bank, De Graff, Minn., a nonmember. 5- 7-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Broadway National Bank & Trust Co., New York, N. Y.	5-20-29
2	First National Bank, Pleasantville, N. Y.	5-20-29
2	Roslyn National Bank & Trust Co., Roslyn, N. Y.	5-20-29
7	First National Bank in Creston, Creston, Iowa.	5-23-29
9	American National Bank, St. Paul, Minn.	5-23-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 31, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
7	Union Industrial Bank, Flint, Mich.	$1,800,000	$ 700,000	$31,680,824	5-27-29
8	Cass Bank & Trust Co., St. Louis, Mo.	300,000	400,000	6,725,531	5-27-29

Change of Title:

5	The Savings Bank of Richmond, Richmond, Va., has changed its title to Savings Bank and Trust Company.	5-16-29

Reopened

6	The Citizens Banking Company, Eastman, Ga.	5-24-29

Succeeded by State Member

8	The Cass Avenue Bank, St. Louis, Mo., has been succeeded by the Cass Bank and Trust Company.	5-27-29

Merger of State Members:

7	The Industrial Savings Bank and the Union Trust and Savings Bank, both of Flint, Mich., have merged under the name "Union Industrial Bank."	5-27-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	First National Bank of Middletown, Middletown, Conn.	5-28-29
1	Warren National Bank of Peabody, Peabody, Mass.	5-28-29
2	First National Bank & Trust Co. of Rochester, Rochester, N.Y.	5-24-29
12	First National Trust & Savings Bank of Spokane, Spokane, Wash.	5-25-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 7, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorption of Nonmember:	
2	The Trade Bank of New York, N. Y., has absorbed the Tompkins Square Bank, New York, N. Y., nonmember.	5-27-29
	Merger and Change of Title:	
7	The Merchants National Bank, Detroit, Mich., has merged with the Dime Savings Bank, Detroit, Mich., a member, under the title of the Bank of Michigan.	5-27-29
	Voluntary Withdrawal:	
7	State Bank of Waupun, Waupun, Wis.	6- 6-29
	Change of Title:	
12	The Bingham State Bank, Bingham, Utah, has changed its title to First Security Bank of Bingham.	5- 3-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

4	Marine National Bank, Erie, Pa.	6- 3-29
7	First National Bank, Harvey, Ill.	6- 3-29
7	First National Bank in Bluffton, Bluffton, Ind.	6- 6-29
10	First National Bank, Canon City, Colo.	6- 6-29
11	Merchants National Bank, Brownsville, Tex.(Supplemental)	6- 6-29
11	First National Bank, Paris, Tex.	6- 6-29
12	Skagit National Bank, Mount Vernon, Wash.(Confirmatory)	6- 6-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 14, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Dist.		Date
	Admitted to Membership:	
	None.	
	Absorption of National Bank:	
2	The Liberty Bank of Buffalo, N. Y., member, has absorbed the Frontier National Bank, Buffalo, N. Y.	6-10-29
	Mergers of State Members:	
3	The Bank of North America and Trust Co., Philadelphia, Pa., member, has merged with and under the title of the Pennsylvania Company for Insurance on Lives & Granting Annuities, Philadelphia, Pa., a member.	6- 1-29
	The Citizens Savings & Trust Co., York, Pa., member, has merged with and under the title of the York Trust Co., York, Pa., a member.	5-15-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	Haverhill National Bank, Haverhill, Mass.	6-14-29
4	First National Bank, Leechburg, Pa.	6-14-29
6	City National Bank, Albany, Ga.	6-12-29
8	Farmers National Bank, Lebanon, Ky.	6-10-29
10	Drovers National Bank in Kansas City, Mo.	6-12-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 21, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
1	Bristol American Bank & Trust Co.,Bristol,Conn.	$200,000	$200,000	$3,599,243	6-21-29
2	Seaboard Bank of the City of New York, N. Y.	11,000,000	14,000,000	279,739,812	6-19-29
11	Security State Bank & Trust Co.,Beaumont,Tex.	125,000	10,000	1,219,271	6-19-29
11	Central Trust Co., San Antonio, Tex.	250,000	100,000	5,474,730	6-19-29

Merger:

3	The Camden Safe Deposit & Trust Co., Camden, N. J., a member, and the Security Trust Co., Camden, N, J, nonmember, have merged under the charter and title of the Camden Safe Deposit & Trust Co.	6-17-29

Voluntary Withdrawal:

7	American State Bank, Fort Madison, Iowa	6-19-29
11	Central State Bank, Sherman, Texas.	6-20-29

Withdrawal:

11	Texas State Bank & Trust Co., San Antonio, Texas.	6-15-29

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

2	Seaboard Bank of the City of New York, N. Y.	6-19-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	Central National Bank, Yonkers, N. Y.	6-19-29
4	Lagonda-Citizens National Bank, Springfield, Ohio	6-21-29
7	American National Bank, Noblesville, Ind.	6-20-29

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 28, 1929.

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

Dist. No.		Capital	Surplus	Total resources	Date
1	Sagamore Trust Co., Lynn, Mass.	$200,000	$75,000	$2,375,106	6-26-29

Closed:

6	Citizens Bank of Lake Wales, Lake Wales, Fla.	6-28-29

Voluntary Withdrawals:

4	Peoples Commercial Bank, Bellefontaine, Ohio.	6-27-29
7	Van Wert State Bank, Van Wert, Iowa.	6-28-29

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

2	First National Bank, Salamanca, N. Y.	6-26-29
9	National Bank & Trust Co., Jamestown, N. Dak.	6-24-29

COPY X-6212

January 4, 1929.

TO: The Federal Reserve Board.

FROM: Mr. Wyatt - General Counsel.

SUBJECT: Report to Senator Norbeck on S-4662 for signature of Secretary of the Treasury.

I respectfully submit herewith a draft of a letter for the signature of the Secretary of the Treasury to Senator Norbeck of the Banking and Currency Committee of the Senate, in response to a request for a report on S-4662, a bill to amend the Federal Reserve Act with respect to venue of civil suits against Federal reserve banks.

This bill is so inartistically and ambiguously drawn that it is impossible clearly to understand its purpose or effect. In view of the fact, however, that it was introduced by Senator Brookhart of Iowa, and in view of the further fact that certain suits were recently brought in the State Courts of Iowa against the Federal Reserve Bank of Chicago and objections to the jurisdiction were made by the Federal Reserve Bank of Chicago both on the ground that the Federal Reserve Bank of Chicago is not doing business in the State of Iowa and on the ground that process was not properly served on the Federal Reserve Bank, I am confident that the intent of this bill is to make it possible to bring suit against, and to obtain service of process upon any Federal reserve bank in any State Court anywhere within the Federal Reserve District served by such Federal reserve bank.

As soon as this bill was introduced I sent copies to Counsel for all the Federal reserve banks and requested an informal expression of their views on the subject. Two or three of them misunderstood the purpose of the bill, but those which understood it strongly opposed its enactment. Their letters, however, are not in suitable form for transmission to Congress; and opposition to this bill by the Secretary of the Treasury and by the Federal Reserve Board would have much more force than opposition by the Federal reserve banks.

For the reasons stated in the attached letter, I feel very strongly that this bill should not be enacted and that both the Board and the Secretary of the Treasury should go on record as opposing its enactment. It is possible, however, that notwithstanding this opposition the Committee will favor the enactment of the bill. To cover this contingency I have incorporated in the attached letter recommendations for certain changes which should be made in the text of the bill and also recommendations for additional provisions restoring to the Federal Courts jurisdiction of suits by and against Federal reserve banks where such suits actually involve the validity or interpretation of any provision of the Federal Reserve Act or the Board's Regulations, and also a provision exempting the Federal reserve banks from the issuance of an attachment, injunction or execution prior to the rendition of final judgment in any case. These amendments would accomplish in part the purpose of similar amendments recommended in the Board's last Annual Report; but this would seem to be a favorable opportunity to recommend the enactment of those amendments as separate bills, and I have drafted the letter accordingly.

The statement with regard to the number of State Judicial Districts in the United States is based upon reports received from Counsel to various Federal reserve banks and is believed to be fairly accurate.

It is necessary that three carbon copies of the attached letter and enclosures be furnished to the Secretary of the Treasury.

Respectfully,

Walter Wyatt,
General Counsel

WW OMC

Enclosures attached

COPY

January 4, 1929.

Honorable Peter Norbeck, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C.

My dear Mr. Chairman:

In accordance with the request contained in your letter of December 15th, I have conferred with the Federal Reserve Board and take pleasure in submitting the following report on S. 4662, a bill to amend the Federal Reserve Act with respect to venue of civil suits against Federal reserve banks.

It would appear that the general purpose of this bill is to make it possible to bring suit against, and to obtain service of process upon, any Federal reserve bank in any court anywhere within the Federal reserve district in which such Federal reserve bank is located. To this end it provides that each Federal reserve bank shall be deemed to be an inhabitant of each judicial district within the geographical limits of its Federal reserve district and shall appoint an agent upon whom process may be served in each such judicial district. It is not clear, however, whether it is intended to refer to State judicial districts or to Federal judicial districts.

If it is intended to refer to Federal judicial districts it would have little effect; because, as explained on page 48 of the Annual Report of the Federal Reserve Board for the year 1927, since the passage of the Act of February 13, 1925, amending the Judicial

Code, the Federal courts have jurisdiction of very few suits brought against Federal reserve banks. It is assumed, therefore, that this bill is intended to refer to State judicial districts. If so, its constitutionality is doubtful; because it is in substance an attempt to enlarge the jurisdiction of the State courts and it is doubtful whether Congress has any such power.

Assuming, however, that the bill is intended to refer to State judicial districts and assuming that, notwithstanding this fact, it is constitutional, it is nevertheless open to serious objections. It would fail to give recognition to what should be considered to be a principle of law, namely, that a corporation not domiciled in a certain State can only be sued in a jurisdiction within such State in which it voluntarily accepts service or in which it is actually doing business and where service of process is made upon an actual agent or officer. The disregard of such a fundamental principle would not only be unjust to Federal reserve banks but would subject them to serious inconvenience and unnecessary expense.

To require the Federal reserve banks to defend numerous petty suits in local courts scattered throughout their Federal reserve districts would necessitate the attendance of officers and employees of the Federal reserve banks as witnesses and the production of their books and records, and would very seriously interfere with the performance of their important public duties.

From an inquiry as to the number of State judicial districts in each Federal reserve district it appears that this bill would make it necessary for the Federal reserve banks to appoint approximately 1047

agents whose sole purpose would be to receive service of process in suits brought against Federal reserve banks. This alone would be an unnecessary and unjustifiable expense to the Federal reserve banks. In addition thereto it would compel the Federal reserve banks to defend suits in the most remote corners of their Federal reserve districts and to retain local attorneys in such cases in addition to their regular counsel, who now handle practically all of their litigation. Moreover, the rights of the Federal reserve banks in such suits would be prejudiced by local influence and the natural inclination of rural juries to regard Federal reserve banks as enormously wealthy foreign corporations instead of semi-Governmental institutions created solely for the purpose of performing a public service.

For these reasons the Treasury Department and the Federal Reserve Board are strongly opposed to the enactment of this bill or any other bill having a similar purpose.

If, notwithstanding these objections, your Committee should decide to report this bill with a recommendation for favorable action, it is earnestly requested that the bill be amended so as to clarify its provisions and so as to relieve to some extent the distinct disadvantages under which the Federal reserve banks are now laboring, as pointed out on page 48 of the Annual Report of the Federal Reserve Board for the year 1927. A proposed revised draft of the bill incorporating amendments which would be necessary to accomplish these purposes is enclosed herewith, and the more important amendments will be explained briefly.

The changes suggested in the text of the bill are intended

to make it clear that the bill refers to both State and Federal judicial districts and that it is intended to affect the jurisdiction as well as the venue of suits brought by or against Federal reserve banks. To this end, it would make such banks citizens of the States in which their head offices are located and inhabitants of each Federal and State judicial district within the geographical limits of their Federal reserve district, and would provide that they shall be deemed to be doing business in each such judicial district. It is believed that these provisions are necessary to accomplish the original purposes of the bill. As a matter of simple justice, the bill would also be amended so as to apply to suits brought by Federal reserve banks as well as to suits brought against them.

In addition to these amendments, it is suggested that there be added at the end of the bill three provisos which would accomplish in part the purpose of the recommendations contained on pages 48 and 49 of the Annual Report of the Federal Reserve Board for the year 1927.

The first proviso would give the District Courts of the United States jurisdiction of all suits brought by or against any Federal reserve bank which actually involve the validity or construction of any provision of the Federal Reserve Act, any amendment thereto, or any regulation prescribed pursuant thereto by the Federal Reserve Board. This is clearly in accordance with the policy of the Constitution to have the validity and interpretation of Federal statutes passed upon by Federal rather than State courts. Adherence to this policy is especially important with respect to the Federal Reserve Act, because of the technical nature of its provisions and the technical nature of the subjects with which it deals and also because

of the unfortunate fact that the nature, functions and purposes of the Federal Reserve System are not generally understood by either the State judges or the lawyers practicing in the State courts.

The second proviso would make it possible to remove from the State courts to the United States District Courts suits of the character of those described in the first proviso, in accordance with the provisions of the Judicial Code providing for the removal of suits brought in the State courts of which the United States District Courts would have original jurisdiction.

The third proviso would exempt the Federal reserve banks from attachment, injunction or execution before final judgment in any case, as national banks are now exempted under the provisions of section 5242 of the Revised Statutes. Such an exemption is clearly warranted by the unquestioned credit standing of the Federal reserve banks and their financial ability to pay any judgment which may be rendered against them; and such an exemption is necessary in order to prevent the Federal reserve banks from being hampered in the performance of their public duties through the issuance of attachments, injunctions or executions before final judgment on the merits of any litigation in which they may be involved.

As stated above, both the Federal Reserve Board and the Treasury Department are strongly opposed to the enactment of Senate Bill 4662 or any other bill having the effect which this bill in its present form apparently is intended to have. Both the Board and the Treasury Department, however, are in favor of the enactment of bills exempting Federal reserve banks from attachment, injunction or execution before final judgment in any suit, action or proceeding and restoring to the Federal courts jurisdiction over

suits brought by and against Federal reserve banks. Separate bills covering these subjects are, therefore, enclosed; and it is requested that your Committee give them favorable consideration.

Very truly yours,

Secretary of the Treasury.

Enclosures.

COPY X-6212-b

(Revised Draft of S-4662.)

A BILL

To amend the Federal Reserve Act, as amended, with respect to venue of civil suits against Federal reserve banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the fourth subdivision of the fourth paragraph of section 4 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following: "For the purposes of JURISDICTION AND venue of civil suits BY AND against Federal reserve banks, each Federal reserve bank shall be deemed to be a A CITIZEN OF THE STATE IN WHICH ITS HEAD OFFICE IS LOCATED AND an inhabitant of, AND TO BE DOING BUSINESS IN, each FEDERAL AND STATE judicial district within the geographical limits of the Federal reserve district in which such bank is located. The board of directors of each such bank shall appoint, in each such judicial district, an agent upon whom process may be served. PROVIDED, HOWEVER, THAT THE DISTRICT COURTS OF THE UNITED STATES SHALL HAVE JURISDICTION OF ALL SUITS OF A CIVIL NATURE AT LAW OR IN EQUITY, BROUGHT BY OR AGAINST ANY FEDERAL RESERVE BANK WHICH ACTUALLY INVOLVE THE VALIDITY OR CONSTRUCTION OF ANY PROVISION OF THE FEDERAL RESERVE ACT, ANY AMENDMENT THERETO, OR ANY REGULATION PRESCRIBED PURSUANT THERETO BY THE FEDERAL RESERVE BOARD, REGARDLESS OF WHETHER SUCH QUESTION ARISES FROM THE PLEADINGS OF THE PLAINTIFF OR FROM DEFENSES INTERPOSED IN GOOD FAITH BY THE DEFENDANT; PROVIDED, FURTHER, THAT ANY SUCH SUIT INSTITUTED IN A STATE COURT MAY BE REMOVED BY THE DEFENDANT OR DEFENDANTS INTO THE

DISTRICT COURT OF THE UNITED STATES FOR THE PROPER DISTRICT, AS PROVIDED IN CHAPTER 3 OF THE JUDICIAL CODE (UNITED STATES CODE, TITLE 28, CHAPTER 3); AND PROVIDED FURTHER, THAT NO ATTACHMENT, INJUNCTION, OR EXECUTION SHALL BE ISSUED AGAINST ANY FEDERAL RESERVE BANK OR THE PROPERTY OF ANY FEDERAL RESERVE BANK BEFORE FINAL JUDGMENT IN ANY SUIT, ACTION, OR PROCEEDING IN ANY STATE, COUNTY, MUNICIPAL, OR UNITED STATES COURT."

COPY X-6212-c

A BILL

To amend section 4 of the Federal Reserve Act and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the Fourth subdivision of the fourth paragraph of section 4 of the Federal Reserve Act (the fourth subdivision of Section 341, Chap. 3, Title 12, of the United States Code) be amended to read as follows:

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

COPY X-6212-d

A BILL

To amend section 12 of the Act entitled "An Act to amend the Judicial Code, and to further define the jurisdiction of the circuit courts of appeals and of the Supreme Court, and for other purposes," approved February 13, 1925, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that section 12 of the Act entitled "An Act to amend the Judicial Code, and to further define the jurisdiction of the circuit courts of appeals and of the Supreme Court, and for other purposes," approved February 13, 1925, Section 42 of Title 28 of United States Code, be amended and reenacted to read as follows:

"Sec. 12. That no district court shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an Act of Congress: Provided, That this section shall not apply to any suit, action, or proceeding brought by or against a Federal Land Bank, Joint Stock Land Bank, Federal reserve bank or any corporation incorporated by or under an Act of Congress wherein the Government of the United States is the owner of more than one-half of its capital stock."

COPY X-6218-e

December 19, 1928.

MEMORANDUM FOR THE FILES:

Subject: Mr. Weed's views on S. 4662.

Mr. Weed, Counsel to the Federal Reserve Bank of Boston, just called me on the telephone and advised me that he is opposed to the enactment of S. 4662 on the ground that it will result in unnecessary and unjustifiable inconvenience and hardship on the Federal reserve banks.

(S) Walter Wyatt.

WW-sad

COPY X-6212-f

FEDERAL RESERVE BANK

OF NEW YORK

December 12, 1928.

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

Dear Walter:

I enclose a copy of the digest I prepared referring to S. 4662, copy of which you sent me with your letter of December 8. You will recall that I showed this digest to you when we were discussing the bill in my office yesterday.

Yours faithfully,

(S)
Walter S. Logan,
General Counsel.

Encl.

COPY

X-6212-f-1

42

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: December 11, 1928.

TO: _____ SUBJECT: FEDERAL LEGISLATION - PENDING

FROM: Legal Department (Digest No. 1 - 70th Cong., 2nd session)

The following bill which is of interest to Federal Reserve Banks has been introduced:

Senate 4662, introduced by Mr. Brookhart, December 5, to amend Section 4 of the Federal Reserve Act by adding the following provision at the end of the fourth subdivision of the fourth paragraph thereof:

> "For the purposes of venue of civil suits against Federal reserve banks, each Federal reserve bank shall be deemed to be an inhabitant of each judicial district within the geographical limits of the Federal reserve district in which such bank is located. The board of directors of each such bank shall appoint, in each such judicial district, an agent upon whom process may be served."

At the present time the United States District Courts have no jurisdiction over suits by or against Federal Reserve Banks except in cases in which the construction of a Federal statute or of the United States Constitution is involved. Jurisdiction of United States courts over suits against Federal Reserve Banks cannot be maintained on the ground of Federal incorporation or on the ground of diversity of citizenship. Presumably, the purpose of the bill is to permit suits to be brought against Federal Reserve Banks in the Federal Courts on the ground of diversity of citizenship. The scope of the bill, however, is not clear. For example, under the terms of the bill this bank would be a citizen of New York, New Jersey, and Connecticut and it is not clear whether a Federal court of New York would have jurisdiction over a suit brought against this bank by a citizen of New Jersey. Moreover, the bill relates to suits "against" Federal Reserve Banks and does not appear to give the Federal Reserve Banks any additional rights with respect to suits brought by them.

The following bills have also been introduced.

S. 4602, introduced by Mr. McNary, December 5.
H. R. 14940, introduced by Mr. Cannon, December 6.

Both are entitled "A bill to establish a Federal Farm Board to aid in the orderly marketing and in the control and disposition of the surplus of agricultural commodities in interstate and foreign commerce."

COPY X-6212-g 43

WILLIAMS AND SINKLER
Attorneys at Law
601 Commercial Trust Building
Philadelphia.

December 21, 1928

Walter Wyatt, Esq., General Counsel,

Federal Reserve Board,

Washington, D. C.

Dear Mr. Wyatt:

We are writing concerning Senate Bill No. 4662 entitled "A Bill to amend the Federal Reserve Act as amended, with respect to venue of civil suits against Federal reserve banks".

It is our view that any legislation intended to determine definitely the jurisdictions within which suits may be brought against Federal reserve banks in the Federal courts should be limited to such provisions as would make Federal reserve banks subject to suit only in those Federal judicial districts within which are located their principal offices or branches. The Bill if adopted in its present form would go much further and make each Federal reserve bank subject to suit in each judicial district within the geographical limits of its reserve district regardless of the fact that such bank might not be conducting its business or operations in such judicial district and that also neither its principal offices or branch might be located therein. It also fails to give recognition to what should be considered to be a principle of law, namely, that a corporation not domiciled in any state can only be sued in a jurisdiction within such state in which it voluntarily accepts service or in which it is actually doing business and service of process is made on its agent or officer.

We do not believe that the disregard of such a fundamental principle would be warranted in view of the fact that little substantial advantage would result to those persons bringing suits against Federal reserve banks inasmuch as the Bill should probably be construed not to apply to suits brought in State courts, where the great majority of suits against Federal reserve banks are commenced.

More constructive results could possibly be accomplished if the reserve banks were made subject to suit only in the judicial district in which their principal offices or branches are located, and were permitted at their discretion in the proper jurisdictional instances to remove suits brought in State courts to the Federal courts on the sole ground of their Federal incorporation. This is in accord with one of the suggestions contained in your memorandum to the Federal Reserve Board under date of March 9, 1926.

Our view must necessarily be based on theory, inasmuch, as in many other instances, the absence of litigation in this district has not given us the benefit of actual experience in such matters. We should, of course, be influenced by the views of counsel for the other banks whose districts cover much wider territory than the third district and whose experiences in actual litigation have brought home to them more emphatically the problems involved.

Apart, however, from being opposed to the principle upon which the Bill is based, we believe that its adoption would not only result in great confusion without any substantial advantage to any one class of litigants, but would require judicial construction at the outset.

The Act would seem to disregard the fact that all Federal judicial districts are not wholly included within the geographical limits of any particular Federal reserve district - For instance, Pennsylvania is divided into three Federal judicial districts, the eastern, middle and western districts.

Twenty-five counties comprise the western district, of which six are included within the Philadelphia district and nineteen in the Cleveland district. The offices of the Clerks of the Courts in this district are located in Pittsburg and Erie, neither of which cities lies within the Philadelphia district. A question might possibly arise as to whether or not a Federal reserve bank would be considered an inhabitant of a judicial district, part of which only lies within the reserve district, or whether the entire judicial district must be within the geographical limits of the reserve district. Furthermore, if the western district could be said to be in the Philadelphia district for the purpose of litigation, then the Philadelphia Bank might possibly have to defend a suit at Pittsburgh or Erie, both of which would, of course, be out of its district. A similar situation might arise in New Jersey, which constitutes only one Federal judicial district but part of which lies within the New York district and part in the Philadelphia district.

The direction in the Act that the Board of Directors of each bank shall appoint in each judicial district an agent upon whom process may be served would in our opinion be inadequate and of little value, in the absence of further provisions specifying the manner in which notice of such appointments shall be given to the public and some limitation on the places of residence of the agent appointed for accepting service of process in any particular district. As you know, the State Acts with respect to service of process on foreign corporations are always quite explicit in these respects and require the appointment of either the Secretary of State or some other public official as agent for the acceptance of service of process.

In this district we have always considered that the Philadelphia Bank is conducting business only within that jurisdiction either State or Federal,

in which its principal office is located and where all of its operations are carried on, but, of course, there has been no legislation for the purpose of determining this point.

We appreciate the difficulties with which you are faced in opposing such legislation as the proposed Bill, but feel decidedly that it should not be adopted in its present form. If we can be of any help to you in this respect we shall be glad to do so upon your request.

Very truly yours,

(S) Williams and Sinkler.

EMS.

COPY

X-6212-h

47

SQUIRE, SANDERS & DEMPSEY

COUNSELLORS AT LAW

THE UNION TRUST BUILDING

CLEVELAND

December 22, 1928.

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

Dear Sir:

We acknowledge receipt of your letter of December 8, enclosing copy of Senate Bill No. 4662, introduced by Mr. Brookhart of Iowa.

We believe that this is objectionable legislation, as it will place each Federal Reserve Bank in the position of being subject to the annoyance of litigation throughout its district, and will, we believe, encourage the filing of suits on small claims. It will furthermore restrict the Federal Reserve Banks in exercising the right of removing cases to the Federal courts, except in cases involving a construction of the Federal Constitution or Federal laws. Such legislation will also subject the Federal Reserve Banks to attachment or injunction before judgment or final hearing.

We feel that, if passed, the proposed bill should at least contain an amendment exempting Federal Reserve Banks from attachment or from injunction, except after judgment or final hearing.

Yours very truly,

SN:D

(S) Squire, Sanders & Dempsey.

COPY

X-6212-i

48

FEDERAL RESERVE BANK

OF RICHMOND

December 13, 1928.

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

Dear Mr. Wyatt:

Mr. Wallace has turned over to me his reply to your letter of December 8 asking for the expression of views upon the bill of Senator Brookhart to amend the Federal Reserve Act with respect to venue of civil suits against Federal reserve banks, and I am sending his reply to you herewith.

My own opinion is that Senator Brookhart's bill is too broad and would be likely to subject us to expensive and vexatious suits in the different parts of the district for trifling sums in cases which might involve a principle of operation. I do not think this should be the case, but am inclined to think that it would be better if Federal reserve banks were regarded as being present only in those parts of the district at which the main office or branches are located.

Very truly yours,

(S) GEO. J. SEAY,
Governor.

GJS-CCP

1 Encl.

COPY X-6212-i-1

FEDERAL RESERVE BANK OF RICHMOND

DATE December 12, 1928

TO Mr. George J. Seay, Governor.

FROM M. G. Wallace, Counsel.

SUBJECT Senate Bill S-4662 with respect to Venue of Civil Suits against Federal Reserve Banks.

My dear Mr. Seay:

I hand you herewith a letter from Mr. Walter Wyatt, General Counsel of the Federal Reserve Board, to myself, enclosing a copy of the above mentioned bill, which was introduced in Congress by Senator Brookhart, of Iowa.

You will see that the object of this bill is to amend Section 4 of the Federal Reserve Act by providing that the several Federal Reserve banks shall be deemed to be inhabitants of each judicial district in their respective Federal Reserve districts, and that the Board of Directors of each bank shall appoint a person in each such judicial district upon whom process may be served.

Under the present law it is by no means clear whether or not a Federal Reserve bank should be regarded as present in every part of its Federal Reserve district, and therefore subject to civil suits in each state of its district, or whether the bank should be regarded as present only in the state in which it has a main office or branch. The question has arisen several times in our experience. Upon two such occasions the lower courts decided that we were present and doing business in North Carolina before we had a branch in that state, but in both of the suits which I mentioned it was never necessary to carry the case to an appellate court as the suit was decided in our favor upon other grounds. In a third case in North Carolina the same question was raised, but that case is still pending.

From the standpoint of a lawyer, therefore, I can say only that at present the law is uncertain and that an amendment which would remove that uncertainty would be desirable. I cannot, however, see why the proposed bill should require an agent for the service of process in each judicial district. I think that this means Federal judicial districts. In this Federal Reserve district the judicial districts are as follows: One in Maryland, two in Virginia, two in West Virginia, three in North Carolina, and two in South Carolina. The District of Columbia is not, strictly speaking, a Federal judicial district, but I imagine that within the contemplation of this Act it would be classified as a judicial district.

I can see no reason for the requirement of a separate agent in each judicialdistrict because the Federal courts have no jurisdiction of suits by and against Federal Reserve banks unless some question of Federal law is involved in that suit other than the mere fact that the bank is

incorporated under Federal law. It therefore seems to me that if Congress desires to declare that the banks shall be regarded as inhabitants of their entire Federal Reserve district, the most reasonable requirements would be the appointment of an agent in each state of the district upon whom process could be served in any suit brought in the courts of that state.

Whether or not it would be advisable to declare the Federal Reserve banks liable to service of process in all parts of their district or restrict service of process to those states in which the banks have established offices is of course a matter of public policy. There are certain advantages and disadvantages, however, in either case.

If we are deemed an inhabitant in each state in our Federal Reserve district, we may be vexed with suits in remote and inaccessible places; but, upon the other hand, we would be entitled to the benefit of statutes of limitation and similar statutes which apply only to resident defendants. Upon the other hand, if we are resident and doing business only in those states in which we have established offices, we will be relieved in many cases of suits in inaccessible points in our Federal Reserve district; but we will be subject to attachment as non-resident in those states in which we are not doing business, and when money or property is attached as that of a non-resident, such non-residents are not usually entitled to statutes of limitation; and, also, if we cannot be sued in states in which we have no offices, persons who have, or think they have, small claims against us will be compelled to abandon them rather than to litigate them. This might at first appear of some benefit to us, but the feeling of irritation which would follow from such a condition might well outweigh the annoyance which we would suffer if we were sometimes sued in remote or inaccessible points.

Very truly yours,

(S) M. G. Wallace,
Counsel.

MGW:L

COPY X-6212-j 51

FEDERAL RESERVE BANK

OF ATLANTA

December 18, 1928.

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

Dear Mr. Wyatt:

We have your letter of December 8, enclosing for our information a copy of Senate Bill 4662, introduced by Senator Brookhart "To amend the Federal Reserve Act, as amended, with respect to venue of civil suits against Federal reserve banks."

We do not believe that this legislation should be enacted. It might be advisable to so amend the Act as to provide that, for the purposes of venue of civil suits against Federal reserve banks, each Federal reserve bank should be deemed to be an inhabitant of the judicial district within the geographical limits of which its main office is located, and we would see no particular objection to a bill providing that it should also be deemed to be an inhabitant of each judicial district within the geographical limits of which might be located a branch. Legislation to this effect might place Federal reserve banks in the category, for jurisdictional purposes, with national banks. There would seem to be no reason, however, for making a Federal reserve bank suable anywhere within the geographical limits of its Federal Reserve District.

Such legislation would be discriminatory, unfair and uncalled for as we see it.

Very truly yours,

RANDOLPH & PARKER,

By (S)
Robt. S. Parker.

RSP/w.

COPY X-6212-k 52

FEDERAL RESERVE BANK OF CHICAGO

CHICAGO December 12, 1928.

MR. WALTER WYATT, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Wyatt:

I received your letter of 8th inst. enclosing copy of Senate File 4662 which is a Bill to amend the Federal Reserve Act with respect to venue of civil suits against Federal Reserve Banks. In your letter you ask me to give you my views on the Bill at an early date.

I am of the view that the enactment of this Bill into law would seriously embarrass the operations of Federal Reserve Banks. It is a well known fact that prejudice exists in the minds of a great many poorly informed people against Federal Reserve Banks and their operations; and if these people who have pretended grievances against the Banks were enabled to institute suit in any court within the Reserve District, great numbers of such suits are bound to be brought, many without foundation, which will have to be unjustly settled or defended against at ruinous expense.

I am decidedly of the view that the enactment of such legislation would be a grave mistake and would in the long run very seriously affect the operation of Federal Reserve Banks; would especially embarrass them in the performance of their clearing house functions and would place upon them a useless, needless and expensive burden.

In this connection, if there is to be legislation affecting the jurisdiction of courts over Federal Reserve Banks, I should like to see the Judiciary Act amended so as to restore to Federal Courts jurisdiction of suits by and against Federal Reserve Banks on account of their Federal incorporation; and if this latter cannot be done, at least I would like to see legislation to the effect that the several Federal Reserve Banks for jurisdictional purposes may, like national banks, be considered residents of the state in which their principal office is located.

And while we are on this subject, I suggest further that Federal Reserve Banks, like national banks ought to be free from attachment prior to final judgment.

With regards, I am

Yours very truly,

(S) CHAS. L. POWELL,
Counsel.

COPY

X-6212-1

53

FEDERAL RESERVE BANK
of
ST. LOUIS

December 11, 1928.

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

My dear Mr. Wyatt:

I have your letter of 12/8/28 and copy of Senate Bill S-4662 accompanying it.

As you would naturally infer, as Counsel for one of the Federal Reserve Banks I hope the Bill referred to will not be favorably reported out of the Committee on Banking; for, if reported out, it would be popular with the country lawyer and the country banker whose influence as vote getters might have considerable influence on the votes of the Legislators when the Bill comes up for passage.

The Bill, if passed, would add greatly to the expense of the Federal Reserve Banks in that we could not afford (when we have a Jury case) to go into the District of the Plaintiff and defend a suit without the employment of local Counsel; and, even in equity cases or jury cases tried before the Court, it would be nearly imperative to have some local Attorney to look after the filing of pleadings and to attend to informal motions and the setting of the case.

If the bill becomes a law, we would have to defend in the atmosphere of Court and Jury both, in most cases, favorable to plaintiff, our Circuit Court Judges being elected by the voters of the particular district.

I further fear that the enactment of the bill would encourage the bringing of a great many suits of doubtful merit for the purpose of forcing a payment in compromise rather than to be put to the expense of defending a suit at a distant point having in mind the gamble against us in having to defend before a Jury friendly to the local plaintiff.

Having in mind that if this bill becomes a law, there will be one introduced (if it has not already been introduced) affecting the Federal Land Banks in the same way, I, therefore, called in the Counsel for the Federal Land Bank, and, without disclosing to him that you had sent the bill to me, asked for his opinion as to how it would affect the legal department in the Land Banks - who have even more litigation that would be affected by a similar bill than do the Federal Reserve Banks. He was very much interested in the Bill, and, suggested that he was personally acquainted with Senators Robinson and Carraway, and, that if either of them were on the Banking Committee, he would be very glad to do what he could towards seeing that the Bill was not reported out.

I am fairly close to Senator Hawes of this District, and, if he is on the Banking Committee, I would not hesitate to go to him with a view of attempting to have the bill not reported out of the Committee. However, neither Counsel for the Land Bank nor I will take any steps towards seeing these gentlemen until I have heard from you.

Our troubles in Missouri are already sufficient under a State statute which permits substituted service by filing the suit in the District of the Plaintiff, suing out summons, and, directing the local sheriff to forward the summons to the sheriff of the District where the defendant resides, and, service by the latter sheriff, in cases where the cause of action arises in the District of the Plaintiff. Fortunately not many cases come within the requirements of this statute.

Thanking you for furnishing me the Bill, I am

Very truly yours,

(S) Jas. G. McConkey,
Counsel.

COPY X-6212-m

FEDERAL RESERVE BANK

OF MINNEAPOLIS

December 10, 1928.

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

Dear Sir:

I have your letter of the 8th with copy of S.4662, introduced by Senator Brookhart.

It is not clear whether the words "judicial district" in the bill refer to Federal judicial districts, of which there are 7 within the limits of Ninth District, or to State judicial districts of which there are 75. Inasmuch as the district courts of the United States since the Act of Feb. 13, 1925, have not jurisdiction of civil suits by or against Federal reserve banks except when the United States or an agent thereof is plaintiff or when the matter in controversy arises under the Constitution or laws or treaties of the United States, I think the words "judicial districts" must be construed to mean State judicial districts.

From my experience as counsel for this bank the past 14 years my opinion is that nothing could be more vexatious to the Federal reserve banks than this proposed amendment to the Federal Reserve Act. This bank would have to keep agents in 75 judicial districts, and suit might be started against it in any of the districts, and would have to be tried where started regardless of convenience or expense with respect to witnesses or the records of the bank as

evidence. A suit involving transactions on the Northern Peninsula of Michigan could be started in the remotest judicial district of Montana, and vice versa. It would have to be for quite a large sum if the expense of defending should not exceed the sum sued for. Up to the present time I and my assistant at the Helena Branch have handled practically all litigation, but if this bill were passed we should not only have to travel over a wide territory but also have to employ local attorneys.

I can think of nothing more conducive to vexatious litigation or tending more to diminish the Government's share in the net earnings of the Federal reserve banks than the proposed amendment.

Yours very truly

(S) A. Ueland,
Counsel.

COPY X-6212-n

FEDERAL RESERVE BANK
of
KANSAS CITY

January 5, 1929.

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

Dear Mr. Wyatt:

This will confirm my recent telegram to you concerning Senate Bill S-4662, which has been introduced by Senator Brookhart, and which has as its purpose the amendment of the Federal Reserve Act "with respect to venue of civil suits against Federal reserve banks". As stated to you in my telegram, I see no good purpose to be served by this bill, but on the contrary I consider that it would be harmful to the Reserve banks.

As I read the bill, it would not change the present status of the Federal reserve banks with respect to their right to sue or be sued in the district courts of the United States. The right to sue or be sued in such courts is, at all events, a question of jurisdiction. The proposed amendment does not appear to affect jurisdiction, but by its express terms relates solely to the venue of actions. In all cases that might now be brought in the United States district courts against the Reserve banks, the amendment would very effectively fix the venue of such actions, but to my mind, it could not serve the purpose of creating a jurisdiction where the same does not already exist.

It is also significant that the place of habitation is fixed as being in the judicial districts rather than in the states which are embraced in the territory of the respective Reserve banks. I believe it is not necessary to consider here whether an inhabitant of a judicial district is also an inhabitant of the state in which such district is located, but unless such is the case, no diversity of citizenship could ever arise under the terms of the amendment which could give jurisdiction to the United States district courts, for as you well know, the requirement of jurisdiction on the ground of diversity of citizenship is that the parties be citizens of different states.

I am further influenced in these views by reason of the following:

FIRST. The amendment is to the Federal Reserve Act rather than to the Judicial Code. If it were the intention to make the Federal reserve banks inhabitants of the several states in their respective districts for jurisdictional purposes, the natural way to have accomplished that result would have been an amendment to the Judicial Code, by a provision similar to that which now relates to national banks.

SECOND. The word "inhabitant" is used rather than "citizen". The provisions of the Judicial Code which relate to matters affecting jurisdiction use the word "citizen", and those which relate to the question of venue use the word "inhabitant".

THIRD. There is no right conferred on the Reserve banks as inhabitants of the judicial districts to bring any action in any of such districts, but they are made inhabitants only for the purpose of actions which may be brought against them.

If I am not correct in my conclusion that the amendment would not change the status of the Federal reserve banks so far as their right to sue or be sued in the United States district courts is concerned, I still feel that the amendment is not a proper one. It would permit the Reserve banks to be sued in United States courts only in those instances where the party bringing suit is an inhabitant of some state other than the states embraced in whole or in part in the Federal reserve district of the bank involved. Actions of that kind would, of course, be rare, and the benefit, therefore, from the amendment, would be practically nothing.

I realize, of course, that you have analyzed the effect of this proposal more closely than I have been able to do, but unless I have overlooked something in it, I see nothing which I feel could be approved by the friends of the System.

Yours very truly,

(S) H. G. Leedy.

HGL:CR

COPY X-6212-o

59

Law Office of
LOCKE, LOCKE, STROUD AND RANDOLPH,
American Exchange Building,
Dallas, Texas.

December 17, 1928.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel.

Gentlemen:

We acknowledge receipt of your letter of December 8, 1928, enclosing copy of Senate Bill 4662, the same being a bill introduced by Senator Brookhart, providing, in substance, that the federal reserve banks shall be deemed inhabitants of each judicial district within the geographical limits of the federal reserve district in which such bank is located.

In some respects this bill appears to us satisfactory, that is to say, we have no objection to a federal reserve bank being deemed an inhabitant of the federal reserve district in which it is located, nor do we have any objection to a federal reserve bank designating an agent in each portion of its district upon which service might be had, provided the bill should go further than it now does and provide that federal courts be given jurisdiction of all suits involving federal reserve banks.

It seems to us that the introduction of this bill gives good opportunity for the federal reserve banks to raise the last mentioned question.

We notice that the bill has been referred to the Banking & Currency Committee and we are wondering whether or not the matter could not be called to the attention of Senator Glass and perhaps worked out so as to renew the jurisdiction of federal courts. We do not feel that the law should permit federal reserve banks to be sued in state courts located anywhere within the federal reserve district for many reasons with which you are familiar.

Our Mr. Stroud has several matters in Washington which are in need of attention and he is at present planning to make a trip to Washington sometime in January. If he can be of any assistance to you in connection with this matter, please advise.

Yours very truly,

EBS:lm

(S) Locke, Locke, Stroud
& Randolph.

COPY X-6213-p

60

FEDERAL RESERVE BANK

OF SAN FRANCISCO

December 18, 1928.

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

Dear Mr. Wyatt:

This is in reply to your letter of December 8, 1928 in which you enclose a copy of Senate Bill No. 4662 introduced by Senator Brookhart and relating to venue in civil suits against Federal reserve banks.

I am frank to say that I am somewhat at a loss to know what the intent of the Bill is; that is, whether it is intended to affect jurisdiction in suits brought against Federal reserve banks in state courts, or whether it is intended to affect Federal jurisdiction. If the latter is the intention, I cannot see that the measure will be effective for the purpose for which it is intended.

By the provisions of Section 42 of the Judicial Code, Federal courts are deprived of jurisdiction in actions or suits by or against any corporation where jurisdiction is predicated upon the ground that the corporation was organized under an act of Congress. This section undoubtedly deprives the Federal courts of jurisdiction in suits by or against Federal reserve banks where such jurisdiction is predicated upon Federal incorporation and not upon the theory that the action involves an interpretation of the constitution or laws of the United States.

FEDERAL LAND BANK vs. UNITED STATES NATIONAL BANK, 13 Fed. (2nd Ed.) 36.

This being the case, Senator Brookhart's Bill would not in my opinion change the situation or confer jurisdiction upon Federal courts where it does not now exist.

If, on the other hand, the Bill is intended to subject Federal reserve banks to the jurisdiction of all state courts within the respective Federal reserve districts, I consider the Bill an unfair measure and one which should not be enacted into the law. The purpose of the proposed legislation is doubtless to avoid the effect of such decisions as that rendered in the case of BACON vs. FEDERAL RESERVE BANK, 289 Fed. 513.

The effect of the proposed legislation would be to subject a Federal reserve bank to suit in any state court within the geographical limits of the district within which the bank is located, whether or not it was judicially held that the bank was "doing business" within the state under the terms of the state statute. In a district the size of ours, comprising approximately 20% of the area of the continental United States, the proposed legislation, conferring jurisdiction or fixing venue at any judicial district within the area, would result in great hardship to this bank.

We have five branches, located at Seattle and Spokane, Washington; Portland, Oregon; Salt Lake City, Utah; and Los Angeles, California. The distance from Seattle to our head office is 956 miles; from Salt Lake City to our head office 818 miles; from Spokane to this office 1149 miles. This district is approximately 1600 miles in length and approximately 1000 miles in width. I have no doubt that we are subject to suit within the judicial district where these branches are located, but legislation which would subject us to the inconvenience and expense of responding to a suit brought in Arizona or Nevada in which we have no branches and with which our business is transacted entirely by mail, would certainly be inequitable and unfair.

The proposed legislation would moreover involve the appointing in each judicial district of each state, an agent upon whom process might be served. In many of the judicial districts embraced within our area we have no local agent and would be forced to appoint for this purpose an officer of some member bank. In cases such as these, the agent not being familiar with our transactions or practices, would be at a serious disadvantage and might very easily so conduct himself as to jeopardize the best interests of the Federal reserve bank.

Federal reserve banks are already suffering under several serious legal disabilities with which you are familiar and of which I strongly feel they should be relieved. I can see no need for the addition of the burden proposed by Senator Brookhart and believe that every effort should be made to defeat the Bill.

Very truly yours,

(S) A. C. Agnew,
Counsel.

ACA/SW

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6213

January 7, 1929.

SUBJECT: Code words for use between Federal Reserve Banks, in connection with certain telegraphic transactions in foreign accounts.

Dear Sir:

Referring to letter X-6193, December 10, 1928, the Board is now advised that the definition of the code word "JUMPSOME" on page 4, is incomplete, in that a dollar sign and blank space should follow the words "SPECIAL INTEREST ACCOUNT" on the last line.

Kindly make this correction.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-6215

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 16, 1929.

SUBJECT: Expenses of Special Counsel in Raichle Case.

Dear Sir:

There is enclosed herewith statement in the amount of $10,157.86 submitted by Hon. Newton D. Baker, covering professional services and expenses in connection with the case of Frank G. Raichle v. Federal Reserve Bank of New York, which has been approved by the Federal Reserve Board and the directors of the Federal Reserve Bank of New York and paid by the New York Bank.

Inasmuch as Mr. Baker's services in this 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 New York its pro rata share of the expense (based on capital and surplus as of January 9, 1929), as follows:

Boston	$753.82
New York	3,072.14
Philadelphia	978.18
Cleveland	1,032.03
Richmond	467.48
Atlanta	400.21
Chicago	1,390.42
St. Louis	411.05
Minneapolis	255.78
Kansas City	336.90
Dallas	329.55
San Francisco	730.30
Total	$10,157.86

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

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

COPY

X-6215-a

BAKER, HOSTETLER & SIDLO
Counsellors at Law
Union Trust Building
Cleveland

Federal Reserve Bank of New York
New York City

December 17, 1928

1928	To Professional Services in re Frank G. Raichle v. Federal Reserve Bank of New York - - - - - - - - - -		$10,000.00
	Disbursements		
Aug. 14	Long distance call to Mr. Wyatt	$ 2.05	
16	Expenses (Mr. Baker) New York trip	75.00	
23	Long distance call to Buffalo	1.40	
Sept. 24	Expenses (Mr. Baker) trip to New York	75.00	
25	Telegram from Walter S. Logan, relayed to Mr. Baker at Blossburg, Pennsylvania	1.01	
24	Long Distance call to New York	3.40	157.86
	Total -		$10,157.86

BUDGET & EXPENDITURES

.....1929.

COMBINED STATEMENT. X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	53,955.83				647,470.00	
Non-personal Services:						
Supplies & Materials	566.42				6,725.00	
Subsistence Expenses	3,870.83				46,450.00	
Transportation Expenses	1,950.00				23,400.00	
Communication Service	1,143.75				13,725.00	
Prtg.,Engr.,Bind.,Etc.	4,437.50				53,250.00	
Heat & Light	100.00				1,200.00	
Rents - Building	1,333.33				16,000.00	
Rents - Equipment	3.00				36.00	
Repairs - Equipment	68.33				820.00	
Equipment	716.67				8,600.00	
Special & Miscellaneous	158.33				1,900.00	
Total.....	14,342.17				172,106.00	
Complete Total.	68,298.00				819,576.00	

BUDGET & EXPENDITURES

.....1929.

BOARD MEMBERS. X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	8,566.66				102,800.00	
Non-personal Services:						
Supplies & Materials	41.67				500.00	
Subsistence Expenses	100.00				1,200.00	
Transportation Expenses	416.66				5,000.00	
Communication Service	66.66				800.00	
Prtg.,Engr.,Bind.,Etc.	33.33				400.00	
Repairs - Equipment	8.33				100.00	
Equipment	83.33				1,000.00	
Special & Miscellaneous	16.67				200.00	
Total.....	766.66				9,200.00	
Complete Total.	9,333.33				112,000.00	

BUDGET & EXPENDITURES

.....1929.

SECRETARY'S OFFICE
(COMBINED)

X-6217

Objects of Expenditures:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available
Personal Services:	11,100.83				133,210.00	
Non-personal Services:						
Supplies & Materials	116.66				1,400.00	
Subsistence Expenses	16.67				200.00	
Transportation Expenses	25.00				300.00	
Communication Service	83.33				1,000.00	
Prtg.,Engr.,Bindg.,Etc.	25.00				300.00	
Repairs - Equipment	16.67				200.00	
Equipment	125.00				1,500.00	
Special & Miscellaneous	8.33				100.00	
Total.....	416.66				5,000.00	
Complete Total..	11,517.50				138,210.00	

29

BUDGET & EXPENDITURES

....1929.

RESEARCH & STATISTICS N-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	9,783.33				117,400.00	
Non-personal Services:						
Supplies & Materials	100.00				1,200.00	
Subsistence Expenses	58.33				700.00	
Transportation Expenses	125.00				1,500.00	
Communication Service	250.00				3,000.00	
Prtg.,Engr.,Binde.,Etc.	62.50				750.00	
Repairs - Equipment	12.50				150.00	
Equipment	250.00				3,000.00	
Special & Miscellaneous	25.00				300.00	
Total.....	883.33				10,600.00	
Complete Total..	10,666.66				128,000.00	

BUDGET & EXPENDITURES

.....1929.

BANK OPERATIONS. X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	5,933.33				71,200.00	
Non-personal Services:						
Supplies & Materials	133.33				1,600.00	
Subsistence Expenses	16.66				200.00	
Transportation Expenses	25.00				300.00	
Communication Service	283.33				3,400.00	
Prtg.,Engr.,Bindg.,Etc.	45.83				550.00	
Repairs - Equipment	12.50				150.00	
Equipment	41.66				500.00	
Special & Miscellaneous	16.66				200.00	
Total.....	575.00				6,900.00	
Complete Total...	6,508.33				78,100.00	

BUDGET & EXPENDITURES

.....1929.

GENERAL. X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	833.33				10,000.00	
Non-personal Services:						
Supplies & Materials	83.33				1,000.00	
Subsistence Expenses	83.33				1,000.00	
Transportation Expenses	83.33				1,000.00	
Communication Service	416.66				5,000.00	
Prtg.,Engr.,Bindg.,Etc.	4,166.66				50,000.00	
Heat & Light	100.00				1,200.00	
Rents - Building	1,333.33				16,000.00	
Rents - Equipment	3.00				36.00	
Repairs - Equipment	4.16				50.00	
Equipment	83.33				1,000.00	
Special & Miscellaneous	41.66				500.00	
Total.....	6,398.83				76,786.00	
Complete Total...	7,232.17				86,786.00	

BUDGET & EXPENDITURES

.....1929.

DIVISION OF ISSUE. X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available
Personal Services:	4,295.00				51,540.00	
Non-personal Services:						
Supplies & Materials	25.00				300.00	
Communication Service	6.25				75.00	
Prtg.,Engr.,Bindg.,Etc.	33.33				400.00	
Repairs - Equipment	6.25				75.00	
Equipment	25.00				300.00	
Special & Miscellaneous	4.16				50.00	
Total.....	100.00				1,200.00	
Complete Total...	4,395.00				52,740.00	

BUDGET & EXPENDITURES

.....1929.

FISCAL AGENT.

X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	941.67				11,300.00	
Non-personal Services:						
Supplies & Materials	6.25				75.00	
Communication Service	4.17				50.00	
Prtg.,Engr.,Bindg.,Etc.	4.17				50.00	
Repairs - Equipment	1.67				20.00	
Equipment	16.67				200.00	
Special & Miscellaneous	2.08				25.00	
Total.....	35.00				420.00	
Complete Total...	976.67				11,720.00	

BUDGET & EXPENDITURES

.....1929.

COUNSEL'S OFFICE. X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	3,001.67				36,020.00	
Non-personal Services:						
Supplies & Materials	12.50				150.00	
Subsistence Expenses	12.50				150.00	
Transportation Expenses	25.00				300.00	
Communication Service	16.67				200.00	
Prtg.,Engr.,Bindg.,Etc.	4.17				50.00	
Repairs - Equipment	2.08				25.00	
Equipment	50.00				600.00	
Special & Miscellaneous	2.08				25.00	
Total.....	125.00				1,500.00	
Complete Total...	3,126.67				37,520.00	

BUDGET & EXPENDITURES

.....1929.

DIVISION OF EXAMINATION. X-6217

Objects of Expenditure:	Budget Monthly	Commitments This Month	Budget To Date	Commitments To Date	Budget Yearly	Balance Available.
Personal Services:	9,500.00				114,000.00	
Non-personal Services:						
Supplies & Materials	41.66				500.00	
Subsistence Expenses	3,583.33				43,000.00	
Transportation Expenses	1,250.00				15,000.00	
Communication Service	16.67				200.00	
Prtg.,Engr.,Bindg.,Etc.	62.50				750.00	
Repairs - Equipment	4.16				50.00	
Equipment	41.66				500.00	
Special & Miscellaneous	41.66				500.00	
Total.....	5,041.67				60,500.00	
Complete Total..	14,541.66				174,500.00	

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6218

January 18, 1929.

SUBJECT: Holidays during February, 1929.

Dear Sir:

On Tuesday, February 12, Lincoln's Birthday, (Shrove Tuesday in Alabama, Mardi Gras in New Orleans), there will be neither Gold Fund nor Federal reserve note clearing, and the books of the Board will be closed. For your information, the offices of the Board and the following Federal Reserve Banks and Branches will be open for business on that day:

Boston	Atlanta	Kansas City
	Jacksonville	Oklahoma City
Richmond		
Baltimore	St. Louis	Havana Agency
Charlotte	Little Rock	

On Friday, February 22, Washington's Birthday, the offices of the Board and all Federal reserve banks and branches will be closed.

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-6219

January 18, 1929.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

At the request of the Federal Reserve Bank of Chicago, the Federal Reserve Board has approved changes in the transit time from Chicago to Portland, Seattle and Spokane from four days to three days.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

DISTRICT NO. 1 X-6222

FEDERAL RESERVE BANK OF BOSTON

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. P. G. Harding, Governor
W. W. Paddock, Deputy Governor
Wm. Willett, Cashier
K. K. Carrick, Secretary

Frederic H. Curtiss, Chairman of the Board and Federal Reserve Agent
Allen Hollis, Deputy Chairman of the Board
C. F. Gettemy, Assistant Federal Reserve Agent
H. F. Currier, Auditor

E. G. Hult, Assistant Cashier
E. M. Leavitt, Assistant Cashier
L. W. Sweetser, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
Alfred L. Ripley	Pres., Merchants Nat'l. Bank, Boston, Mass.	Dec. 31, 1929
Edward S. Kennard	V.P. & Cashier, Rumford Nat'l. Bank, Rumford, Maine	Dec. 31, 1930
Frederick S. Chamberlain	Pres., New Britain Nat'l. Bank, New Britain, Conn.	Dec. 31, 1931
Class B:		
Philip R. Allen	Pres., Bird & Son E. Walpole, Mass.	Dec. 31, 1929
A. F. Bemis	Chrm., Bemis Bros. Bag Company, Boston, Mass.	Dec. 31, 1930
Albert C. Bowman	Pres., The John T. Slack Corporation, Springfield, Vt.	Dec. 31, 1931
Class C:		
Frederic H. Curtiss	Boston, Mass.	Dec. 31, 1929
Allen Hollis	Lawyer, Concord, N. H.	Dec. 31, 1930
Chas. H. Manchester	Public Utilities, Providence, R. I.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

Arthur M. Heard

COUNSEL

A. H. Weed

DISTRICT NO. 2 X-6222
FEDERAL RESERVE BANK OF NEW YORK

OFFICERS AND DIRECTORS, 1929

OFFICERS

George L. Harrison, Governor
J. H. Case, Deputy Governor
L. F. Sailer, Deputy Governor
E. R. Kenzel, Deputy Governor
L. R. Rounds, Deputy Governor
A. W. Gilbart, Deputy Governor

R. M. Gidney, Asst. Deputy Governor
J. W. Jones, Asst. Deputy Governor
J. E. Crane, Asst. Deputy Governor & Sec'y.
W. B. Matteson, Asst. Deputy Governor
C. H. Coe, Asst. Deputy Governor

D. H. Barrows, Manager
E. C. French, Manager
R. F. McMurray, Manager
J. A. Mitchell, Manager
R. M. O'Hara, Manager

Gates W. McGarrah, Chairman of the Board and Federal Reserve Agent
Owen D. Young, Deputy Chairman of the Board
W. R. Burgess, Assistant Federal Reserve Agent
W. H. Dillistin, Assistant Federal Reserve Agent
H. S. Downs, Assistant Federal Reserve Agent
Carl Snyder, General Statistician
E. L. Dodge, General Auditor

J. M. Rice, Manager
H. V. Roelse, Mgr. & Asst. Sec'y.
W. A. Scott, Manager
S. S. Vansant, Manager
I. W. Waters, Manager

DIRECTORS

		Term Expires
Class A:		
R. H. Treman	Pres., Tompkins County Nat'l. Bank, Ithaca, N. Y.	Dec. 31, 1929
Delmer Runkle	Chrm., Peoples Nat'l. Bank, Hoosick Falls, N. Y.	Dec. 31, 1930
Chas. E. Mitchell	Pres., Nat'l. City Bank, New York, N. Y.	Dec. 31, 1931
Class B:		
Theodore F. Whitmarsh	Pres., Francis H. Leggett & Co., N.Y., N.Y.	Dec. 31, 1929
Samuel W. Reyburn	Pres., Lord & Taylor, New York, N. Y.	Dec. 31, 1930
Wm. H. Woodin	Pres., Amer. Car & Fdy. Co., New York, N.Y.	Dec. 31, 1931
Class C:		
Owen D. Young	Chrm., Gen. Elec. Co., New York, N. Y.	Dec. 31, 1929
Clarence M. Woolley	Chrm., Amer. Radiator Co., Greenwich, Conn.	Dec. 31, 1930
Gates W. McGarrah	New York, N. Y.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

William C. Potter

COUNSEL

Walter S. Logan

DISTRICT NO. 3 X-6222

FEDERAL RESERVE BANK OF PHILADELPHIA

OFFICERS AND DIRECTORS, 1929

OFFICERS

Geo. W. Norris, Governor

William H. Hutt, Deputy Governor

C. A. McIlhenny, Cashier and Secretary

Richard L. Austin, Chairman of the Board and Federal Reserve Agent

Alba B. Johnson, Deputy Chairman of the Board

Arthur E. Post, Assistant Federal Reserve Agent

Ernest C. Hill, Assistant Federal Reserve Agent

William G. McCreedy, Comptroller

W. J. Davis, Assistant Cashier
James M. Toy, Assistant Cashier
R. M. Miller, Jr., Assistant Cashier
F. W. LaBold, Assistant Cashier
S. R. Earl, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
Joseph Wayne, Jr.	Pres., Phila. Nat'l. Bank, Philadelphia, Pa.	Dec. 31, 1929
George W. Reily	Pres., Harrisburg Nat'l. Bank, Harrisburg, Pa.	Dec. 31, 1930
John C. Cosgrove	V.P., First Nat'l. Bank, Hastings, Pa.	Dec. 31, 1931
Class B:		
Arthur W. Sewall	Pres., Gen'l. Asphalt Co., Philadelphia, Pa.	Dec. 31, 1929
Arthur C. Dorrance	Gen. Mgr., Campbell Soup Co., Camden, N. J.	Dec. 31, 1930
C. F. C. Stout	John R. Evans & Co., Philadelphia, Pa.	Dec. 31, 1931
Class C:		
Richard L. Austin	Philadelphia, Pa.	Dec. 31, 1929
Alba B. Johnson	Chrm., Southwark Foundry & Mach. Co., Philadelphia, Pa.	Dec. 31, 1930
Harry L. Cannon	Farmer and Packer, Bridgeville, Del.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

Levi L. Rue

COUNSEL

Williams and Sinkler

X-6222

DISTRICT NO. 4

FEDERAL RESERVE BANK OF CLEVELAND

OFFICERS AND DIRECTORS, 1929

OFFICERS

E. R. Fancher, Governor
M. J. Fleming, Deputy Governor
F. J. Zurlinden, Deputy Governor
H. F. Strater, Cashier and Secretary

Geo. DeCamp, Chairman of the Board and Federal Reserve Agent
L. B. Williams, Deputy Chairman of the Board
J. B. Anderson, Assistant Federal Reserve Agent
W. H. Fletcher, Assistant Federal Reserve Agent
F. V. Grayson, Auditor

C. W. Arnold, Assistant Cashier
C. L. Bickford, Assistant Cashier
D. B. Clouser, Assistant Cashier
W. F. Taylor, Assistant Cashier
G. H. Wagner, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
Robert Wardrop	Chrm., First Nat'l.Bank, Pittsburgh, Pa.	Dec. 31, 1929
O. N. Sams	Pres., Merchants Nat'l. Bank, Hillsboro, Ohio	Dec. 31, 1930
Chess Lamberton	V. P., Lamberton Nat'l. Bank, Franklin, Pa.	Dec. 31, 1931
Class B:		
Geo. D. Crabbs	Philip Carey Mfg. Co., Cincinnati, Ohio	Dec. 31, 1929
S. P. Bush	Manufacturer, Columbus, Ohio	Dec. 31, 1930
R. P. Wright	Reed Manufacturing Co., Erie, Pa.	Dec. 31, 1931
Class C:		
George R. DeCamp	Cleveland, Ohio	Dec. 31, 1929
W. W. Knight	V. P., Bostwick-Braun Co., Toledo, Ohio	Dec. 31, 1930
L. B. Williams	Hayden, Miller & Co., Cleveland, Ohio	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

Harris Creech

COUNSEL

Squire, Sanders & Dempsey

DISTRICT NO. 5 X-6222

FEDERAL RESERVE BANK OF RICHMOND

OFFICERS AND DIRECTORS, 1929

OFFICERS

George J. Seay, Governor
C. A. Peple, Deputy Governor
R. H. Broaddus, Deputy Governor
J. S. Walden, Jr., Controller
G. H. Keesee, Cashier
A. S. Johnstone, Manager
J. T. Garrett, Manager

Wm. W. Hoxton, Chairman of the Board and Federal Reserve Agent
Frederic A. Delano, Deputy Chairman of the Board
J. G. Fry, Assistant Federal Reserve Agent
T. F. Epes, Auditor

W. W. Dillard, Assistant Cashier
Edward Waller, Jr., Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
L. E. Johnson	Pres., First Nat'l. Bank, Alderson, W. Va.	Dec. 31, 1929
Chas. E. Rieman	Pres., Western Nat'l. Bank, Baltimore, Md.	Dec. 31, 1930
Jas. C. Braswell	Pres., Planters Nat'l. Bank, Rocky Mount, N. C.	Dec. 31, 1931
Class B:		
D. R. Coker	Merchant and Planter, Hartsville, S. C.	Dec. 31, 1929
J. P. Fishburn	Pres., Times-World Corp., Roanoke, Va.	Dec. 31, 1930
Edwin C. Graham	Pres., Nat'l. Elec. Supply Co., Washington, D.C.	Dec. 31, 1931
Class C:		
Wm. W. Hoxton	Richmond, Va.	Dec. 31, 1929
Frederic A. Delano	Receiver, Washington, D. C.	Dec. 31, 1930
Robert Lassiter	Textiles, Charlotte, N. C.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

John Poole

COUNSEL

M. G. Wallace

DISTRICT NO. 6 X-6222

FEDERAL RESERVE BANK OF ATLANTA

OFFICERS AND DIRECTORS, 1929

OFFICERS

E. R. Black, Governor
Hugh Foster, Deputy Governor
Creed Taylor, Deputy Governor
M. W. Bell, Cashier

Oscar Newton, Chairman of the Board and Federal Reserve Agent
W. H. Kettig, Deputy Chairman of the Board
Ward Albertson, Assistant Federal Reserve Agent and Secretary
W. S. Johns, General Auditor
J. W. Honour, Assistant Auditor

H. F. Conniff, Assistant Cashier
V. K. Bowman, Assistant Cashier
R. A. Sims, Assistant Cashier
C. R. Camp, Assistant Cashier
P. L. T. Beavers, Assistant Cashier
S. P. Schuessler, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
G. G. Ware	Pres., First Nat'l. Bank, Leesburg, Fla.	Dec. 31, 1929
H. Lane Young	V. P., Citizens & So. Nat'l. Bk., Atlanta, Ga.	Dec. 31, 1930
E. C. Melvin	Pres., Selma Nat'l. Bank, Selma, Ala.	Dec. 31, 1931
Class B:		
Leon C. Simon	V. P., Kohn, Weil & Simon, Inc., New Orleans, La.	Dec. 31, 1929
J. A. McCrary	Pres., J. B. McCrary Co. (Atlanta), Decatur, Ga.	Dec. 31, 1930
Luke Lea	Publisher, Nashville, Tenn.	Dec. 31, 1931
Class C:		
Oscar Newton	Atlanta, Ga.	Dec. 31, 1929
Geo. S. Harris	Pres. Exposition Cotton Mills, Atlanta, Ga.	Dec. 31, 1930
W. H. Kettig	Southern Rep., Crane Co., Birmingham, Ala.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

J. P. Butler, Jr.

COUNSEL

Randolph and Parker

OFFICERS AND DIRECTORS, 1929

OFFICERS

J. B. McDougal, Governor
J. H. Blair, Deputy Governor
C. R. McKay, Deputy Governor
William A. Heath, Chairman of the Board and Federal Reserve Agent
James Simpson, Deputy Chairman of the Board
W. H. White, Assistant Federal Reserve Agent and Secretary
F. M. Huston, Manager, R. & S.
F. R. Burgess, Auditor
W. A. Hopkins, Assistant Auditor

W. C. Bachman, Controller
K. C. Childs, Controller
J. H. Dillard, Controller
D. A. Jones, Controller
O. J. Netterstrom, Controller
A. L. Olson, Asst. Controller & Asst. Sec'y.

F. Bateman, Manager
J. C. Callahan, Manager
R. E. Coulter, Manager
A. W. Dazey, Manager
J. G. Roberts, Manager
E. A. Delaney, Manager
Irving Fischer, Manager
R. J. Hargreaves, Manager
F. A. Lindsten, Manager
L. G. Meyer, Manager
L. G. Pavey, Manager
F. L. Purrington, Manager

DIRECTORS

Class A:		Term Expires
E. L. Johnson	Pres., Leavitt & Johnson Trust Co., Waterloo, Iowa	Dec. 31, 1929
George M. Reynolds	Chrm., Cont'l. Nat'l. Bank & Trust Co., Chicago, Ill.	Dec. 31, 1930
Edward R. Estberg	Pres., Waukesha Nat'l. Bank, Waukesha, Wis.	Dec. 31, 1931
Class B:		
Robert Mueller	Mueller Mfg. Co., Decatur, Ill.	Dec. 31, 1929
A. H. Vogel	V. P., Pfister & Vogel Leather Co., Milwaukee, Wis.	Dec. 31, 1930
S. T. Crapo	Sec. & Treas., Huron Port. Cement Co., Detroit, Mich.	Dec. 31, 1931
Class C:		
James Simpson	Pres., Marshall Field & Co., Chicago, Ill.	Dec. 31, 1929
Wm. A. Heath	Chicago, Ill.	Dec. 31, 1930
F. C. Ball	Pres., Ball Bros. Mfg. Co., Muncie, Ind.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

Frank O. Wetmore

COUNSEL

C. L. Powell

FEDERAL RESERVE BANK OF ST. LOUIS

OFFICERS AND DIRECTORS, 1929

OFFICERS

Wm. McC. Martin, Governor

O. M. Attebery, Deputy Governor

Jas. G. McConkey, Sec'y. & Counsel

Rolla Wells, Chairman of the Board and Federal Reserve Agent
John W. Boehne, Deputy Chairman of the Board
C. M. Stewart, Assistant Federal Reserve Agent
Wm. L. Gregory, Jr., Acting Assistant Federal Reserve Agent
E. J. Novy, Auditor
A. E. Debrecht, Assistant Auditor

A. H. Haill, Controller
S. F. Gilmore, Controller
F. N. Hall, Controller
C. A. Schacht, Controller
G. O. Hollocher, Controller

DIRECTORS

		Term Expires
Class A:		
John G. Lonsdale	Pres., Nat'l. Bank of Commerce, St. Louis, Mo.	Dec. 31, 1929
Max B. Nahm	V. P., Citizens Nat'l. Bank, Bowling Green, Ky.	Dec. 31, 1930
John C. Martin	V. P.-Cashier, Salem Nat'l. Bank, Salem, Ill.	Dec. 31, 1931
Class B:		
LeRoy Percy	Planter, Greenville, Miss.	Dec. 31, 1929 Dec. 31, 1930
W. B. Plunkett	Pres., Plunkett-Jarrell Groc. Co., Little Rock, Ark.	Dec. 31, 1931
Class C:		
John W. Boehne	Retired, Evansville, Ind.	Dec. 31, 1929
Rolla Wells	St. Louis, Mo.	Dec. 31, 1930
Paul Dillard	Dillard & Coffin Co., Memphis, Tenn.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

Walter W. Smith

COUNSEL

Jas. G. McConkey

DISTRICT NO. 9 X-6222

FEDERAL RESERVE BANK OF MINNEAPOLIS

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. B. Geery, Governor
B. V. Moore, Deputy Governor
Harry Yaeger, Deputy Governor
Gray Warren, Cashier

John R. Mitchell, Chairman of the Board and Federal Reserve Agent
Homer P. Clark, Deputy Chairman of the Board
Curtis L. Mosher, Assistant Federal Reserve Agent
Fred M. Bailey, Assistant Federal Reserve Agent
Frank C. Dunlop, Controller

Leonard E. Rast, Assistant Cashier
Harry I. Ziemer, Assistant Cashier
Harold C. Core, Assistant Cashier
Arthur R. Larson, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
J. C. Bassett	Pres., Aberdeen Nat'l. Bank, Aberdeen, S. D.	Dec. 31, 1929
Karl J. Farup	Pres., First Nat'l. Bank, Park River, N. D.	Dec. 31, 1930
Paul J. Leeman	V. P., First Nat'l. Bank, Minneapolis, Minn.	Dec. 31, 1931
Class B:		
N. B. Holter	A. M. Holter Hardware Co., Helena, Mont.	Dec. 31, 1929
John S. Owen	John S. Owen Lumber Co., Eau Claire, Wis.	Dec. 31, 1930
Paul N. Myers	Pres., Waldorf Paper Prod. Co., St. Paul, Minn.	Dec. 31, 1931
Class C:		
John R. Mitchell	Minneapolis, Minn.	Dec. 31, 1929
Homer P. Clark	Pres., West Publishing Co., St. Paul, Minn.	Dec. 31, 1930
Geo. W. McCormick	Pres., ., Menominee River Sugar Co., Menominee, Mich.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

Theodore Wold

COUNSEL

Andreas Ueland

DISTRICT NO. 10 X-6222

FEDERAL RESERVE BANK OF KANSAS CITY

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. J. Bailey, Governor

C. A. Worthington, Deputy Governor

J. W. Helm, Cashier

M. L. McClure, Chairman of the Board and Federal Reserve Agent

Wm. L. Petrikin, Deputy Chairman of the Board

A. M. McAdams, Assistant Federal Reserve Agent and Secretary

S. A. Wardell, Auditor

John Phillips, Jr., Assistant Cashier
G. E. Barley, Assistant Cashier
E. P. Tyner, Assistant Cashier
M. W. E. Park, Assistant Cashier
G. H. Pipkin, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
E. E. Mullaney	Pres., Farmers & Merchants Bank, Hill City, Kans.	Dec. 31, 1929
C. C. Parks	V.P., First Nat'l. Bank, Denver, Colo.	Dec. 31, 1930
Frank W. Sponable	Pres., Miami County Nat'l. Bank, Paola, Kans.	Dec. 31, 1931
Class B:		
L. E. Phillips	V.P. & G.M., Phillips Petrol.Co., Bartlesville, Okla.	Dec. 31, 1929
Thos. C. Byrne	Byrne & Hammer Dry Goods Co., Omaha, Neb.	Dec. 31, 1930
J. M. Bernardin	J. M. Bernardin Lumber Co., Kansas City, Mo.	Dec. 31, 1931
Class C:		
M. L. McClure	Kansas City, Mo.	Dec. 31, 1929
E. M. Brass	Farming & Livestock, Grand Island, Neb.	Dec. 31, 1930
Wm. L. Petrikin	Pres., Great Western Sugar Co., Denver, Colo.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

Peter W. Goebel

COUNSEL

H. G. Leedy

FEDERAL RESERVE BANK OF DALLAS

OFFICERS AND DIRECTORS, 1929

OFFICERS

Lynn P. Talley, Governor
R. R. Gilbert, Deputy Governor
R. B. Coleman, Deputy Governor
Fred Harris, Cashier
W. D. Gentry, Asst. Deputy Governor

C. C. Walsh, Chairman of the Board and Federal Reserve Agent
Clarence E. Linz, Deputy Chairman of the Board
C. C. Hall, Assistant Federal Reserve Agent
W. J. Evans, Assistant Federal Reserve Agent
W. P. Clarke, General Auditor
C. C. True, Assistant Auditor

J. L. Hermann, Assistant Cashier
E. B. Austin, Assistant Cashier
R. O. Webb, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
Howell E. Smith	Pres., First Nat'l. Bank, McKinney, Texas	Dec. 31, 1929
J. H. Frost	Pres., Frost Nat'l. Bank, San Antonio, Texas	Dec. 31, 1930
W. H. Patrick	Pres., First Nat'l. Bank, Clarendon, Texas	Dec. 31, 1931
Class B:		
J. J. Culbertson	V. P., Southland Cotton Oil Co., Paris, Texas	Dec. 31, 1929
J. R. Milan	V. P., Cooper Grocery Co., Waco, Texas	Dec. 31, 1930
A. S. Cleveland	Wholesale Grocer & Cotton Factor, Houston, Texas	Dec. 31, 1931
Class C:		
Clarence E. Linz	V. P. & Tr., Southland Life Ins. Co., Dallas, Texas	Dec. 31, 1929
S. B. Perkins	Perkins Dry Goods Co., Dallas, Texas	Dec. 31, 1930
C. C. Walsh	Dallas, Texas	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

B. A. McKinney

COUNSEL

Charles C. Huff
Locke, Locke, Stroud & Randolph

DISTRICT NO. 12 X-6222

FEDERAL RESERVE BANK OF SAN FRANCISCO

OFFICERS AND DIRECTORS, 1929

OFFICERS

Jno. U. Calkins, Governor
W. A. Day, Deputy Governor
Ira Clerk, Deputy Governor
W. M. Hale, Cashier

Isaac B. Newton, Chairman of the Board and Federal Reserve Agent
Walton N. Moore, Deputy Chairman of the Board
S. G. Sargent, Assistant Federal Reserve Agent
Allan Sproul, Assistant Federal Reserve Agent and Secretary
F. H. Holman, General Auditor
R. T. Hardy, Auditor

C. E. Earhart, Assistant Cashier
C. D. Phillips, Assistant Cashier
H. N. Mangels, Assistant Cashier
E. C. Mailliard, Assistant Cashier
F. C. Bold, Assistant Cashier
J. M. Osmer, Assistant Cashier

DIRECTORS

		Term Expires
Class A:		
T. H. Ramsay	Chrm., United Sec. Bk. & Tr. Co., Red Bluff, Cal.	Dec. 31, 1929
Vernon H. Vawter	Cashier, Jackson County Bank, Medford, Ore.	Dec. 31, 1930
C. K. McIntosh	Pres., Bk. of California, N.A., San Francisco, Cal.	Dec. 31, 1931
Class B:		
A. B. C. Dohrmann	Pres., Dohrmann Comm'l. Co., San Francisco, Cal.	Dec. 31, 1929
Wm. T. Sesnon	Agriculturist, Soquel, Cal.	Dec. 31, 1930
E. H. Cox	V. P. Madera Sugar Pine Co., Madera, Cal.	Dec. 31, 1931
Class C:		
Isaac B. Newton	San Francisco, Cal.	Dec. 31, 1929
Walton N. Moore	Chrm., Walton N. Moore Dry Gds. Co., San Francisco, Cal.	Dec. 31, 1930
Wm. Sproule	Pres., Southern Pac. Ry. Co., San Francisco, Cal.	Dec. 31, 1931

MEMBER FEDERAL ADVISORY COUNCIL

F. L. Lipman

COUNSEL

A. C. Agnew

DISTRICT NO. 2

BUFFALO BRANCH of the FEDERAL RESERVE BANK OF NEW YORK

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. W. Schneckenburger, Managing Director
R. B. Wiltse, Assistant Manager
H. W. Snow, Cashier
C. L. Blakeslee, Assistant Cashier

DIRECTORS

		Term Expires
W. W. Schneckenburger	Buffalo, N.Y.	Dec. 31, 1929
F. B. Cooley # Chrm.	Pres., N.Y. Car Wheel Co., Buffalo, N.Y.	Dec. 31, 1929
Harry T. Ramsdell	Hon.Chrm.,Mfgrs. & Traders-Peoples Tr. Co., Buffalo, N.Y.	Dec. 31, 1929
Arthur G. Hough #	Pres., Wiard Plow Co., Batavia, N.Y.	Dec. 31, 1930
Geo. F. Rand	Pres., Marine Trust Co., Buffalo, N.Y.	Dec. 31, 1930
Edward A. Duerr #	Pres., Community Nat'l. Bank, Buffalo, N.Y.	Dec. 31, 1931
Jno. T. Symes	Pres., Niagara Co.Nat'l. Bk. & Trust Co., Lockport, N.Y.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 4

CINCINNATI BRANCH of the FEDERAL RESERVE BANK OF CLEVELAND

OFFICERS AND DIRECTORS, 1929

OFFICERS

C. F. McCombs, Managing Director
B. J. Lazar, Cashier
Bruce Kennelly, Asst. Cashier
H. N. Ott, Asst. Cashier

DIRECTORS

		Term Expires
C. F. McCombs	Cincinnati, O.	Dec. 31, 1929
John Omwake, #Chrm.	Pres., U.S. Playing Card Co., Cincinnati, O.	Dec. 31, 1929
Chas. W. DuPuis	Pres., Central Trust Co., Cincinnati, O.	Dec. 31, 1929
Geo. M. Verity #	Pres., Amer. Rolling Mill Co., Middletown, O.	Dec. 31, 1930
B. H. Kroger	Chrm., Provident Svgs. Bk. & Tr. Co., Cinn., O.	Dec. 31, 1930
Fred. A. Geier #	Pres., Cincinnati Milling Mach. Co., Cinn., O.	Dec. 31, 1931
E. S. Lee	Pres., 1st Nat'l.Bk.& Tr.Co., Covington, Ky.	Dec. 31, 1931

PITTSBURGH BRANCH of the FEDERAL RESERVE BANK OF CLEVELAND

OFFICERS AND DIRECTORS, 1929

OFFICERS

J. C. Nevin, Managing Director
T. C. Griggs, Cashier
P. A. Brown, Asst. Cashier
F. E. Cobun, Asst. Cashier

DIRECTORS

		Term Expires
J. C. Nevin	Pittsburgh, Pa.	Dec. 31, 1929
A. L. Humphrey # Chrm.	Pres., Westinghouse Air Brake Co., Pittsburgh, Pa.	Dec. 31, 1929
Jos. R. Eisaman	V.P., First Nat'l. Bank, Greensburg, Pa.	Dec. 31, 1929
Jos. R. Naylor #	V.P.,John S. Naylor Co., Wheeling, W. Va.	Dec. 31, 1930
R. B. Mellon	Pres., Mellon Nat'l. Bank, Pittsburgh, Pa.	Dec. 31, 1930
Jos. B. Shea #	Pres., Joseph Horne Co., Pittsburgh, Pa.	Dec. 31, 1931
A. E. Braun	Pres., Farmers Deposit Nat'l. Bk., Pittsburgh, Pa.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 5

BALTIMORE BRANCH of the FEDERAL RESERVE BANK OF RICHMOND

OFFICERS AND DIRECTORS, 1929

OFFICERS

A. H. Dudley, Managing Director
M. F. Reese, Cashier
T. I. Hays, Assistant Cashier
J. R. Cupit, Assistant Cashier

DIRECTORS

		Term Expires
A. H. Dudley	Baltimore, Md.	Dec. 31, 1929
E. P. Cohill # Chrm.	Pres., Tonoloway Orchard Co., Hancock, Md.	Dec. 31, 1929
Carter G. Osburn	Chrm., Farmers & Merch. Nat'l. Bk., Baltimore, Md.	Dec. 31, 1929
Norman James #	James Lumber Co., Baltimore, Md.	Dec. 31, 1930
H. B. Wilcox	Vice Pres., Merch. Nat'l. Bank, Baltimore, Md.	Dec. 31, 1930
Wm. H. Matthai #	Pres., Beaver Dam Marble Co., Baltimore, Md.	Dec. 31, 1931
Levi B. Phillips	Pres., Nat'l. Bk. of Cambridge, Cambridge, Md.	Dec. 31, 1931

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CHARLOTTE BRANCH of the FEDERAL RESERVE BANK OF RICHMOND

OFFICERS AND DIRECTORS, 1929

OFFICERS

Hugh Leach, Managing Director
W. T. Clements, Cashier

DIRECTORS

		Term Expires
Hugh Leach	Charlotte, N. C.	Dec. 31, 1929
Chas. A. Cannon # Chrm.	Pres., Cannon Mfg. Co., Kannapolis, N. C.	Dec. 31, 1929
W. J. Roddey	Chrm., Columbia Nat'l. Bank, Columbia, S. C.	Dec. 31, 1929
John A. Law #	Manufacturer-Banker, Spartanburg, S. C.	Dec. 31, 1930
Robert Gage	V.P.&Cashier, Comm. Bk., Chester, S. C.	Dec. 31, 1930
Jno. L. Morehead #	Manufacturer, Charlotte, N. C.	Dec. 31, 1931
W. H. Wood	Pres., Amer. Trust Co., Charlotte, N. C.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 6

JACKSONVILLE BRANCH of the FEDERAL RESERVE BANK OF ATLANTA

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. S. McLarin, Jr., Managing Director

Geo. S. Vardeman, Cashier
Mary E. Mahon, Assistant Cashier

DIRECTORS

		Term Expires
W. S. McLarin, Jr.	Jacksonville, Fla.	Dec. 31, 1929
Fulton Saussy # Chrm.	Saussy & Common, Jacksonville, Fla.	Dec. 31, 1929
Edw. W. Lane	Chrm., Atlantic Nat'l.Bk.,Jacksonville,Fla.	Dec. 31, 1929
S. O. Chase #	Chase & Co., Sanford, Fla.	Dec. 31, 1930
A. F. Perry	Pres., Fla. Nat'l. Bk., Jacksonville, Fla.	Dec. 31, 1930
J. C. Cooper #	Attorney at Law, Jacksonville, Fla.	Dec. 31, 1931
G. G. Ware	Pres., First Nat'l. Bank, Leesburg, Fla.	Dec. 31, 1931

NASHVILLE BRANCH of the FEDERAL RESERVE BANK OF ATLANTA

OFFICERS AND DIRECTORS, 1929

OFFICERS

Joel B. Fort, Jr., Managing Director

E. R. Harrison, Cashier
Leo W. Starr, Assistant Cashier

DIRECTORS

		Term Expires
Joel B. Fort, Jr.	Nashville, Tenn.	Dec. 31, 1929
P. M. Davis #	V.P., Amer. Nat'l. Bank, Nashville, Tenn.	Dec. 31, 1929
E. A. Lindsey	Pres.,Tenn.Hermitage Nat'l.Bk.,Nashville,Tenn.	Dec. 31, 1929
Wm. P. Ridley #	Farmer, Columbia, Tenn.	Dec. 31, 1930
J. E. Caldwell	Pres.,4th & 1st Nat'l. Bk .,Nashville,Tenn.	Dec. 31, 1930
Luke Lea # Chrm.	Publisher, Nashville, Tenn.	Dec. 31, 1931
		Dec. 31, 1931

SAVANNAH AGENCY of the FEDERAL RESERVE BANK OF ATLANTA

J. H. Bowden, Manager

James A. Goethe, Assistant Manager

HAVANA AGENCY of the FEDERAL RESERVE BANK OF ATLANTA

L. L. Magruder, Manager

H. C. Frazer, Assistant Manager

Appointed by the Board.

DISTRICT NO. 6

NEW ORLEANS BRANCH of the FEDERAL RESERVE BANK OF ATLANTA

OFFICERS AND DIRECTORS, 1929

OFFICERS

Marcus Walker, Managing Director
James A. Walker, Assistant Manager

Wm. H. Black, Cashier
F. C. Vasterling, Asst. Cashier
W. E. Miller, Asst. Auditor

DIRECTORS

		Term Expires
Marcus Walker	New Orleans, La.	Dec. 31, 1929
L. C. Simon # Chrm.	V.P., Kohn, Weil & Simon, Inc., New Orleans, La.	Dec. 31, 1929
F. W. Foote	Pres., First Nat'l. Bank, Hattiesburg, Miss.	Dec. 31, 1929
Albert P. Bush #	V.P., T. G. Bush Groc. Co., Mobile, Ala.	Dec. 31, 1930
J. E. Bouden, Jr.	Pres., Whitney-Central Nat'l.Bk., New Orleans, La.	Dec. 31, 1930
P. H. Saunders #	V.P., Newman, Saunders & Co., Inc., New Orleans, La.	Dec. 31, 1931
R. S. Hecht	Pres., Hibernia Bk. & Tr. Co., New Orleans, La.	Dec. 31, 1931

BIRMINGHAM BRANCH of the FEDERAL RESERVE BANK OF ATLANTA

OFFICERS AND DIRECTORS, 1929

OFFICERS

A. E. Walker, Managing Director

H. J. Urquhart, Cashier
T. N. Knowlton, Asst. Cashier

DIRECTORS

		Term Expires
A. E. Walker	Birmingham, Ala.	Dec. 31, 1929
Oscar Wells #	Pres., First Nat'l. Bk., Birmingham, Ala.	Dec. 31, 1929
W. W. Crawford	Chrm., Amer. Traders Nat'l. Bk., Birmingham, Ala.	Dec. 31, 1929
E. F. Allison #	Pres., Allison Lumber Co., Bellamy, Ala.	Dec. 31, 1930
W. E. Henley	Pres., Birmingham Tr. & Svgs. Co., Birmingham, Ala.	Dec. 31, 1930
W. H. Kettig # Chrm.	Southern Rep., Crane Co., Birmingham, Ala.	Dec. 31, 1931
John H. Frye	Pres., Realty Mortgage Co., Birmingham, Ala.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 7

DETROIT BRANCH of the FEDERAL RESERVE BANK OF CHICAGO

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. R. Cation, Managing Director
H. J. Chalfont, Cashier

J. G. Baskin, Assistant Cashier
G. T. Jarvis, Assistant Cashier
F. L. Bowen, Assistant Auditor

H. M. Butzel, Counsel

DIRECTORS

		Term Expires
W. R. Cation	Detroit, Mich.	Dec. 31, 1929
N. P. Hull # Chrm.	Pres., Grange Life Ins. Co., Lansing, Mich.	Dec. 31, 1929
Julius H. Haass	Pres., Peoples-Wayne Co. Bk., Detroit, Mich.	Dec. 31, 1929
David McMorran #	McMorran & Co., Pt. Huron, Mich.	Dec. 31, 1930
Geo. B. Morley	Pres., Second Nat'l. Bank, Saginaw, Mich.	Dec. 31, 1930
James Inglis #	Pres., Amer. Blower Co., Detroit, Mich.	Dec. 31, 1931
Wm. J. Gray	V.Chrm.,First Nat'l. Bank, Detroit, Mich.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 8

LOUISVILLE BRANCH of the FEDERAL RESERVE BANK OF ST. LOUIS

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. P. Kincheloe, Managing Director
John T. Moore, Cashier
Earl R. Muir, Assistant Cashier
L. A. Moore, Assistant Auditor

DIRECTORS

		Term Expires
W. P. Kincheloe	Louisville, Ky.	Dec. 31, 1929
Wm. Black # Chrm.	Pres., B.F. Avery & Sons, Louisville, Ky.	Dec. 31, 1929
Eugene E. Hoge	Pres., State Nat'l. Bk., Frankfort, Ky.	Dec. 31, 1929
E. H. Woods #	Planter, Lucas, Ky.	Dec. 31, 1930
T. D. Scales	Pres., First Nat'l. Bk., Boonville, Ind.	Dec. 31, 1930
E. L. Swearingen #	Pres., First Nat'l. Bk., Louisville, Ky.	Dec. 31, 1931
Jno. T. Reynolds	Pres., First Nat'l. Bk., Greenville, Ky.	Dec. 31, 1931

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MEMPHIS BRANCH of the FEDERAL RESERVE BANK OF ST. LOUIS

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. H. Glasgow, Managing Director
S. K. Belcher, Cashier
C. E. Martin, Assistant Cashier

DIRECTORS

		Term Expires
W. H. Glasgow	Memphis, Tenn.	Dec. 31, 1929
Wm. Orgill # Chrm.	Pres., Orgill Bros. & Co., Memphis, Tenn.	Dec. 31, 1929
Jno. D. McDowell	V.Pres., Fidelity Bk. & Tr. Co., Memphis, Tenn.	Dec. 31, 1929
E. L. Anderson #	Pres., King & Anderson, Clarksdale, Miss.	Dec. 31, 1930
R. B. Snowden	V.P., Bk. of Comm.& Tr.Co., Memphis, Tenn.	Dec. 31, 1930
S. E. Ragland #	Pres.,First Nat'l.Bk., Memphis, Tenn.	Dec. 31, 1931
J. W. Alderson	V.P., Bk. of East.Ark., Forrest City, Ark.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 8

LITTLE ROCK BRANCH of the FEDERAL RESERVE BANK OF ST. LOUIS

OFFICERS AND DIRECTORS, 1929

OFFICERS

A. F. Bailey, Managing Director
M. H. Long, Cashier
C. Wood, Assistant Cashier

DIRECTORS

		Term Expires
A. F. Bailey	Little Rock, Ark.	Dec. 31, 1929
G. H. Campbell # Chrm.	Ins., Little Rock, Ark.	Dec. 31, 1929
Stuart Wilson	Pres., State Nat'l. Bk., Texarkana, Ark.	Dec. 31, 1929
Hamp Williams #	Pres., Hamp Williams Hdwe. Co., Hot Springs, Ark.	Dec. 31, 1930
Jno. M. Davis	Pres., Exc. Nat'l. Bank, Little Rock, Ark.	Dec. 31, 1930
Moorhead Wright #	Chrm., Union Tr. Co., Little Rock, Ark.	Dec. 31, 1931
Jo Nichol	Pres., Simmons Nat'l. Bk., Pine Bluff, Ark.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 9

HELENA BRANCH of the FEDERAL RESERVE BANK OF MINNEAPOLIS

OFFICERS AND DIRECTORS, 1929

OFFICERS

R. E. Towle, Managing Director
H. L. Zimmerman, Cashier
A. A. Hoerr, Assistant Cashier
T. B. Weir, Counsel

DIRECTORS

		Term Expires
R. E. Towle	Helena, Mont.	Dec. 31, 1929
Henry Sieben # Chrm.	Pres., Sieben Livestock Co., Helena, Mont.	Dec. 31, 1929
T. A. Marlow	Pres., Nat'l. Bank of Mont., Helena, Mont.	Dec. 31, 1929
C. J. Kelly #	Hanson Packing Co., Butte, Mont.	Dec. 31, 1930
R. O. Kaufman	V. P., Union Bank & Tr. Co., Helena, Mont.	Dec. 31, 1930

Appointed by the Board.

DISTRICT NO. 10

DENVER BRANCH of the FEDERAL RESERVE BANK OF KANSAS CITY

OFFICERS AND DIRECTORS, 1929

OFFICERS

J. E. Olson, Managing Director
S. A. Brown, Cashier
J. A. Cronan, Assistant Cashier

DIRECTORS

		Term Expires
J. E. Olson	Denver, Col.	Dec. 31, 1929
R. H. Davis # Chrm.	Wholesale Drug Business, Denver, Col.	Dec. 31, 1929
Henry Swan	V.P., U. S. Nat'l. Bank, Denver, Col.	Dec. 31, 1929
Merrit W. Gano #	The Gano-Downs Co., Denver, Col.	Dec. 31, 1930
Harold Kountze	Chrm., Colo. Nat'l. Bank, Denver, Col.	Dec. 31, 1930
Murdo MacKenzie #	The Matador Land & Cattle Co., Ltd., Denver, Col.	Dec. 31, 1931
Harry W. Farr	Livestock & Farming, Greeley, Col.	Dec. 31, 1931

OMAHA BRANCH of the FEDERAL RESERVE BANK OF KANSAS CITY

OFFICERS AND DIRECTORS, 1929.

OFFICERS

L. H. Earhart, Managing Director
G. A. Gregory, Cashier
Wm. Phillips, Assistant Cashier
O. P. Cordill, Assistant Cashier

DIRECTORS

		Term Expires
L. H. Earhart	Omaha, Nebr.	Dec. 31, 1929
Wm. E. Hardy # Chrm.	Hardy Furniture Co., Lincoln, Nebr.	Dec. 31, 1929
T. L. Davis	V.P., First Nat'l. Bank, Omaha, Nebr.	Dec. 31, 1929
W. W. Magee #	Farmer - Stockman, Bennington, Nebr.	Dec. 31, 1930
R. O. Marnell	Cashier, Merchants Nat'l. Bank, Nebr. City, Nebr.	Dec. 31, 1930
Wm. Diesing #	Cudahy Packing Co., Omaha, Nebr.	Dec. 31, 1931
A. H. Marble	Pres., Stock Growers Nat'l. Bank, Cheyenne, Wyo.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 10

OKLAHOMA CITY BRANCH of the FEDERAL RESERVE BANK OF KANSAS CITY

OFFICERS AND DIRECTORS, 1929

OFFICERS

C. E. Daniel, Managing Director
R. O. Wunderlich, Cashier
R. L. Mathes, Assistant Cashier

DIRECTORS

		Term Expires
C. E. Daniel	Okla. City, Okla.	Dec. 31, 1929
Austin Miller # Chrm.	Pres., Okla. Furniture Mfg. Co., Okla.City,Okla.	Dec. 31, 1929
Walter Ferguson	V.P., Exchange Nat'l. Bank, Tulsa, Okla.	Dec. 31, 1929
E. J. Murphy #	Farming & Livestock, Clinton, Okla.	Dec. 31, 1930
William Mee	Chrm., Ex.Com.,Am.1st Nat'l.Bk.,Okla.City,Okla.	Dec. 31, 1930
W.F. Nichols #	Merchandising & Livestock, Tulsa, Okla.	Dec. 31, 1931
Ned. Holman	Pres., First Nat'l. Bank, Guthrie, Okla.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 11

EL PASO BRANCH of the FEDERAL RESERVE BANK OF DALLAS

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. O. Ford, Managing Director — Allen Sayles, Cashier

DIRECTORS

		Term Expires
W. O. Ford	El Paso, Tex.	Dec. 31, 1929
A. P. Coles # Chrm.	Investments, El Paso, Tex.	Dec. 31, 1929
E. A. Cahoon	Pres., First Nat'l. Bank of Roswell, N.M.	Dec. 31, 1929
A. J. Crawford #	Pres., Peoples Mercantile Co., Carlsbad, N.M.	Dec. 31, 1930
Geo. D. Flory	V.P., The State National Bank, El Paso, Tex.	Dec. 31, 1930
C. M. Newman #	Pres., Newman Invest.Co., El Paso, Tex.	Dec. 31, 1931
E. M. Hurd	The H. Lesinsky Co., El Paso, Tex.	Dec. 31, 1931

HOUSTON BRANCH of the FEDERAL RESERVE BANK OF DALLAS

OFFICERS AND DIRECTORS, 1929

OFFICERS

D. P. Reordan, Managing Director — H. R. DeMoss, Assistant Cashier
L. G. Pondrom, Cashier

DIRECTORS

		Term Expires
D. P. Reordan	Houston, Tex.	Dec. 31, 1929
J. Cooke Wilson # Chrm.	Pres., The Wilson Broach Co., Beaumont, Tex.	Dec. 31, 1929
E. F. Gossett	V.P., So.Tex.Com.Nat'l.Bank, Houston, Tex.	Dec. 31, 1929
E. A. Peden #	Pres., Peden Iron & Steel Co., Houston, Tex.	Dec. 31, 1930
Fred. W. Catterall	Cash., 1st Nat'l.Bank, Galveston, Tex.	Dec. 31, 1930
R. M. Farrar #	Pres., Farrar Lumber Co., Houston, Tex.	Dec. 31, 1931
Guy M. Bryan	V.P., Second Nat'l. Bank, Houston, Tex.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 11

SAN ANTONIO BRANCH of the FEDERAL RESERVE BANK OF DALLAS

OFFICERS AND DIRECTORS, 1929

OFFICERS

M. Crump, Managing Director — C. B. Mendel, Cashier

DIRECTORS

		Term Expires
M. Crump	San Antonio, Tex.	Dec. 31, 1929
Frank G. Crow # Chrm.	V.P., State Bank & Trust Co., McAllen, Tex.	Dec. 31, 1929
Franz C. Groos	Pres., Groos Nat'l. Bank, San Antonio, Tex.	Dec. 31, 1929
Jno. M. Bennett #	Pres., Standard Tr. Co., San Antonio, Tex.	Dec. 31, 1930
R. T. Hunnicutt	V.P., First Nat'l. Bank, Del Rio, Tex.	Dec. 31, 1930
Reagan Houston #	V.P., A. B. Frank Co., San Antonio, Tex.	Dec. 31, 1931
Ernest Steves	Pres., Alamo Nat'l. Bank, San Antonio, Tex.	Dec. 31, 1931

Appointed by the Board.

DISTRICT NO. 12

LOS ANGELES BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. N. Ambrose, Managing Director
M. McRitchie, Assistant Manager
A. J. Dumm, Assistant Cashier
L. C. Meyer, Assistant Cashier

DIRECTORS

		Term Expires
W. N. Ambrose	Los Angeles, Cal.	Dec. 31, 1929
W. L. Valentine # Chrm.	Pres., Fullerton Oil Co., Fullerton, Cal.	Dec. 31, 1929
J. F. Sartori	Pres.,Secur.Tr.& Svgs.Bk.,Los Angeles,Cal.	Dec. 31, 1929
J. B. Alexander #	Spreckles Bros.Comm.Co.,Los Angeles, Cal.	Dec. 31, 1930
Henry M. Robinson	Pres., L.A. 1st Nat'l. Tr. & Svgs. Bank, Los Angeles, Cal.	Dec. 31, 1930

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SALT LAKE CITY BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO

OFFICERS AND DIRECTORS, 1929

OFFICERS

W. L. Partner, Managing Director
H. M. Craft, Assistant Manager
W. M. Smoot, Assistant Cashier
L. W. Dalby, Assistant Cashier

DIRECTORS

		Term Expires
W. L. Partner	Salt Lake City, U.	Dec. 31, 1929
Lafayette Hanchett # Chrm.	Pres., Utah P. & Light Co.,S.L.City,U.	Dec. 31, 1929
Chas. H. Barton	Pres.,Nat'l.Bk. of Commerce, Ogden, U.	Dec. 31, 1929
G. G. Wright #	V.P.,Cons.Wagon & Mach.Co.,S.L.City,U.	Dec. 31, 1930
L. H. Farnsworth	Chrm.,Walker Bros.,Bankers,S.L.City,U.	Dec. 31, 1930

Appointed by the Board.

DISTRICT NO. 12

PORTLAND BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO

OFFICERS AND DIRECTORS, 1929

OFFICERS

R. B. West, Managing Director
S. A. MacEachron, Assistant Manager
J. B. Blanchard, Assistant Cashier

DIRECTORS

		Term Expires
R. B. West	Portland, Ore.	Dec. 31, 1929
Nathan Strauss # Chrm.	Fleischner, Mayer & Co., Portland, Ore.	Dec. 31, 1929
J. C. Ainsworth	Pres., U. S. Nat'l. Bank, Portland, Ore.	Dec. 31, 1929
Edward C. Pease #	Edward C. Pease Co.,Inc.,The Dalles, Ore.	Dec. 31, 1930
John F. Daly	Pres., Hibernia Com.& Svgs.Bk.,Portland,Ore.	Dec. 31, 1930

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SPOKANE BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO

OFFICERS AND DIRECTORS, 1929

OFFICERS

D. L. Davis, Managing Director
J. M. Leisner, Assistant Manager
Evan Berg, Assistant Cashier

DIRECTORS

		Term Expires
D. L. Davis	Spokane, Wash.	Dec. 31, 1929
G. I. Toevs # Chrm.	V.P., Centennial Mill Co., Spokane, Wash.	Dec. 31, 1929
D. W. Twohy	Chrm.,Old Nat'l.Bk.& Union Tr.Co.,Spokane,Wash.	Dec. 31, 1929
Peter McGregor #	McGregor Land & Livestock Co., Hooper, Wash.	Dec. 31, 1930
R. L. Rutter	Pres., Spokane & Eastern Tr.Co., Spokane, Wash.	Dec. 31, 1930

Appointed by the Board.

X-6222-a

DISTRICT NO. 12

SEATTLE BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO

OFFICERS AND DIRECTORS, 1929

OFFICERS

C. R. Shaw, Managing Director
B. A. Russell, Assistant Manager
G. W. Relf, Assistant Cashier

DIRECTORS

		Term Expires
C. R. Shaw	Seattle, Wash.	Dec. 31, 1929
Chas. H. Clarke # Chrm.	Pres., Kelly Clarke Co., Seattle, Wash.	Dec. 31, 1929
M. A. Arnold	Pres., First Nat'l. Bank, Seattle, Wash.	Dec. 31, 1929
Henry A. Rhodes #	Rhodes Bros. Dept. Store, Tacoma, Wash.	Dec. 31, 1930
M. F. Backus	Pres., Nat'l. Bank of Commerce, Seattle, Wash.	Dec. 31, 1930

Appointed by the Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6223

January 26, 1929.

SUBJECT: Examination of Member Banks.

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. Within the last two weeks, bills have been introduced in both the Senate and the House of Representatives, which if enacted will amend the law in such a way as to make the charges for member bank examinations discretionary with the Board.

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.

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 and unnecessary expense of operation, which now exist, the Board has voted that the Department of State Bank Examination, now in operation in the Board's quarters in Washington, be abolished, effective February 1, 1929, and that you be 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 the opinion of the Board, 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 give 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 examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them."

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, using the enclosed analysis form. A supply of this form is being forwarded under separate cover.

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-6224

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:
Washington, D. C.
January 26, 1929.

The Federal Reserve Board announces the appointment of Mr. Rolla Wells, of St. Louis, as a Class "C" Director of the Federal Reserve Bank of St. Louis for the unexpired term ending December 31, 1930, and his designation as Chairman of the Board of Directors of the Bank and Federal Reserve Agent.

Mr. Wells, who has been serving as Class "B" Director of the Bank, succeeds Mr. Wm. McC. Martin, whom the Directors have elected as Governor.

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,
Tuesday, January 29, 1929.

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

Industry and trade continued active in December, and the general level of prices remained unchanged. Banking and credit conditions at the turn of the year were influenced chiefly by seasonal changes in the demand for currency and by requirements for end-of-year financial settlements.

Production--Output of manufactures decreased in December, but the decline was less than is usual during the month, and the Board's index was slightly higher than in November and above the level of a year ago. Smaller than usual seasonal reductions were reported in the daily average output of steel, pig iron, automobiles, copper, cement, silk, and flour, while cotton and wool textiles declined considerably. Meat-packing increased in December, reflecting a larger output of pork products, though beef and mutton production was smaller. Volume of factory employment and payrolls was larger than at this season of last year. Production of minerals was in somewhat smaller volume in December than in November, reflecting chiefly a large reduction in the output of bituminous and anthracite coal. Production of copper and zinc ore on a daily average basis was slightly smaller, while petroleum output increased. Preliminary reports for the first half of January indicate a steady increase in the output of petroleum and greater activity in the steel, automobile, coal, and lumber industries following the temporary lull during the inventory period at the end of the year.

Building contracts awarded in 37 Eastern states declined sharply during December, as in the preceding month, and were smaller than in any December since 1924. The decline from November was attributable largely to decreases in awards for residential building and public works and utilities. By districts, the largest declines over the preceding month were in the Cleveland, Chicago, Boston, and Richmond Federal reserve districts, while increases were reported in the New York, Philadelphia, and Atlanta districts.

Trade--Department store trade showed greater activity in December than in the preceding month, after allowance is made for the customary holiday increase. Total sales for the month were the largest on record, exceeding December 1927 by one per cent, although there was one less trading day this year. Increases over a year ago were reported for the New York and Philadelphia districts while substantial decreases occurred in Atlanta and Minneapolis. Distribution at wholesale declined seasonally and was smaller than a year ago.

Freight-car loadings in December and the first half of January showed a slightly larger than usual seasonal reduction, but, as in earlier months, were above a year ago.

Prices--The general level of wholesale prices, as measured by the index of the United States Bureau of Labor Statistics, remained approximately the same during December as in the preceding month. Average prices of iron and steel, automobiles, copper, and building materials continued to advance slowly, and prices of farm products, after declining during October and November, also rose in December, reflecting higher average prices for raw cotton, oats, rye, and some grades of wheat, offset in part by lower prices for corn and cattle. In the first three weeks of January the price of rubber advanced sharply, and wheat, corn, potatoes, and flour also increased, while silk and sugar decreased somewhat, and hides reached the lowest level in more than a year.

Bank credit--Banking and credit conditions in January were influenced chiefly by the seasonal decline in the volume of money in circulation. At the reserve banks the return flow of currency from circulation resulted in a liquidation of member bank borrowing and small declines in reserve bank holdings of acceptances and of United States securities. Total bills and securities showed a decline of about $450,000,000 for the period from December 26 to January 23 and were in about the same volume as in midsummer of last year.

At member banks there was an increase in the total volume of loans at the turn of the year due chiefly to year-end financial settlements, and the temporary withdrawal of funds loaned by corporations in the New York market. In January deposits and loans of member banks declined to approximately the level of the early part of December.

In the money market, rates on call loans declined sharply in January, while rates on time loans on securities remained firm and rates on acceptances advanced.

COPY

X-6226 112

January 26, 1929.

Honorable A. Ueland,
401 New York Life Bldg.,
Minneapolis, Minnesota.

Dear Judge Ueland:

I have received your letter of January 14 and have read with much interest the enclosed memorandum addressed by Mr. Sigurd Ueland to the Federal Reserve Bank of Minneapolis with regard to the policy to be followed by that bank in asserting rights on behalf of depositors of unremitted for transit items against receivers of insolvent member banks.

You suggest that this raises a question of policy which is of interest not only to the Federal Reserve Bank of Minneapolis but to the other Federal reserve banks, and request an informal and entirely unofficial expression of my views.

I agree with you that the questions raised in this memorandum are of interest to the entire Federal reserve system; and, inasmuch as they vitally affect the understanding arrived at between counsel for all the Federal reserve banks and the office of the Comptroller of the Currency during the conference of counsel held on July 13, 1925, I telegraphed for your permission to send copies of this memorandum to counsel for all Federal reserve banks. Having received your consent, I am sending copies of this memorandum to counsel for all Federal reserve banks and am requesting an expression of their views. I am omitting from the copy which I am sending them, however, subdivisions 5 and 6 of the memorandum, which pertain solely to the peculiar situation of the Federal Reserve Bank of Minneapolis and which you do not desire to have circulated. Of course, I shall respect the confidential nature of this memorandum and not disclose the contents of the same to anyone in the office of the Comptroller of the Currency.

In view of the importance of the questions raised by this memorandum and in view of the changed situation resulting from the court decisions discussed therein, I believe that it would be well to have a conference of counsel of all Federal reserve banks in Washington some time in the near future to discuss this entire subject, endeavor to reach an agreement among ourselves, and then discuss the subject with the Comptroller of the Currency in an effort to reach an agreement with that office. I have not yet been authorized by the Federal Reserve Board to call such a conference,

but expect to take the matter up with Governor Young in the near future and I shall appreciate an expression of your views as to the advisability of calling such a conference.

I am so greatly pressed for time that I cannot at this moment give you a full statement of my views with regard to the matters discussed in your memorandum. My offhand views, however, based upon only a hasty consideration of the subject, may be stated briefly as follows:

(1) With all due respect, I disagree with all three of the legal conclusions stated on page 8 of the memorandum. In doing so I recognize that the decision of the Circuit Court of Appeals in the Early case and the decisions in the cases of Keyes v. Federal Reserve Bank of Minneapolis and Federal Reserve Bank of Minneapolis v. First National Bank of Eureka apparently sustain your views on the first point. The Early case, however, will be taken to the Supreme Court of the United States, and I believe the decision of the Circuit Court of Appeals will be reversed. Even if the Supreme Court does not reverse the Circuit Court of Appeals, I think the decision in the Early case is distinguishable from any case arising in a district where checks are collected on the remittance basis instead of the charge basis; because the Circuit Court of Appeals based its decision so largely upon the fact that the normal course of business of the Federal Reserve Bank of Richmond was to collect checks by charging same to the reserve account of a drawee, and the banks which deposited such checks with the Federal Reserve Bank of Richmond did so in reliance upon the belief that they would be collected by charging them to the reserve accounts of the drawee banks. The Circuit Court of Appeals sustained the District Court on the question of the use of the proceeds of the canceled Federal reserve bank stock, holding that, under the specific provisions of the Federal Reserve Act, the proceeds of this stock could not be used to pay the cash letters. On the question of the application of the collateral, I believe the decision in the Midland National Bank case is clearly wrong and is also distinguishable from the case of a Federal reserve bank collecting checks under Regulation J, which specifically provides that the Federal reserve bank shall act only as agent and that, "The amount of any check for which payment is actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned".

(2) I agree with you that, in the present state of the law, it is unsafe for a Federal reserve bank to release to the receiver the reserve account and probably the collateral, but not the proceeds of the canceled stock, without first obtaining a release of liability from the depositors of its uncollected cash items drawn on the insolvent bank or a court order instructing the Federal reserve bank to release such assets to the receiver.

(3) I believe that, if your views of the law as expressed on page 8 of the memorandum are upheld by the courts, there is

grave danger that the courts will hold that, having the right to apply the reserve account, the proceeds of the canceled stock and the collateral to the collection of outstanding unremitted for cash letters, the Federal reserve bank has the duty to do so and cannot, as an agent have any interest adverse to its principal, utilize these assets to protect itself against losses on rediscounts. I have no positive view that the courts should reach this conclusion, but I feel that there is danger that they may do so.

(4) I believe, therefore, that, in order to avoid placing the Federal reserve banks on the horns of the dilemma pointed out by Mr. Sigurd Ueland at the bottom of page 9, the Federal reserve banks should, as a matter of policy, not insist upon the right to collect cash letters out of the reserve accounts, the proceeds of the canceled stock, or the collateral, but, on the contrary, should do everything in their power to divest themselves of this right and the corresponding possibility of a duty to exercise it.

(5) I believe this is especially important in view of the fact that, if the courts should hold that the Federal reserve banks have such a duty and must exercise it, it would seriously interfere with the freedom of the Federal reserve banks in extending aid through rediscounts or loans to a member bank in a badly extended condition. By taking additional collateral they can often extend financial assistance and sometimes prevent the insolvency of a member bank; but would hesitate to grant additional credit without taking additional collateral. If the courts hold that the collateral must first be applied to the collection of unremitted for cash letters, the possibility of extending such aid will be greatly curtailed, because the additional collateral will not afford the same protection to the Federal reserve bank as it has in the past.

(6) I also disagree with the view expressed at the top of page 7 that the recent amendment to Regulation J was not intended to prevent the reserve balance from being available to pay unremitted for cash letters after notice of suspension. On the contrary, that was the sole purpose of the amendment.

I have the greatest respect for your opinions and those of Mr. Sigurd Ueland; and it is with much regret that I disagree to such a large extent with the views expressed in the memorandum. I could not, however, conscientiously refrain from expressing my disagreement when you requested an informal expression of my views.

With kindest personal regards and all best wishes for both you and Mr. Sigurd Ueland, I am

Cordially yours,

Walter Wyatt,
General Counsel.

WW:vdb

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X-6226-a 115

FEDERAL RESERVE BANK

OF MINNEAPOLIS

January 14, 1929.

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

Dear Mr. Wyatt:

We are taking the liberty of enclosing copy of a rather lengthy communication from us to the Federal Reserve Bank of Minneapolis, dealing with a question of policy which it seems to us is of interest not only to the Minneapolis bank but to the other Federal Reserve Banks. You are familiar with the questions discussed in this communication and if you feel so inclined we would very much appreciate having an expression of your views. We would understand, of course, that any such expression of views would be entirely unofficial.

We do not know how the Minneapolis bank will deal with this problem. If the bank should adopt our recommendations it occurs to us it might be advisable to have a discussion of the whole subject with representatives of the Comptroller's office. If this were done, we believe your good offices might prove invaluable in bringing about an understanding.

We should be glad to have you show the enclosed opinion to Governor Young or any member of the Board, but of course we would not want it submitted to the Comptroller's office in its present form.

Yours very truly,

(S) A. Ueland
Sigurd Ueland

SU:ME

COPY

X-6226-b

January 8, 1929.

Harry Yaeger,

Deputy Governor.

The recent decision of the Supreme Court of Minnesota in the case of Midland National Bank & Trust Company vs. First State Bank of Sioux Falls et al. has again brought to the fore the question which has repeatedly vexed the Federal Reserve Bank of Minneapolis. That question has various phases, but broadly it may be stated thus:

> What is to be the policy of the Federal Reserve Bank of Minneapolis with respect to asserting rights on behalf of its depositors of unremitted for transit items against receivers of insolvent member banks?

The failure to answer this question correctly involves the possibility of so much future trouble, litigation and liability that we have deemed it wise to reconsider it in all its aspects at the present time. On account of your interest in and familiarity with the subject, we will deal with it at some length, without making much of an attempt at condensation.

1.

A member bank closes and your bank has an unremitted for transit letter addressed to that bank outstanding. The letter may be returned with the items unpaid and protested. In that case there is no problem. The items are simply charged back to your endorsers. In such a case, with rare exceptions, the closed bank never became liable on the items.

But suppose the drawee bank has charged up the checks to the respective drawers and has attempted to remit to your bank by draft or otherwise. In such a case your bank has sometimes charged up the draft to the reserve account of the member bank, after notice of its suspension. More often the credits given for the items deposited with you have been charged back to the respective depositors. Where this has been done, your bank has requested authority from each depositor to file a general claim in the receivership of the closed bank as the depositor's "agent" and "with the understanding" that the depositor "would not look to" your bank "except for such dividends as it might receive" on account of the depositor's items. In a typical case some of the depositors of the checks represented by the dishonored remittance draft have authorized your bank to file a claim on their behalf and others have preferred to file their own claims. Accordingly the amount of the transit claims filed by your bank has, in most cases, been less than the aggregate amount of the unremitted for items.

In some cases the closed bank is liable to your bank on rediscounts or bills payable. The closed bank has stock in your bank; it may have a reserve balance to its credit, and it may have deposited collateral securities under a collateral agreement almost identical in terms with the one involved in the Midland National Bank case. Hence, the general question under consideration may be subdivided as follows:

(1) Are you entitled to charge remittance drafts to the reserve account after notice of the suspension of the remitting bank?

(2) Are you entitled to hold the proceeds of the cancelled Federal Reserve bank stock for the benefit of depositors of unremitted for transit items?

(3) Are you entitled to hold the collateral securities and the proceeds thereof for the same purpose?

(4) If the preceding three questions are answered in the affirmative, is there a correlative duty to your depositors to assert these rights in their favor?

2.

In the Midland National Bank case the court held that collateral securities held pursuant to a collateral agreement in the form used by your bank could be held as security for dishonored remittance drafts notwithstanding the fact that the items attempted to be remitted for by such drafts had been deposited for conditional credit and subject to the right to charge back if not collected, and notwithstanding the fact that such checks had actually been charged back to the depositors after notice of the suspension. The view of the court was that the collection of checks creates a liability on the part of the collecting bank to the forwarding bank; that such a liability is within the terms of the collateral agreement, and that it is no business of the collecting bank or its receiver that the forwarding bank may stand in a relation of trust to its depositors, or that the latter may be the parties beneficially interested.

If the Midland decision is good law, as we think it is, then in every case where your bank holds a collateral agreement you are entitled to hold or foreclose on excess collateral from a closed national bank until your claim on account of unremitted for transit items has been paid in full. We limit this conclusion to national banks because there are statutes in certain of the states of the ninth district, notably North Dakota and Minnesota, which might affect the result in the case of member state banks.

As the decision of the state court would not be controlling in cases in the federal courts, we will consider briefly the relevant decisions of the latter.

In the case of Keyes, as Receiver of the First National Bank of Clarkfield v. Federal Reserve Bank of Minneapolis, the United States District Court for this district decided in 1918 that the reserve account was available by way of setoff to pay unremitted for transit items the credits for which had been charged back to its depositors by the Federal Reserve Bank after notice of suspension.

In Federal Reserve Bank of Minneapolis v. First National Bank of Eureka (277 Fed. 300) it was held by the United States District Court for South Dakota that the reserve account and also the proceeds of the cancelled stock could be applied towards the liquidation of a dishonored draft sent in attempted remittance of a transit letter.

In the case of Thos. Early, Receiver of the Farmers and Merchants National Bank of Lake City v. Federal Reserve Bank of Richmond, the United States District Court for South Carolina has rendered a decision against the Federal Reserve Bank of Richmond and has held that the latter was not entitled to use a reserve balance to pay unremitted for checks. So far as we know no written opinion was filed by the court. The Richmond bank's method of collecting transit letters was by charging the reserve account in accordance with a time schedule. We doubt, however, whether this could distinguish the case from the Clarkfield and Eureka cases and it seems to us that there is a conflict. An appeal to the United States Circuit Court of Appeals for the Fourth Circuit is pending. We have read the briefs on both sides and it is not unlikely that there will be a reversal.

Federal district courts will usually follow the decision of circuit

courts of appeals for other circuits even though inconsistent with their own previous holdings.

Foster on Federal Practice, #375.

In re Baird, 154 Fed. 215.

Warren Bros. Co. v. Evans, 234 Fed. 659.

Vacuum Cleaner Co. v. Thompson Mnfg. Co. 238 Fed. 239.

However, the decision of the Circuit Court of Appeals in the Richmond case would not be followed here if in conflict with principles laid down by the Circuit Court of Appeals for this circuit (the 8th). That court in the recent case of Storing, as Receiver of the Merchants National Bank of Mandan vs. First National Bank of Minneapolis held that the First National Bank of Minneapolis had the right to hold a deposit balance against the receiver of a national bank to reimburse itself for a transit letter where the remittance draft in attempted payment thereof was received after notice of suspension. This case was submitted in such a way that the point that the depositors of the First National Bank were the beneficial owners of the claim against the insolvent bank was probably not before the court. The receiver, however, is attempting to make this point in his petition for reargument which is still pending. On this point Judge Cant, the trial judge, said in his opinion:

> "No matter what the relation of the two banks here in question may have been with their respective patrons on and prior to December 21, 1923, the banks themselves were dealing with each other as principals."

In any litigation between your bank and a receiver of a national bank it is probable that the receiver could either bring the action in or remove it to the federal court.

See Studebaker Corporation vs. First National Bank, 10 Fed. (2nd) 590.

All we can say at present about the law in the federal courts is that the decision of the lower court in the Richmond case raises doubt as to what will be the ultimate answer to questions (1) (2) and (3) put above.

3.

The Federal Reserve Board has recently amended paragraph (4) of Section V of Regulation J by eliminating the clause: "any Federal reserve bank may reserve the right in its check-collection circular to charge such items (checks) 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 becomes effective February 1, 1929.

The right indicated has been reserved by your bank in your check-collection circulars since August 1, 1924. Such reservation certainly strengthens the claim of your bank to apply the reserve balance against unremitted for transit letters.

The reason for amending Regulation J was doubtless the feeling that if the Federal reserve banks had the right to utilize reserve balances for the payment of check collections, there might be a correlative duty to the prejudice of their own claims on rediscounts, and notes of the member banks maintaining the balances. See letter of A. Ueland to Gov. Geery dated April 11, 1928. The comptroller's office will undoubtedly contend that this amendment of Regulation J shows an intention that the reserve balance is no longer to be available to pay unremitted for transit letters after notice of suspension. In our opinion this was not the purpose or effect of the amendment.

The pledge agreement form used by your bank provides that your bank "shall also have a lien upon any balance of the deposit account" of the member bank "existing from time to time * * * <u>for any liability</u>" of the

member bank to your bank "now existing or hereafter contracted." Under the construction given in the Midland National Bank case this is an express agreement that the reserve shall be available to pay unremitted for checks.

The reserve balance of a member bank is also, in a sense, a clearing balance. As to non-member clearing banks the Federal Reserve Act, #13, provides that such banks must maintain "a balance sufficient to offset the items in transit held for its account by the Federal reserve bank." A former counsel of the Federal Reserve Board has ruled that this phrase "items in transit" refers to checks drawn upon the non-member clearing bank and forwarded to it for collection by the Federal Reserve Bank. Federal Reserve Bulletin, Vol. 3, p. 617. If this view is correct, then there is clear intention shown on the part of Congress that the credit balance of a non-member clearing bank shall stand as security for clearing balances against it. While not expressed in the Act itself it is persuasive to us that Congress intended the same as to reserve balances.

We will summarize our own views upon the questions under consideration as follows:

1. Where a member bank or a non-member clearing bank fails to return or to remit for transit letters, you are entitled to charge the amount thereof to the reserve or clearing account even though the remittance draft be received after notice of suspension.

2. Where a member bank fails to return or remit for transit letters, you are entitled to use the proceeds of the cancelled Federal Reserve bank stock to reimburse your depositors of the items in such letters even though such items have been charged back to such depositors.

3. Where a member national bank fails to return or remit

for transit letters, and your bank holds collateral securities pursuant to the usual form of collateral agreement you are entitled to hold this collateral or its proceeds to reimburse your depositors of the items in such letters. We reserve our opinion as far as collateral securities deposited by member state banks is concerned.

With the decisions in the somewhat muddled condition pointed out above, a legal opinion is only what the law should be; we can only guess what the law will be. While we have always been able to maintain the foregoing views in litigation up to the present time, decisions in other litigation may prove controlling against them.

However, we do not believe that even though the Circuit Court of Appeals should affirm the lower court in the Richmond case that would necessarily require us to revise our opinion as to the rights of your bank in another circuit. Such an affirmance would only have the effect of making your rights and obligations more doubtful than they are at present.

4.

The next question to be considered is whether the rule in the Midland National Bank case, the rule we are contending for, has as a corollary the requirement that the pledgee bank must share pro rata in the collateral securities with its depositors of unremitted for checks. In our opinion this does not follow and we feel confident that your collateral securities may be appropriated first to the promissory notes and notes rediscounted by the insolvent member bank.

See U. S. Natl. Bank v. Westervelt, 55 Nebr. 424.

Freeman & Shaw v. Citizens Natl. Bank, 78 Iowa 150.

The next question is whether, assuming your bank has the rights herein indicated, there is not also a corresponding duty to utilize the balance in the reserve account, proceeds of cancelled Federal reserve stock, and excess collateral for the benefit of your depositors of unremitted for checks? In other words is your bank liable, as for a breach of trust, in cases where it has surrendered reserve balances or excess collateral to a reciever of a suspended member bank? On this point Sigurd Ueland in his memorandum to you dated June 20, 1928 (First National Bank of Colman) said:

> "In other words the Federal Reserve Bank * * * finds itself to some extent on the horns of a dilemma. If the surplus is paid over to your endorsers of the transit items your bank may be liable to the receiver; if surrendered to the receiver there might possibly be liability to your endorsers.
>
> "There may be a question whether your bank is not under some moral duty to its depositors to protect them as far as possible. Especially in cases where an attempt was made to remit by draft on the reserve account, it seems unfair that the balance in that account should be returned to the receiver rather than used for the purpose intended by the officials of the suspended bank."

We are firmly of the opinion that if there is any obligation in this situation to either the receiver or your depositors of unremitted for checks, it is emphatically to the latter. In the light of the Midland National Bank decision it is certain that your bank cannot continue surrendering excess collateral to receivers without incurring a certain amount of unpopularity with the better posted among such depositors.

- - -

Our recommendations are as follows:

1. That all settlements already made or agreed upon between your bank and the comptroller's office or a receiver, including all of the so-called "Oswego agreements" entered into, be allowed to stand.

2. That hereafter no reserve balance, proceeds of cancelled stock, or excess collateral held under a collateral agreement be surrendered to a receiver until all transit claims filed by your bank have been paid or until a court of last resort has so ordered.

3. That your form of collateral agreement be amended so as to state expressly that your bank has a prior lien on the reserve balance and collateral securities for the note, rediscount and overdraft indebtedness and a secondary lien for liability resulting from unremitted for transit and collection letters. (N. B. Some special consideration would have to be given to the case of member state banks in this connection.)

4. That the comptroller be advised of this change of policy and the reasons therefor, and that negotiations be opened looking toward a speedy determination of the questions involved by the Circuit Court of Appeals of this circuit.

Counsel.

Assistant Counsel.

COPY X-6227

STATE OF MINNESOTA DISTRICT COURT 126

COUNTY OF HENNEPIN FOURTH JUDICIAL DISTRICT

International Shoe Company,
Plaintiff,
vs.
Federal Reserve Bank of Minneapolis,
Defendant.

FINDINGS OF FACT
CONCLUSIONS OF LAW
AND ORDER FOR JUDGMENT

The above entitled cause was tried the 2nd day of April, 1928, before the court without a jury, a jury having been waived. Messrs. L. A. Reed and A. P. Reed appeared on behalf of the plaintiff and Messrs. Ueland & Ueland appeared on behalf of the defendant. The court having heard the evidence adduced and being fully advised in the premises -

FINDS AS FACTS:

1. That on October 6, 1923 plaintiff was the owner of a check drawn payable to its order by Schefter Clothing House, said check being in the sum of $1376.23 and being drawn upon the Citizens State Bank of Langdon, North Dakota; that on the same date plaintiff duly endorsed said check by unrestricted endorsement to the First National Bank in St. Louis and deposited said check with said bank for credit to its account with said bank; that the pass book issued by said bank in which said deposit was entered contained the following provision, to-wit:

NOTICE TO CUSTOMERS.
The First National Bank in St. Louis
accepts business on the following
conditions only:

LIMITATION OF BANK'S LIABILITY FOR
COLLECTIONS OR CREDITS.

All items received for Collection or Credit are taken for depositor's accomodation and at his risk; and in no case shall this Bank be liable for more than ordinary care and diligence on its part with respect to such items; and it shall not be liable for the negligence or fraud of any person

or corporation to whom such items may be sent for payment, nor shall it be liable for returns on such items until such returns have been cashed. In case any item is lost through failure to collect, or failure of return to be paid, this Bank shall have the right to charge back such item to the depositor.

In the absence of written instructions to the contrary by the depositor in each case, items may be sent for payment to the Bank, Banker or Trust Company on which they are drawn, although a charge is made for such collection. This Bank will accept items for collection or credit only on the above terms and conditions and the delivery to this Bank of such items shall constitute an acceptance of such terms and conditions by the customer.

FIRST NATIONAL BANK in ST. LOUIS

Deposited by

That on the deposit slip by which said check was deposited was printed the following:

"First National Bank in St. Louis. Deposited by International Shoe Company. To depositors: Checks, drafts etc., are received and credited for the accommodation of Depositors. The bank declines responsibility for their collection and reserves the right to charge them back to the account if they, or the remittances received for them, are not paid. When instructions to the contrary are not given, items may be sent to the bank on which they are drawn, though a charge is made for the service, and when so sent, these conditions are not waived or suspended."

2. That on October 6, 1923 the said First National Bank in St. Louis did then and there credit the amount of said check at its face value to the checking or commercial account of plaintiff with said bank and did then and there endorse the same as follows:

"Pay to the order of any bank or banker. Prior endorsements guaranteed. First National Bank in St. Louis, C. L. Allen, Cashier, 4-5, 614 Oct. 6, 1923."

and it did then and there send the said check by mail to defendant with other items enclosed with a letter dated October 6, 1923 which bore the direction:

"Credit 4-4 Federal Reserve Bank of St. Louis 4-4 For account of First National Bank in St. Louis, Mo. 4-5. Protest of items over $10 except those on the face of which appears this stamp 'no - pro 4-5' or similar authority that can be identified by the collecting bank as that of a preceding endorser. Telegraph nonpayment of items $500 or over and quote the name of last preceding endorser."

which said letter and check were received by the defendant on October 8, 1923.

3. That thereafter and on October 8, 1923 the defendant endorsed the said check on the back thereof as follows:

> "Pay to the order of any bank, banker or trust Co. All prior endorsements guaranteed October 8, 1923. Federal Reserve Bank 17-8 Minneapolis, Minn. 17-8."

and thereupon transmitted the said check direct to said Citizens State Bank of Langdon for payment. That said check for $1376.23 was forwarded by defendant to said bank in Langdon on October 8, 1923 in a form letter bearing the following printed instructions:

> "We enclose the following items for collection and returns. Do not hold items for any reason whatever. Wire non-payment of items of $500 or over. Do not protest items of $10 or over or those bearing stamp on the face -- no pro 17-8 -- or similar authority of a preceding bank endorser. Protest all other items. Return this letter with your draft."

That said letter contained items aggregating $1812.31.

4. That said Citizens State Bank received the said letter and check and on October 10, 1923 issued for the said above described check and other checks its draft drawn on the Northwestern National Bank in Minneapolis in favor of defendant for the said sum of $1812.31, stamped the said above described $1376.23 check "paid", debited the account of the said Schefter Clothing House with the amount thereof and returned the said check to the said Schefter Clothing House. That on or after October 10, 1923 the said Citizens State Bank of Langdon transmitted said draft by mail to the defendant and that on October 18, 1923 the defendant received the same.

5. That on October 18, 1923 the defendant presented the said draft to the said drawee bank for payment and payment was refused and the same was dishonored, and defendant thereupon caused said draft to be protested for non-payment. That on October 19, 1923 the defendant charged the amount of said check to the Federal Reserve Bank of St. Louis for the account of the said First National Bank in St. Louis. That on October 23, 1923 the said First National Bank in St. Louis

notified plaintiff that the said check had not been collected and then and there charged the amount of the same to said plaintiff and on October 24, 1923 the said plaintiff duly repaid the amount of said check to the said First National Bank in St. Louis. That said check of $1376.23 has never been returned by defendant or by any one else to said First National Bank in St. Louis or to plaintiff. That no demand has ever been made by defendant on the said Citizens State Bank of Langdon for the return of the said check subsequent to the dishonor of the said draft.

6. That said check for $1376.23 was handled by defendant as a part of defendant's clearing house operations pursuant to Regulation J - Series 1920, promulgated by the Federal Reserve Board, and that said check was received by defendant direct from said First National Bank in St. Louis pursuant to an arrangement entered into between defendant, the Federal Reserve Bank of St. Louis and said First National Bank in St. Louis, whereby the privilege of routing checks direct to defendant was extended to said First National Bank and whereby it was understood and agreed that all checks so routed direct to defendant should be received and handled by it in all respects in the same manner and subject to the same terms and conditions that were prescribed by defendant from time to time for the handling of checks in its clearing house operations.

7. That Regulation J - Series of 1920, promulgated by the Federal Reserve Board as aforesaid, also provided in part as follows:

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

8. That pursuant to and in accordance with said order and regulation of the Federal Reserve Board, defendant did promulgate rules and regulations governing the details of its operations as a clearing house under said Federal

Reserve Act; that said rules and regulations which were in force during all times mentioned in the complaint, insofar as the same are material to the issues here in controversy between plaintiff and defendant, provided as follows:

> "GENERAL CONDITIONS. Every bank sending checks to this bank, or for its account to another Federal Reserve bank, will be understood to have agreed to the terms and conditions of this circular, and to have agreed that in receiving such items this bank will act only as the collecting agent of the sending bank, and as such authorized to send such items for payment in cash or bank draft direct to the bank on which they are drawn, or to forward them to another agent with authority to present or send them for payment in cash or bank draft direct to the bank on which they are drawn, and that this bank is authorized to charge back the amount of any item, whether returned or not, for which this bank has not actually received payment either in cash or in the proceeds of the bank draft."

9. That said rules and regulations of defendant were contained in a check clearing and collection circular of defendant known as defendant's circular No. 286; that said circular No. 286 was furnished to the Federal Reserve Bank of St. Louis long prior to October 8, 1923, but that no copy of said circular was ever furnished to or received by plaintiff and that plaintiff had no direct dealings either with defendant or the Federal Reserve Bank of St. Louis until long after October 8, 1923.

10. That on October 8, 1923 said Citizens State Bank of Langdon was in fact insolvent and was unable to pay the checks of its depositors as presented, and at no time on or after October 8, 1923 could said check for $1376.23 have been collected in cash.

11. That the only loss in connection with the collection of said check for $1376.23 was incurred from the fact that said Citizens State Bank of Langdon, on October 10, 1923, wrongfully treated said check as paid, as hereinbefore set forth, without having available funds to remit for said check to defendant, whereby the drawer of said check was discharged on October 10, 1923.

12. That defendant never agreed with plaintiff to act as the agent of plaintiff in the collection of said check for $1376.23.

13. That the only terms and conditions under which defendant ever agreed to handle said check were those terms and conditions contained in Regulation J and defendants circular No. 286, as hereinbefore set forth.

14. That until October 18, 1923 defendant had no knowledge or notice of the insolvent condition of the Citizens State Bank of Langdon, and that defendant in handling said check for $1376.23 for collection was not negligent in any particular.

AS CONCLUSIONS OF LAW the court finds that defendant is entitled to judgment of dismissal against plaintiff and for its costs and disbursements to be taxed by the clerk.

LET JUDGMENT BE ENTERED ACCORDINGLY.

Dated January 12, 1929.

(S) Harry A. Johnson
Judge of District Court.

Enter a stay of 40 days.

(S) Johnson, Judge.

COPY X-6231 132

FEDERAL RESERVE BANK

OF

ST. LOUIS

January 7, 1929.

My dear Mr. Wyatt:

In Vol. 10 (2d) No. 5, Page 1038, of the January 2, 1929 issue of the Southwestern Reporter Advance Sheets, is found an opinion of the Court of Civil Appeals of Texas in the case of the AMERICAN EXCHANGE NATIONAL BANK vs. STEELEY, relative to a form of acceptance the wording of which is the same as the wording of the first part of the acceptance in the case of LANE vs. CRUM, 291 S.W. Rep. 1084, but which acceptance did not have the objectionable clause contained in the latter portion of the Lane vs. Crum acceptance.

The Court, after referring to the decision in the Lane vs. Crum case, pointed out the distinction between the forms of acceptance under consideration and the form of acceptance in the Lane vs. Crum case, and said the form of acceptance under consideration was not open to the same objections.

You will recall that this question was before the Conference of Counsel of the Federal Reserve Banks at our last meeting, and, we recommended the elimination of the objectionable clause in the LANE vs. CRUM case.

I presume you will be interested in knowing that the Texas Courts have approved a form similar to the one recommended.

Very truly yours,

(S) Jas. G. McConkey,
Counsel.

Mr. Walter Wyatt,

General Counsel,

Federal Reserve Board,

Washington, D.C.

COPY X-6232 133

FEDERAL RESERVE BANK

OF ATLANTA

December 18, 1928.

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

Dear Walter:

I have your letter of November 15, addressed to my firm and enclosing a copy of a recent opinion rendered by the Supreme Court of Minnesota in the case of Midland National Bank & Trust Company vs First State Bank of Sioux Falls, et al. It seems to me that this case is of great interest to Federal Reserve Banks. If it is to be generally followed it will modify several of our preconceived ideas. The Court seems to hold that a bank holding collateral for any and all indebtedness due it by another bank has the right to apply such collateral in satisfaction of unpaid remittance drafts which, while drawn in favor of and upon the creditor bank, are, in fact, sent in payment of items belonging to third persons.

In many cases Federal Reserve Banks hold "additional" or general collateral for the payment of any and all indebtedness due by a member bank, and it would appear that the proceeds of the capital stock in the Reserve Bank might fairly be classed as general collateral. So far as I know, it has been the custom of Federal Reserve Banks to regard any such collateral as being held only for its own benefit. If, however, the Minnesota Court correctly states the law, the Federal Reserve Bank would have the right to take such collateral and utilize same in the extinguishment or toward the liquidation of items which, although collected by a closed member, had been by the Reserve Bank "charged back" because unremitted for in actually collected funds.

It is difficult to see a reasonable basis for a distinction between collateral held for the indebted-

ness of a borrowing bank and its reserve account, nor does the opinion of the Minnesota Court necessarily turn upon the proposition that the remittance drafts had been, prior to suspension, mailed to the Reserve Bank by the closed member. Followed to its logical conclusion, the case would be authority for the proposition that any Federal Reserve Bank would have in its own right a claim against a member which had collected items for the account of the Reserve Bank, with the concomitant right to charge the amount of such items against the reserve account of the closed member or to pay the same out of excess collateral.

The many complications which might result are obvious and, as above stated, the decision seems to be at variance with many of the conclusions which were reached at the Conference of Counsel which had under consideration similar questions several years since.

I would appreciate it if you would write me your own views with respect to the decision.

With the compliments of the season, I am,

Sincerely yours,

(S) Robt. S. Parker.

RSP/w.

COPY X-6232-a 135

FEDERAL RESERVE BANK

OF SAN FRANCISCO

December 21, 1928.

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

Dear Mr. Wyatt:-

Although I understand that it is not customary for counsel of the Reserve banks to reply to your routine communications transmitting decisions of interest, I feel that some comment on the case of MIDLAND NATIONAL BANK vs. FIRST STATE BANK OF SIOUX FALLS, transmitted with your letter of December 15, is appropriate.

It is possible that I have misconceived the true purport of the court's decision in this case, but from my study of it I feel that it is an unsound and dangerous decision.

My views are set forth at greater length on a memorandum which I have prepared for the information of the officers of this bank, copy of which I transmit herewith.

Very truly yours,

(S) Albert C. Agnew,
Counsel.

ACA/SW
Encl.

COPY

X-6232-b 136

DIGEST OF DECISION

December 21, 1928.

MIDLAND NATIONAL BANK vs. FIRST STATE BANK OF SIOUX FALLS, SOUTH DAKOTA
(Sup.Ct. Minn., Nov. 30,1928. Not yet reported.)

Pledge of collateral by drawee bank with its correspondents may be used by correspondents to pay checks forwarded to drawee, even after such checks have been charged back to customers of forwarding bank.

The Supreme Court of Minnesota has just rendered a decision in the above entitled case which seems to the writer unusual in its conclusion and dangerous in its effect upon Federal reserve banks.

THE FACTS. The defendant, First State Bank of Sioux Falls, had as its Minneapolis correspondent the plaintiff, Midland National Bank. These two banks transacted considerable business and as security for advances made by the Minneapolis bank to defendant a pledge agreement had been entered into under the general terms of which all securities deposited by defendant bank with plaintiff bank were to remain as collateral to any loans or indebtedness due from defendant to plaintiff.

Plaintiff forwarded to defendant for collection and remittance certain checks and drafts drawn on other banks in Sioux Falls, which it had received from various customers. All of these were collected and defendant forwarded its drafts upon plaintiff in settlement. Defendant failed before the drafts reached plaintiff. There were no funds on deposit with plaintiff and payment of the drafts was refused.

The checks forwarded by plaintiff to defendant for collection and remittance had been deposited by various customers with the understanding that they would be credited but that the customers would not have the right to withdraw the funds until the checks were paid, and, if not paid, that plaintiff might charge them against the depositors. When the drafts sent in settlement were dishonored, plaintiff charged against its customers the amount of the checks which they had deposited, and in this action sought to foreclose on the collateral which it held from defendant for the payment of the indebtedness represented by the remittance drafts.

THE DECISION. The court held, although the checks had been charged back to plaintiff's customers, that plaintiff had the right to resort to the collateral for the payment of the drafts sent in remittance for such checks. The court overruled the contention that the plaintiff having rid itself of the indebtedness to its depositors represented by the checks, was not privileged to resort to collateral which it held for the settlement of obligations between plaintiff and defendant. Plaintiff's customers, so the court stated, should not be required to resort to their claim against the insolvent bank. Plaintiff bank was therefore allowed to foreclose the collateral, reverse the entries on its books, and credit the amount of the checks back to its depositors.

THE RESULT. In the opinion of the writer this decision is bad law and contains several elements of danger to Federal reserve banks.

It is clear from the decision that under the contract between plaintiff and its depositors, plaintiff would have suffered no loss through the transactions with defendant. In fact, all of the items for which credit had been given were charged back and at the time the suit was brought, so far as I can see, no indebtedness existed in relation to the checks between plaintiff and defendant.

The pledge agreement recited in the opinion was clearly one safeguarding plaintiff on debts due from defendant, and not on debts due to plaintiff acting as agent for its depositors.

If this decision constitutes good law, by a parity of reasoning a Federal reserve bank having received a remittance draft, subsequently dishonored by reason of the insolvency of the drawer, and having charged the items back to its member banks, would have the right and probably a corresponding obligation to resort to the reserve balance of the insolvent bank for the payment of items embraced in a cash letter. We have sought to maintain a status of agency in the collection of checks and, having the right to reverse entries involved in unpaid cash letters, we have contended (and supported the contention in court) that we may not resort to the reserve balance and are under no obligation to do so.

It seems to the writer that the Supreme Court of Minnesota has failed to distinguish between the rights of the plaintiff bank arising out of the relationship of debtor and creditor, and its rights against the collateral involved in its relationship as collecting agent for its depositors.

Albert C. Agnew

ACA/SW Counsel

X-6233

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 February 7, 1929.

February 5, 1929.

The Federal Reserve Bulletin for February, 1929, will contain the following statement:

The United States has during the last six years experienced a most remarkable run of economic activity and productivity. The production, distribution and consumption of goods have been in unprecedented volume. The economic system of the country has functioned efficiently and smoothly. Among the factors which have contributed to this result, an important place must be assigned to the operation of our credit system and notably to the steadying influence and moderating policies of the Federal Reserve System.

During the last year or more, however, the functioning of the Federal Reserve System has encountered interference by reason of the excessive amount of the country's credit absorbed in speculative security loans. The credit situation since the opening of the new year indicates that some of the factors which occasioned untoward developments during the year 1928 are still at work. The volume of speculative credit is still growing.

Coming at a time when the country has lost some 500 million dollars of gold, the effect of the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1-1/2 per cent in the cost of credit for commercial uses. The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future.

The Federal Reserve Board neither assumes the right nor has it any disposition to set itself up as an arbiter of security speculation or values. It is, however, its business to see to it that the Federal reserve banks function as effectively as conditions will permit. When it finds that conditions are arising which obstruct Federal reserve banks in the effective discharge of their function of so managing the credit facilities of the Federal Reserve System as to accommodate commerce and business, it is its duty to inquire into them and to take such measures as may be deemed suitable and effective in the circumstances to correct them; which, in the immediate situation, means to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit. In this connection, the Federal Reserve Board, under date of February 2nd, addressed a letter to the Federal reserve banks, which contains a fuller statement of its position: -

"The firming tendencies of the money market which have been in evidence since the beginning of the year - contrary to the usual trend at this season - make it incumbent upon the Federal reserve banks to give constant and close attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

The resources of the Federal Reserve System are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal Reserve Act.

The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country."

X-6235

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Cost of preparing Federal Reserve Notes during January, 1929.

Jan. 2 to 31, 1929, Federal Reserve Notes, Series of 1914.

666,000	sheets,	$5, New York, @ $35.50 per M,	
133,000	"	10 " " " "	
799,000	sheets,		$28,364.50

Credit appropriations, 1929, as follows:

Comp. of Emp.,	Bur. Eng. & Prtg.	$14,501.85
Plate Printing,	Bur. Eng. & Prtg.	6,471.90
Mtls.& Misc. Exp.	Bur. Eng. & Prtg.	7,390.75

Bureau of Engraving and Printing

Per

C. R. Long
Assistant Director

FOREIGN BRANCHES OF AMERICAN BANKING INSTITUTIONS

American Trust Company, San Francisco, Calif.

Branch:	England:	London

Bankers Trust Company, New York, N. Y.

Branches:	France:	Paris
	England:	London

Chase National Bank, New York, N. Y.

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

Empire Trust Company, New York, N. Y. (Non-Member)

Branch:	England:	London

Equitable Trust Company, New York, N. Y.

Branches:	England:	London (2 offices)
	France:	Paris
	Mexico:	Mexico City (Collection agency)

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

Branch:	England:	London; at same address as the Farmers Loan & Trust Co., Ltd., London, England, a British company whose entire stock is owned by the Farmers Loan and Trust Co., New York, N.Y.
Representatives:	France:	Paris

First National Bank, Boston, Mass.

Branches:	Argentina:	Buenos Aires (two offices)
	Cuba:	Havana (two offices)

Guaranty Trust Company, New York, N. Y.

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

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

Branches:	Argentina:	Buenos Aires
		Rosario
	Belgium:	Antwerp
		Brussels
	Brazil:	Pernambuco
		Rio de Janiero
		Santos (Agency)
		Sao Paulo

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

Branches:

China:
Canton
Dairen
Hankow
Harbin
Hongkong
Mukden, Manchuria
Peking
Shanghai
Tientsin

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

Chile:
Santiago
Valparaiso

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

England:
London - City Branch
West End Branch

India:
Bombay
Calcutta
Rangoon (Burma)

Italy:
Genoa
Milan

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

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

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

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

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

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

Branches:	China:	Shanghai
		Hongkong

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

Branches:	China:	*Hankow
		*Peking
		*Shanghai
		*Tientsin

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

Branches: England: London

Spain: Barcelona
Madrid

Philippine Islands:
Cebu
Manila

*Non-banking offices. Exercise note issuing function only

International Finance Company, (Subsidiary of the National City Bank of New York). Owns entire capital stock of the National City Bank, France, S. A.

Federal Reserve Board,
December 31, 1928.

X-6238

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:
Friday, February 15, 3:00 P.M.

The Federal Advisory Council at a preliminary meeting yesterday made the following minute, which was delivered to the Federal Reserve Board at the regular quarterly meeting of the Council and the Board this morning:

> "The Federal Advisory Council approves the action of the Federal Reserve Board in instructing the Federal Reserve Banks to prevent, as far as possible, the diversion of Federal reserve funds for the purpose of carrying loans based on securities. The Federal Advisory Council suggests that all the member banks in each district be asked directly by the Federal Reserve Bank of the district to cooperate in order to attain the end desired. The Council believes beneficial results can be attained in this manner."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6239

February 16, 1929.

Dear Sir:

There are sent you today by registered mail copies of the reprint of the Federal Reserve Telegraphic Code Nos. to , inclusive, to replace a like number of copies now charged to your Bank on the Board's records.

This code has been reprinted with only such revision as has been necessary in order that additional phrases may be properly placed as to subject and alphabet, all supplemental code phrases covered by the Board's circular letters having been included therein, except those which have become obsolete.

There are attached two lists covering changes in the revised code book, one showing new words which have been substituted for old code words, and the other giving new words which have been added to the new code book.

The reprint, as in the previous issue, does not include any of the four-letter code words assigned to cover telegrams concerning reports to the Board's Division of Bank Operations.

The new code book becomes effective on March 1st, after which date please return to this office all code books of previous issue now in your possession, in order that proper credit may be given.

Kindly acknowledge receipt of the new code books on the attached form.

Very truly yours,

J. C. Noell,
Assistant Secretary.

(Enclosures)

TO GOVERNORS OF ALL F. R. BANKS.

LIST OF NEW CODE WORDS SUBSTITUTED FOR OLD CODE WORDS IN THE REVISED EDITION OF FEDERAL RESERVE TELEGRAPH CODE BOOK

NEW WORDS	OLD WORDS	SUBJECT
ABSENTING	ABSTINENT	ACCEPTANCES (BANKERS') DELIVERED BY NEW YORK - ETC -
ABSONOUS	ABSTRACT	ACCEPTANCES (BANKERS') RECEIVED FROM BOSTON - ETC -
ANCHORESS	ARCHER	(NAME OF APPLYING BANK) ACCEPTS CONDITICNS OF MEMBERSHIP-ETC-
ANCHORING	ARCHERY	APPLICATION OF----FOR MEMBERSHIP IN F R SYSTEM - ETC -
ANCHORBALL	BEFOOL	APPLICATION OF----FOR ORIGINAL STOCK IN F R BANK - ETC -
NARRATEDLY	BEFRIEND	STOCK PAYMENT ACCT SUBSCRIPTION TO STOCK F R BANK - ETC -
BEHOLDEX	BEGET	CERTIFICATE OF AUTHORITY ISSUED BY COMPTROLLER - ETC -
NOWHERMIT	BESTOWING	U S TREASURY CERTIFICATES OF INDEBTEDNESS SERIES TM 1929
NOWHERO	BESTRIDE	" " " " TM-2 1929
NOWHEROIC	BESTRIP	" " " " TJ 1929
NOWHERRING	BIGOTED	" " " " TS 1929
NOWHORSE	BELOVETH	U S TREASURY NOTES - A 1930-32
NOWHOUND	BESTIAL	" B 1930-32
NOWHOUSE	BESTOWAL	" C 1930-32
BEHEFT	BELLOWS	CERTIFICATES OF INDEBTEDNESS SPECIAL - WITHDRAWAL - ETC -
BEGRUTTED	BELLPULL	" " " " "
BEHEFTED	BELONG	" " " " "
BEGRUT	BELOVE	" " " " "
BUNKAGE	BUCKISH	COLLECTION - SENT DIRECT BY MEMBER- ETC -
BULKLESS	BUCKLE	COLLECTION - ADVISE STATUS BY WIRE - ETC -
CHISELLED	CHIGNON	CURRENCY - FEDERAL RESERVE NOTES - ETC -
CHEMICALLY	CHURCH	" " " " "
CHRISTIAN	CHURNING	" " " " "
CHINAMATE	CIDER	" " " " "

NEW WORDS	OLD WORDS	SUBJECT
CHRISMAFT	CLAVICLE	CURRENCY - TREASURER U S REQUESTED TO SHIP - ETC -
CHRISMACE	CLAYBANK	" TREASURER U S DESIRES TO OBTAIN - ETC -
CHATTERILL	CLAYKILN	" COLLATERAL HAVING BEEN DEPOSITED - ETC -
CHINKIRK	CLAYMORE	" PLEASE REQUEST COMPTROLLER - ETC -
DRAYLOT	DREDGING	FEDERAL RESERVE - SAN ANTONIO BRANCH
DRYSELL	DRUID	" PLEASE CREDIT OUR GOLD SETTLEMENT FUND-ETC -
DRYPORE	DRUMMER	" IN ACCORDANCE WITH YOUR TELEGRAM - ETC -
DUCALITE	DUCKBILL	" YOUR GOLD SETTLEMENT FUND ACCOUNT - ETC -
DUBITACE	DUCKED	" YOUR ACCOUNT WITH F R AGENTS FUND - ETC -
DUBITAT	DUCKFOOT	" YOUR ACCT WITH GOLD SETTLEMENT FUND - ETC -
DUPLEXING	DUPMAN	" VERIFY ITEM $____FOR CREDIT OF - ETC -
DUPATING	DURATE	" COMPLYING WITH WIRE _____ - ETC -
DUPATE	DURBAR	" CHARGE OUR (HEAD OFFICE) FIVE - ETC -
DUPLEXED	DUSKY	" HAVE TODAY CHARGED YOUR FIVE - ETC -
JUMBLY	JUNKETING	PARTICIPATION - PURCHASED TODAY FROM FOREIGN BANKS - ETC -
JUGULUM	JURYMAST	" BEGINNING (DATE) DAILY EARNINGS - ETC -
JUMENTLY	JUSTIFIED	" WE CREDIT YOU TODAY - ETC -
JUGULATE	JUSTNESS	" BANK POLSKI LOANS REDUCED - ETC -
JUMBELER	JUSTLY	" HAVE MADE FURTHER GOLD LOANS - ETC -
MARSHPINE	MASCOT	REDISCOUNT - FEDERAL RESERVE BOARD TODAY - ETC -
MARTIAN	MASCULATE	" OUR BOARD OF DIRECTORS TODAY - ETC -
MARTIANATE	MASCULINE	" OUR EXECUTIVE COMMITTEE - ETC -
MARSHNUT	MASHBALL	" FEDERAL RESERVE BOARD TODAY
MARSHLAND	MASHIEST	" COMMERCIAL, AGRICULTURAL AND - ETC -
MARSHMAN	MASKERS	" " " "
MARROWCELL	MASKING	" AGRICULTURAL AND LIVE STOCK - ETC -
MARROWISH	MASON	" BANKERS' ACCEPTANCES MATURING - ETC -

149

NEW WORDS	OLD WORDS	SUBJECT
MASSIVECK	MASONIC	REDISCOUNT - TRADE ACCEPTANCES - MATURING - ETC -
MARROWED	MASONRY	" ALL CLASSES OF PAPER - ETC -
MARSHY	MAYMOON	" MINIMUM BUYING RATE - ETC -
MARSIAN	MAYONNAISE	" " "
MARSILIA	MAYORALTY	" " "
MARSOLINE	MAYORESS	" " "
MARTIANLY	MAYPOLE	" RATES AT WHICH BANKERS - ETC -
MARTINET	MAYQUEEN	" RATES AT WHICH GOVERNMENT - ETC -
MARSOON	MAZURKA	" NO CHANGE IN EXISTING SCHEDULE - ETC -
MOCKJAR	MIXEDLY	SECURITIES - TREASURY HAS AUTHORIZED - ETC -
MITHAN	MIXING	" REFERENCE EXCHANGE OF WIRES - ETC -
MITER	MIXTURE	" " "
MITHABLE	MIZZEN	" " "
MOCKJEST	MIZZENMAST	" UNITED STATES TREASURY ORDER - ETC -
MOCKJADE	MIZZLING	" THE NEW RATIO OF APPORTIONING - ETC -
MITHFUL	MOANED	" REFERRING ACTION COMMITTEE - ETC -
MITHIC	MOANFUL	" REFERRING TEMPORARY SALES - ETC -
MITHRA	MOANFULLY	" " "
MISVOTE	MOLLIFY	" HAVE ARRANGED WITH TREASURY - ETC -
MITHRIAC	MOLLUSKS	" REFERRING TO YOUR "MISVOTE" TELEGRAM - ETC -
NAVIFORM	MUTTON	STOCKS & BONDS - REFUND OF CAPITAL STOCK PAYMENT - ETC -
NARRATELL	NEWCOME	" STATE BANK PAYMENT ON CAPITAL STOCK - ETC -
NAVIDE	NOTABLES	" PURCHASED TODAY - U S SECURITIES - ETC -
NEBULONG	NOTARIAL	" SOLD TODAY $____ U S SECURITIES - ETC -
NEGROAT	NOTARY	" WE CREDIT TODAY $____ YOUR PRO RATA - ETC-
NAVYYAWL	NOTATING	" SALE TODAY RESULTS IN DIFFERENCE - ETC -
NAVIESTER	NOTEBOOK	" REFERRING DISTRIBUTION BILLS PURCHASED-ETC-

NEW WORDS	OLD WORDS		SUBJECT
NAPPINTLE	NOTEDLY	STOCKS & BONDS -	FOR USE IN YOUR PRESS STATEMENT
NEGRALING	NUCHION	"	UPON AUTHORITY C P D - ETC -
NAVAL	NUMERATE	"	PLEASE PURCHASE AT NOT TO EXCEED - ETC -
NEGRATE	NUMERIC	"	UPON RECEIPT OF AUTHORITY C P D - ETC -
MUSKDUDE	NUMEROUS	"	ACCEPT DELIVERY -- FROM -- - ETC -
ONRUN	OLYMPIAN	"	TELEGRAPH REPLY OVER PRIVATE LEASED WIRE
PATROLING	PARTROLING	CALENDAR	NOT AFTER MARCH
POMADE	POMNADE	DECIMALS	.194
REORGAN	REORDER	NUMBERS	186
UNFAMILIAR	UNFAMILAR	DOLLARS	6300
UNHANDYMAN	UNHANDY	DOLLARS	18,000

LIST OF NEW CODE WORDS AND NEW PHRASES WHICH ARE BEING ADDED TO THE FEDERAL RESERVE TELEGRAPH CODE BOOK AND ARE INCLUDED IN THE REVISED EDITION

ACACIA	WE ARE SHIPPING TODAY FOR ACCOUNT OF _____ ACCEPTANCES $_____ _____DISCOUNT_____AND CHARGE YOUR ACCOUNT $_____
AGRAM	_____ADVISES ITEM $_____ YOURS _____TO NOTARY
BERTH	WE CHARGE $_____ ITEMS _____ LISTED NOT ENCLOSED IN CASH LETTER OF _____ TOTAL $_____
BERTHAD	WE CHARGE $ _____ PAYMENT TO ____ $_____ _____ AT _____ DISPOSING OF BONDS AS INSTRUCTED IN YOUR TELEGRAM (LETTER) OF _____
BLAMAGE	FORWARDING TO _____ CHECK FOR $_____ ON ____ SENT US IN ERROR (BY____) THEIR/YOUR/ CASH LETTER OF _____
BLUEBELLOW	RETURNING CHECK (DRAFT) ON _____ $ _____ (DATE) FOR ENDORSEMENT
BLUEBILLY	RETURNING CHECK(DRAFT) ON _____ FOR $_____ YOURS ____ NOT ON PAR LIST
BUNKAT	WE CREDIT YOUR ACCOUNT TODAY WITH $____ REPRESENTING PROCEEDS OF COLLECTION #___ SENT DIRECT TO US BY___ WIRE MEMBER DATE CREDITED
BURHULL	YOUR COLLECTION #____ $_____ ON ____ REPORTED IN HANDS OF NOTARY
BURLET	YOUR COLLECTION #____ $_____ ON ____ UNPAID CLAIM HAVE REMITTED DIRECT
CELIBATING	CREDITING $ ____ CHECK(DRAFT)ON ____ LETTER _____
CELIBEAR	CREDITING $ ____ PROCEEDS OF BONDS DELIVERED TO ____ # _____
CHAINGATE	PLEASE CREDIT AS OF TODAY DELAYED IN OUR OFFICE
CHANELAGE	WE CREDIT $ ____ ITEMS _____ ENCLOSED NOT LISTED IN CASH LETTER OF_____ TOTAL $ _____

CHANGINGLESS	WE CREDIT $_____ INTEREST ON _____ HELD IN SAFEKEEPING
CHANGINGLY	WE CREDIT $_____ OUR PART SPECIAL INVESTMENTS
CHERAD	GOLD COIN
CLUCKNESS	PLEASE REVERSE YOUR DEDUCTION
COLLUSITE	UNABLE TO MAKE DELIVERY _____ WILL ACCEPT DELIVERY $_____ ON _____YOUR TRANSACTION #_____WIRE NEW PAYMENT FIGURES
CONSIDERABLE	REFER YOUR ___ OF ___ OUR ____ YOU REPORT $_____WE HAVE $_____ ADVISE
DISAVENGE	RETURNING CERTIFIED FOR CORRECT ENDORSEMENT CHECK ON _____ FOR $____ LISTED IN CASH LETTER OF _____
DISCLAD	WE CONFIRM YOUR ACTION SUPPLYING ENDORSEMENT
FABER	FORWARDING TO ___ $ _____ ON ____ SENT US IN ERROR (BY) _____
GRANTISE	_____ CASH LETTER DATED ____ RECEIVED CITY ITEMS $ _____ CREDITED TODAY CREDITING COUNTRY ITEMS $ ____ _____
GRANTISING	_____ CASH LETTER DATED ____ RECEIVED TOO LATE FOR TODAY'S CLEARINGS CREDITING CITY ITEMS $ ____ _____ CREDITING COUNTRY ITEMS $ _____ _____
GRANTLE	CASH LETTER FROM--(DATE) $ _____ CREDITED
GRONEN	YOUR AIR MAIL CASH LETTERS _____ RECEIVED CITY ITEMS CREDITED TODAY CREDITING COUNTRY ITEMS _____
GRONGE	YOUR AIR MAIL CASH LETTERS _____ RECEIVED TOO LATE FOR TODAY'S CLEARINGS CREDITING CITY ITEMS ____ CREDITING COUNTRY ITEMS ____

HOGGET NO RECORD HAVING RECEIVED YOUR MESSAGE _____ DID YOU SEND

HOGPENNY REFERRING TO OUR MESSAGE ____ ADVISE TIME RECEIVED AND MEMBER ADVISED

HOGPENTED REFERRING TO OUR MESSAGE_____ AMOUNT SHOULD READ _____

HOGPEOPLE REFERRING TO OUR MESSAGE _____ DEPOSITING BANK SHOULD READ _____

HOGPEST SHOULD READ DEPOSITED BY _____ FOR CREDIT OF ___ FOR USE OF _____

HOGPLUNGE REFERRING TO YOUR MESSAGE ____ ADVISE FOR WHOSE CREDIT

HOGPLURAL REFERRING TO YOUR MESSAGE ____ ADVISE FOR WHOSE USE

HOGPLUSH REFERRING TO YOUR MESSAGE ____ ADVISE NAME OF CREDITING BANK

HOGPOLE REFERRING TO YOUR MESSAGE ____ COMES WITHOUT AMOUNT

HOGRAID REFERRING TO YOUR MESSAGE ____ GIVE CORRECT PREFIX AND TESTWORD

HOGRAISE REFERRING TO YOUR MESSAGE ____ IS THIS CORRECT ADVISE

HOGRIDE REFERRING TO YOUR MESSAGE ____ IS THIS INTENDED FOR US

HOGROAD REFERRING TO YOUR MESSAGE ____ NOT A MEMBER BANK ADVISE

HOGROSE REFERRING TO YOUR MESSAGE ____ NOT IN OUR DISTRICT ADVISE

HOGRUN REFERRING TO YOUR MESSAGE ____ OUR MEMBER ADVISES NO ACCOUNT

MARSHWRAP MINIMUM BUYING RATE FOR BANKERS' ACCEPTANCES WITHIN 15 DAYS (PER CENT)

MARSHWRIT MINIMUM BUYING RATE FOR BANKERS' ACCEPTANCES WITHIN 30 DAYS (PER CENT)

MISDIRE RETURNED IN ERROR

MISDUB RETURNING PROTESTED

MISERABET	RETURNING TODAY
MISERHAT	RETURNING UNPAID
MISQUIDED	REVERSING TODAY
NANKAT	DISPOSING OF BONDS AS INSTRUCTED
NOWBAB	U S TREASURY BONDS
NOWBACK	U S TREASURY 3 3/8% BONDS 1940-43
NOWBEAR	U S TREASURY 3 3/8% BONDS 1943-47
NOWBELL	U S TREASURY 4% BONDS 1944-54
NOWBENT	U S TREASURY 3¾% BONDS 1946-56
NOWBERRY	U S TREASURY 4¼% BONDS 1947-52
NOWHORRENT	U S TREASURY NOTES
ORNATION	WE HAVE DELIVERED TRANSACTIONS #_____

FEDERAL ADVISORY COUNCIL
1929

Officers:

Frank O. Wetmore, President.
B. A. McKinney, Vice President.
Walter Lichtenstein, Secretary.

Executive Committee:

Frank O. Wetmore — Levi L. Rue
B. A. McKinney — Harris Creech
Wm. C. Potter — W. W. Smith

MEMBERS.

District.		Address.
No. 1	Arthur M. Heard	Amoskeag National Bank, Manchester, N. H.
No.2	William C. Potter	Guaranty Trust Company of New York, N.Y.
No. 3	Levi L. Rue	Philadelphia National Bank, 421 Chestnut Street, Philadelphia, Pa.
No. 4	Harris Creech	Cleveland Trust Company, Cleveland, Ohio.
No. 5	John Poole	Federal American Nat'l Bank, Washington, D.C.
No. 6	J. P. Butler, Jr.	Canal Bank & Trust Company, New Orleans, La.
No. 7	Frank O. Wetmore	First National Bank, Chicago, Ill.
No. 8	Walter W. Smith	First National Bank, St. Louis, Mo.
No. 9	Theodore Wold	Northwestern National Bank, Minneapolis, Minn.
No. 10	Peter W. Goebel	Liberty National Bank, Kansas City, Mo.
No. 11	B. A. McKinney	American Exchange National Bank, Dallas, Texas,
No. 12	F. L. Lipman	Wells Fargo Bk.& Union Tr.Co., San Francisco, Calif.

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

February 20, 1929.

FEDERAL RESERVE BOARD

WASHINGTON

X-6241

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 20, 1929.

SUBJECT: Cost of Printing Telegraphic Code Book.

Dear Sir:

The report of the Leased Wire Committee to the Governors' Conference, dated Nov. 14, 1928, contained a recommendation that the Federal Reserve Telegraphic Code be reprinted and that the cost thereof be prorated among the Federal Reserve Banks in proportion to their usage of the original supply.

In accordance with the foregoing recommendation, the new code books have been printed under the direction of the Leased Wire Committee, at a cost of $1,250.-34, which has been paid by the Federal Reserve Bank of Chicago. Attached is a statement showing the proportionate use by all Federal Reserve Banks of the original issue and the share of cost based upon such use. Please arrange to send check to the Federal Reserve Bank of Chicago for your Bank's share of the cost, as per this statement.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

TO GOVERNORS OF ALL F. R. BANKS.

X-6241-a

FEDERAL RESERVE TELEGRAPHIC CODE

Federal Reserve Bank	No. of books used Original Issue.	Percentage of Total issued to F.R. Banks	Share of cost of New Issue, Based upon use of first issue
Boston	14	3.08	$ 38.51
New York	55	12.12	151.54
Philadelphia	13	2.86	35.76
Cleveland	35	7.71	96.40
Richmond	25	5.51	68.89
Atlanta	49	10.79	134.91
Chicago	32	7.05	88.15
St. Louis	49	10.79	134.91
Minneapolis	30	6.61	82.65
Kansas City	45	9.91	123.91
Dallas	39	8.59	107.41
San Francisco	68	14.98	187.30
Total	454	100.00	$1,250.34

COPY

FEDERAL RESERVE BANK

OF RICHMOND

February 2, 1929.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel.

My dear Mr. Wyatt:

I am sending you a copy of a complaint in an action brought by L. R. Gilbert, Trustee of Audrey Spinning Mills, Inc., against the Phoenix Mills and other parties, including the Federal Reserve Bank of Richmond. You will notice the action is for the amount of a check drawn by the Phoenix Mills to the Audrey Spinning Mills on the Commercial National Bank of Statesville, which was sent to the latter by the Federal Reserve Bank of Richmond, which in turn received authority to charge the amount of such check to the reserve account of the Commerical National Bank of Statesville.

The pertinent facts in this case so far as the Federal Reserve Bank of Richmond is concerned are as follows:

On April 16th the Charlotte Branch of the Federal Reserve Bank of Richmond sent to the Commercial National Bank of Statesville checks totaling $20,561.03 and on the same day checks were sent from the main office to the Commercial National Bank of Statesville totaling $1,176.12. These checks were apparently received by the Commercial National Bank of Statesville on April 17th and were cancelled and charged to the drawers. On that day the Commercial National Bank of Statesville sent to the Charlotte Branch of the Federal Reserve Bank of Richmond a remittance letter which contained a form directing the Federal Reserve Bank of Richmond to charge these checks to the reserve account of the Commercial National Bank of Statesville. The remittance letter above mentioned was received by the Charlotte Branch of the Federal Reserve Bank of Richmond, at which the reserve account of the Commercial National Bank of Statesville was kept, on the morning of April 18th.

At the close of business on April 17th the reserve account of the Commercial National Bank of Statesville showed a credit balance of $1,084.62. Various credits were made to the account of the Commercial National Bank of Statesville on the morning of April 18th. These credits apparently consisted of checks formerly deposited and becoming available in the reserve account, a shipment of currency amounting to $5,000.00, and a transfer of $4,000.00. The Charlotte Branch also received a draft for $12,500.00 drawn by the Commercial National Bank of Statesville on the American Trust Company of Charlotte, so that the apparent balance exceeded the amount of the cash letters which were accordingly charged against it. About midday on April 18th, but after the charge of the cash

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

February 2, 1929

letters, the Charlotte Branch was advised that the Commercial National Bank of Statesville had been closed. The American Trust Company received a similar notice and returned the draft for $12,500.00 which had been presented through the Clearing House. This draft was charged against the account of the Commercial National Bank of Statesville, causing an apparent overdraft. Thereupon the cash letters which had been charged to the account earlier in the day were charged back and credited to the Commercial National Bank of Statesville, leaving an apparent balance of approximately $13,000.00. On April 19th and 20th the reserve account of the Commercial National Bank of Statesville was credited with the sums of $1,001.48, $1,654.27, and $1,330.71, which were apparently checks deposited prior to April 18th but which became available on the 19th and 20th. The net result of these debits and credits left a balance of $17,114.20. We were holding this balance in suspense to await the action of the court in the Lake City case.

The present suit, however, may present some additional questions not involved in that case, particularly with respect to the credits made after April 18th.

I remain,

Very truly yours,

(s) M. G. Wallace,
Counsel.

MGW L

COPY

STATE OF NORTH CAROLINA,)
)
COUNTY OF MECKLENBURG.)

IN THE SUPERIOR COURT.

L. R. Gilbert, Trustee in Bankruptcy of Audrey Spinning Mills, Inc.,

Plaintiff,

versus

Phoenix Mills, Inc., Weldon Bank & Trust Co., The Commercial National Bank of Raleigh, N. C., Federal Reserve Bank of Richmond, and C. L. Williams, Receiver of The Commerical National Bank of Statesville, N. C.,

Defendants.

C O M P L A I N T.

The plaintiff, complaining of the defendants, alleges:

I.

That the plaintiff was heretofore duly appointed and qualified, and is now acting as the Trustee in Bankruptcy of Audrey Spinning Mills, Inc., a corporation duly organized and existing under the Laws of the State of North Carolina, which was heretofore, to-wit, on or about the 19th of September, 1928, duly adjudicated a bankrupt by the United States District Court, for the Eastern District of North Carolina.

II.

That as plaintiff is informed and believes the defendant, Phoenix Mills, Inc., is a corporation duly organized and existing under the laws of the State of New York, and is now, and was at the times hereinafter referred to engaged in doing business in this state, and at such times owned and operated, and still owns and operates a cotton mill in the county of Iredell, in this State.

III.

That the defendant, Weldon Bank & Trust Company, is a banking corporation duly organized and existing under the Laws of the State of North Carolina, with its home office and principal place of business in the Town of Weldon, Halifax County, North Carolina, and as such corporation is duly authorized and empowered to receive and handle for collection checks drawn upon other banks.

IV.

That the defendant, Commercial National Bank of Raleigh, N. C., is a banking corporation duly organized and existing under the Acts of Congress, with its home office and principal place of business in the City of Raleigh, Wake County, North Carolina, and as such corporation is duly authorized and empowered to receive and handle for collection checks drawn upon other banks.

V.

That the defendant, Federal Reserve Bank of Richmond, is a banking corporation duly organized and existing under the Acts of Congress, especially under that Act known as the Federal Reserve Act, and is duly authorized and empowered to receive and handle for collection checks drawn upon other banks, and at the times hereinafter referred to was, and still is, engaged in business in this State, with its principal office and place of business in Charlotte, Mecklenburg County, North Carolina, where at all such times it maintained, and still maintains, a branch bank.

VI.

That the defendant, C. L. Williams, was heretofore, to-wit, on or about April 19th, 1928, duly appointed Receiver of The Commercial

National Bank of Statesville, N. C., by the Comptroller of the Currency of the United States, and immediately qualified as such Receiver, and as such has since been in charge, and is still in charge, of winding up and liquidating the business and affairs of said bank, which was at the times hereinafter referred to a banking corporation duly organized and existing under the Acts of Congress, and duly authorized and empowered to receive deposits of money to pay checks drawn on such deposits when duly presented, and to receive and handle for collection checks, and otherwise engage in the banking business under said Acts of Congress, and at all such times had and maintained its principal office and place of business in this State in Statesville, Iredell County, North Carolina.

VII.

That heretofore, to-wit, on or about April 10th, 1928, the defendant, Phoenix Mills, Inc., being indebted to the Audrey Spinning Mills, Inc. in the sum of $6,928.94, for cotton yarns theretofore sold and delivered by said Audrey Spinning Mills, Inc. to said Phoenix Mills, Inc., forwarded through the United States mails to said Audrey Spinning Mills, Inc., its check drawn on the Commercial National Bank of Statesville, N. C. in words and figures as follows, to-wit:

"PHOENIX MILLS, INC. NO. 386.

STATESVILLE, N. C. APRIL 10, 1928.

PAY TO THE
ORDER OF Audrey Spinning Mills, Inc. $6928.94

Six Thousand Nine Hundred Twenty-eight and 94/100 ------ DOLLARS

TO PHOENIX MILLS, INC.

THE COMMERCIAL NATIONAL BANK
STATESVILLE, N. C.

C. W. MCLAIN
Agent."

which said check was issued by said Phoenix Mills, Inc. to said Audrey Spinning Mills, Inc. in payment of the indebtedness aforesaid.

VIII.

That said check was received by the Audrey Spinning Mills, Inc., at Weldon, N. C., in the U. S. mail on the afternoon of Thursday, April 12, 1928, after the close of banking hours; it was duly endorsed and deposited by said mills with the defendant, Weldon Bank & Trust Company, for collection on the morning of Friday, April 13, 1928, and on the same day was duly endorsed and forwarded by said defendant to the defendant, Commercial National Bank of Raleigh, N. C., for collection; that it was received by the latter on Saturday, April 14, 1928, and on said date was duly endorsed and forwarded by it to the Charlotte Branch of the Federal Reserve Bank of Richmond, for collection; that it was received by the latter on April 16, 1928, and on said date was duly endorsed by it and forwarded to The Commercial National Bank of Statesville, for payment.

IX.

That the Federal Reserve Bank of Richmond, through its Charlotte Branch, forwarded said check to The Commercial National Bank of Statesville in a letter containing other checks drawn upon the latter, and which said Charlotte Branch held for collection, the total amount of the checks thus forwarded to said Commercial National Bank of Statesville in said letter for payment being $20,561.03.

X.

That said check, together with the other checks contained in said letter, were received by The Commercial

National Bank of Statesville on Tuesday, April 17, 1928; and on said date it wrote to the Federal Reserve Bank of Richmond directing it to pay said check, and the other checks aforesaid, and charge them to its reserve account with said Federal Reserve Bank; that said letter was received by the defendant, Federal Reserve Bank, on the morning of Wednesday, April 18, 1928; that at the close of business on said date the books of said Federal Reserve Bank showed that the balance in the reserve account of said Commercial National Bank of Statesville was $13,429.19; that inasmuch as the balance in said reserve account as shown by its books was less than the total amount of the checks forwarded to The Commercial National Bank of Statesville for payment as aforesaid the Federal Reserve Bank of Richmond refused to pay the check of the Audrey Spinning Mills, Inc., hereinbefore set forth, and on said 18th day of April, 1928, notified the Commercial National Bank of Raleigh of the non-payment thereof, and charged the amount of said check back against said Commercial Bank of Raleigh; the Commercial National Bank of Raleigh in turn notified the Weldon Bank & Trust Company of the non-payment of said check, and charged the latter's account with the amount thereof; the Weldon Bank & Trust Company thereupon notified the Audrey Spinning Mills, Inc., of the non-payment of said check, and the latter in turn duly notified the defendant, Phoenix Mills, Inc., of the non-payment thereof.

XI.

That notwithstanding the presentment of said check to The Commercial National Bank of Statesville for payment on April 17, 1928, as hereinbefore alleged, the said bank fail-

ed and refused to pay said check, or to cause the same to be paid by the Federal Reserve Bank of Richmond, and that notwithstanding such failure the Cashier of said Commercial National Bank of Statesville wrongfully and unlawfully stamped said check as paid on April 18, 1928.

XII.

That said Commercial National Bank of Statesville suspended business on the 18th of April 1928, and did not reopen on the 19th, and on or about said date the defendant, C. L. Williams, was appointed as Receiver for said bank, as hereinbefore alleged.

XIII.

That after repeated demands by the Audrey Spinning Mills, Inc., upon said Phoenix Mills, Inc., to pay the indebtedness for which said check was issued, the latter on May 16, 1928, declined at that time to pay the same, or at least postponed payment thereof, upon the ground that there was a question as to whether or not the collecting banks who handled the check aforesaid were responsible for the non-payment thereof, and on July 2nd, 1928, declined to pay said indebtedness upon the alleged ground that the Audrey Spinning Mills, Inc., had not received the proceeds of said check through the fault of the defendant banks who had handled same. That a controversy therefore exists between the Phoenix Mills, Inc., and the defendant banks, as to who is liable to the plaintiff for the payment of the amount of said check representing the indebtedness of said Phoenix Mills, Inc., to said Audrey Spinning Mills, Inc.

XIV.

That the Audrey Spinning Mills, Inc., accepted said check from the defendant, Phoenix Mills, Inc., in payment of the indebtedness aforesaid upon the condition that said check would be paid by said Commercial National Bank of Statesville when duly presented for payment; and that said check was not paid by said bank when presented, as hereinbefore alleged, so that said Phoenix Mills, Inc., remains liable to the plaintiff as the Trustee in Bankruptcy of said Audrey Spinning Mills, Inc. in the sum of $6,928.94, with interest thereon at the rate of 6% per annum from April 10, 1928, until paid.

XV.

That the Weldon Bank & Trust Company, the Commercial National Bank of Raleigh and the Federal Reserve Bank of Richmond each in receiving and handling said check aforesaid for collection on behalf of said Audrey Spinning Mills, Inc. became its agent for the collection thereof, and each undertook to exercise due diligence in procuring the proceeds of said check from said Commercial National Bank of Statesville, and in remitting the same in due course to said Audrey Spinning Mills, Inc.

XVI.

That as the plaintiff is informed and believes each of said banks consented to, acquiesced and participated in the method and manner in which said check was handled for collection, and failed and neglected to comply with its contract and agreement with said Audrey Spinning Mills, Inc., as hereinbefore alleged.

XVII.

That as the plaintiff is informed and believes the

defendant, C. L. Williams, Receiver of the Commercial National Bank of Statesville, has in hand funds for distribution to those having lawful claims against said bank, and the plaintiff is further informed and believes that after April 18th, 1928, the reserve account of said Commercial National Bank of Statesville with the Federal Reserve Bank of Richmond was further increased and now amounts to the sum of $17,114.27, and as the plaintiff is advised and believes, inasmuch as the Commercial National Bank of Statesville authorized and directed the Federal Reserve Bank of Richmond to pay said check out of said reserve account, as hereinbefore alleged, such authorization and direction constituted an equitable assignment of said reserve account to the amount of said check.

XVIII.

That as the plaintiff is advised and believes he is entitled to have the liability of the defendants, and each of them, to him determined, and to recover judgment against the defendants, and each of them, in accordance with such determination, and is further entitled to have the rights of the parties against the defendant, C. L. Williams, Receiver, and their rights in and to the aforesaid reserve account held by the Federal Reserve Bank of Richmond, determined and adjudged, and so far as may be necessary to collect the amount due him from the defendants, or from such of them as may be liable to him, is entitled to be subrogated to the rights of the defendants against said Receiver, and to their interest in and to said reserve account held aforesaid by the Federal Reserve Bank of Richmond.

WHEREFORE, the plaintiff prays that the liability of the defendants, and that of each of them to him be determined, and that he recover judgment against them, and each of them, in accordance with such determination, and for such other or further relief in the premises as the plaintiff is entitled to have, and for the cost of this action to be taxed by the Clerk according to law.

(sgd) W. S. O'B Robinson, Jr.

(sgd) John M. Robinson
Attorneys for the Plaintiff.

STATE OF NORTH CAROLINA,

COUNTY OF HALIFAX.

L. R. Gilbert, being first duly sworn, says that he is the plaintiff in the above entitled action; that he has read the foregoing complaint and knows the contents thereof, and that the same is true of his own knowledge, except as to those matters therein stated to be alledged upon information and belief, and as to such matters he believes it to be true.

(sgd) L. R. Gilbert, Trustee

Sworn to and subscribed before me,
this the 29 day of December, 1928.

(Sgd) Janie Haywood
Notary Public

Com. expires Feb. 16, 1929.

COPY

X-6243 169

ARTICLE BY DOCTOR WILLIS

NEW YORK WORLD

Sunday, February 17, 1929.

BRIEF ANALYSIS

The Federal Reserve System was never designed to check or prevent speculation carried on with individual funds.

Purpose of Federal Reserve System was merely to take the bank reserves of the country out of the speculative market.

The Reserve Act transferred the required reserves to the Federal reserve banks and further provided that loans of the Federal reserve banks should never be made for the purpose of carrying speculative transactions.

The Federal Reserve Act not only did not attack speculation; it indirectly provided for it by reducing amount of required reserves and permitting member banks to continue to deposit their surplus reserve with the city banks for loan on collateral if the owners of it so desired.

The Federal Reserve Act exempted United States obligations from the prohibition against loans for carrying securities; in other words, it allowed borrowers to get funds from reserve banks for the purpose of buying and carrying United States bonds and certificates.

The reason for this exception was shown in the World War, the reserve banks being an indispensable adjunct in the placing of Government bonds.

The special interests induced Congress to permit Federal reserve banks to loan on the direct notes of member banks with Government bonds as collateral.

Administrative rulings and practice under this new provision made it almost mandatory for a reserve bank to do so.

This was a long step in advance of the permission granted in the Act to loan for the purpose of carrying United States securities.

This put the reserve banks in the position of being obliged to loan with United States bonds as collateral, without inquiring what the purpose of the loan was, - that is to say, to loan indirectly for the purpose of speculation in other securities.

Although promise was made to repeal this immediately after the war was over the same special interests sought to protect it and it has remained on the statute books.

Thus the bank reserves of the country have more than ever gone back into the market.

At a recent date the reserve banks were carrying about $720,000,000 of certificates or loans secured by such Government obligations.

The Reserve Act provided for the bankers' acceptance as a means of obtaining suitable interest bearing instruments in which the surplus reserves of the member banks could be invested should they prefer not to loan on call. It was supposed that, as in Great Britain, banks desiring to be in a liquid condition would put their surplus reserves into bankers' acceptances and then when needing funds get them by selling these acceptances to reserve banks.

The member banks have never carried any considerable amount of such acceptances but have sold them direct to the reserve banks which have to carry the entire burden of the acceptance market from the very beginning.

At a recent date member banks were holding only about $25,000,000 out of the total of $1,284,000,000 of acceptances outstanding of which the reserve banks held for their own and foreign accounts about $800,000,000.

The credit obtained by acceptance financing has admittedly in many instances gone directly into the stock market and thus the surplus reserves of the country, as well as the basic reserves themselves, have been put back into the service from which the Reserve Act had sought to draw them.

The remedy for a bad practice is always the complete cessation of that practice.

This may not be possible as an immediate step but it must be begun and systematically carried forward.

REMEDIES:

1. Reserve banks should absolutely stop supporting the market for Treasury certificates under re-purchase agreements.

2. They ought to stop lending to members on the direct notes of such members collateraled by Government obligations.

Cites recent loan to member bank of over $100,000,000 on its direct notes collateraled by Government securities.

3. The reserve banks should rid themselves of all save a very moderate holding of Government certificates.

4. They should hold no Government bonds whatever.

5. They should refuse to buy acceptances except when they represent a fractional part of a general body of paper of the sort which is being carried by the member banks as a way of investing surplus reserves and thereby keeping themselves liquid.

6. Reserve banks should do what they never have done, - resort to

direct dealings in two-name paper regardless of the endorsement of member banks, - a practice widely carried on by European central banks.

The above changes would result in re-establishing the liquidity of reserve banks and in doing what the original Act intended to do, - keep the reserve funds of the country out of the stock market.

The Federal Reserve Act never had any quarrel with legitimate speculation but on the contrary provided for the release of funds which could be used if desired to take care of it.

Speculation is a part of the industrial and financial structure of the United States and performs a useful economic service. It cannot be well dispensed with under the present economic order. It ought to be liberally financed.

It is, however, constantly tending to invade other fields. At the present time the stock market is taking the place of the banks in many particulars.

A new type of financing by the issue of stocks and bonds rather than through commercial bank loans has come into vogue.

The number of enterprises listed on the Stock Exchange has immensely increased.

The New York Stock Exchange is serving vastly more than a speculative purpose; it has become a medium of current industrial and business finance.

The excess in the use of credit for brokers' loans and collateral loans is shown by the fact that the Stock Exchange calls upon New York banks for total loans of $3,000,000,000 at a time when the entire short-term loans of the London Clearing House banks, as estimated by Mr. McKenna, are less than $750,000,000 of which probably less than half is devoted to genuinely speculative transactions.

The above, of course, is what the Federal Reserve Board had reference to in its recent statement.

The statement referred to the lack of any duty on the part of reserve banks as regards speculation; it would have been better had it referred positively to their actual duty to keep bank reserves out of speculation.

Whatever the form of expression employed, the real meaning was the same, in that an unusual share of the country's resources had become involved in supporting a kind of transaction which, even though beneficial in itself when kept within limits, may, like anything else, be exaggerated and rendered dangerous.

It does not help the present situation to point out what our banking system ought to have done several years ago, or to note the errors which were made during and after the war and to point the way to long range reform.

This situation is one of emergency, - nothing less.

It is not necessary to figure the possibility of a collapse of values or an old fashioned panic, or a series of bank failures.

As a matter of fact, these conditions may present themselves as they did after 1920.

They may not appear at all, and yet the harm of present conditions may manifest itself in other ways that are quite as serious if slower in operation and less spectacular.

It may manifest itself in one way or another, and the question is how to bring about a better situation, - a situation from which it is possible to make a start towards better conditions.

TWO REMEDIES SUGGESTED:

1. Obtain an agreement that no greater amount of credit should be used for Stock Exchange purposes than is now employed.

This is perfectly feasible. It was done during the war through the money pool and the equivalent was done many times before the war to arrest or prevent panic and disastrous changes in security values.

The effect of it would be to cut off at once the constant growth in stock market transactions which calls for an ever growing volume of credit and which permits more and more people all over the country to become involved in a speculative maelstrom.

2. To make this effective it might be accomplished by an agreement among the issuing houses of the city to slow down, or perhaps for a time suspend further new issues except where such transactions are necessary.

This was effectively resorted to during the war through the Capital Issues Committee.

In a moderate way it has been pursued at different times since then for the purpose of preventing a condition of indigestion from becoming acute in the bond market.

One reason for the constantly mounting total of brokers' loans is the vast amount of loans used to finance issue houses and syndicates and in enabling them to carry large volumes of securities that have not been sold to the public.

WHAT CAN THE RESERVE SYSTEM DO?

Let us see what it has done.

1. It has raised its acceptance rates in the effort to liquidate its portfolio of acceptances.

2. It has shown a little more reluctance towards supporting the Government security market.

3. It has slightly raised its discount rates (last summer).

4. The Board has lately issued a warning statement.

5. Certain western reserve banks have informed their members they will not rediscount for any member who sends funds out of the district for speculative purposes.

All the above are good as far as they go. They have not been applied early enough but have been used reluctantly and slowly as conditions had developed which were really beyond control.

It has been suggested that the reserve bank should refuse further credit to borrowing banks who are lending in the stock market. That would merely bring on a crash which would aggravate existing conditions.

The local reserve bank by reason of past blunders is more responsible than any other institutions for what is occurring in the market today.

It cannot stand from under by merely repudiating its responsibility, - as the Reserve System tried to do without success in 1920.

Wise and strong handling of the local reserve bank could and would produce results very much greater than any that have been obtained thus far by the policies already described.

It is too late to obtain the desired effect by the conventional methods, especially in view of the burden we have assumed in connection with our joint effort to sustain the Bank of England in maintaining the gold standard policy.

It is an unfortunate outcome of 15 years experience in central banking, - for now we must find some way of correcting conditions on old fashioned lines.

FEDERAL RESERVE BOARD X-6244

STATEMENT FOR THE PRESS

For immediate Release February 20, 1929.

The first and organization meeting of the Federal Advisory Council for 1929 was held on Friday, February 15. The members of the Council are:

Federal Reserve District No. 1, Boston, Arthur M. Heard
No. 2, New York, Wm. C. Potter
No. 3, Philadelphia, L. L. Rue
No. 4, Cleveland, Harris Creech
No. 5, Richmond, John Poole
No. 6, Atlanta, J. P. Butler, Jr.
No. 7, Chicago, Frank O. Wetmore
No. 8, St. Louis, Walter W. Smith
No. 9, Minneapolis, Theodore Wold
No. 10, Kansas City, Peter W. Goebel
No. 11, Dallas, B. A. McKinney
No. 12, San Francisco, F. L. Lipman

Frank O. Wetmore of Chicago, was re-elected President and B. A. McKinney of Dallas, was elected Vice President. These officers as ex-officio members and Messrs. Potter, Rue, Creech and Smith will comprise the Executive Committee. Mr. Walter Lichtenstein was reappointed Secretary of the Council.

FEDERAL RESERVE BOARD

WASHINGTON X-6245.

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

February 20, 1929.

SUBJECT: Holidays during March, 1929.

Dear Sir:

On Saturday, March 2nd, the Federal Reserve Bank of Dallas and all its branches will be closed in observance of Texas Independence Day.

On Monday, March 25th, the Baltimore Branch of the Federal Reserve Bank of Richmond will be closed in observance of Maryland Day.

On Friday, March 29th, the following offices will be closed in observance of Good Friday:

Philadelphia	New Orleans
	Jacksonville
Pittsburgh	Nashville
	Havana Agency
Baltimore	
	Memphis
	Minneapolis

On the dates indicated, the banks affected will not participate in either the Gold Settlement Fund or the Federal Reserve Note clearing. Please include credits for the offices affected on each of the holidays with your credits for the following business day, and make no shipments of Federal reserve notes, fit or unfit, for account of the Head Offices mentioned on the dates specified.

On Monday, March 4th, the offices of the Federal Reserve Board will be closed, but the daily Gold Fund Clearing and the Federal Reserve Note clearing will take place as usual.

Kindly notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

To GOVERNORS OF ALL F. R. BANKS.

COPY X-6248

176

FEDERAL RESERVE BANK

OF RICHMOND

February 20, 1929

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Geo. B. Vest, Asst. Counsel.

Dear Mr. Vest:

I have your letter of February 18th acknowledging my letter enclosing to you a copy of the complaint in the action of Gilbert, Trustee, v. Phoenix Mills, et al.

I notice that you are sending a copy of the complaint to the Counsel for other Federal Reserve banks and it occurs to me that you might wish to send them a copy of my answer, as the answer sets forth the facts which are of interest to the Federal Reserve banks more fully than they are set forth in the complaint.

I am enclosing you a copy of the answer which I have prepared. The Receiver of the failed bank is filing a petition to remove this case to the Federal court, in which we and all other defendants will join. If the removal is effected, the answer will be filed in the Federal court and it may be necessary to make some slight changes in its form to comply with the Federal practice, because I think that in the Federal court the proceeding will be considered a suit in equity. The essential allegations, however, will not be changed, and therefore the answer enclosed will give all information which would be of any interest to the Counsel for other Federal Reserve banks.

Of course I shall keep your office advised as to the progress of this suit.

In sending copies of the answer to Counsel for other Federal Reserve banks I would be greatly obliged if you would say to them that I should of course welcome any suggestions which they may wish to make, particularly with reference to possible distinctions between this case and the case of Federal Reserve Bank v. Early.

Very truly yours,

(S) M. G. Wallace,
Counsel.

MGW L

COPY X-6248-a

STATE OF NORTH CAROLINA)
) IN THE SUPERIOR COURT.
COUNTY OF MECKLENBURG)

L. R. Gilbert, Trustee in Bankruptcy of Audrey Spinning Mills, Inc.,

Plaintiff,

versus

Phoenix Mills, Inc., Weldon Bank & Trust Co., The Commercial National Bank of Raleigh, N. C., Federal Reserve Bank of Richmond, and C. L. Williams, Receiver of the Commercial National Bank of Statesville, N. C.,

Defendants.

ANSWER OF FEDERAL RESERVE BANK OF RICHMOND, DEFENDANT.

Defendant, Federal Reserve Bank of Richmond, answering the complaint of the plaintiff says:

I.

The defendant, Federal Reserve Bank of Richmond, has no knowledge or information sufficient to form a belief concerning the allegations in the first paragraph of the complaint and therefore denies the same.

II.

The defendant, Federal Reserve Bank of Richmond, has no knowledge or information sufficient to form a belief concerning the allegations in the second paragraph of the complaint and therefore denies the same.

III.

The defendant, Federal Reserve Bank of Richmond, admits that the allegations in the third paragraph of the complaint are true.

IV.

The defendant, Federal Reserve Bank of Richmond, admits that the allegations in the fourth paragraph of the complaint are true.

V.

The defendant, Federal Reserve Bank of Richmond, admits that it is a banking corporation organized and existing under the Acts of Congress, especially under that Act known as the Federal Reserve Act, having the power to engage in the business of banking as therein provided. Federal Reserve Bank of Richmond admits that before the times mentioned in the complaint it had established and was at all times thereafter and is now operating a branch in the county of Mecklenburg and the city of Charlotte in the state of North Carolina. The defendant, Federal Reserve Bank of Richmond, denies all allegations of the fifth paragraph of the complaint except in so far as they are herein admitted.

VI.

The defendant, Federal Reserve Bank of Richmond, admits the allegations of the sixth paragraph of the complaint.

VII.

The defendant, Federal Reserve Bank of Richmond, has no knowledge or information sufficient to form a belief as to the allegations in the seventh paragraph of the complaint and therefore denies the same.

VIII.

The defendant, Federal Reserve Bank of Richmond, admits that on April 16, 1928, it received from the Commercial National Bank of Raleigh, North Carolina, a check for the sum of six thousand nine hundred twenty-eight dollars and ninety-four cents ($6,928.94) drawn on the Commercial National Bank of Statesville, but the Federal Reserve Bank of Richmond has no knowledge or information concerning the further description of the check received by it. The said check was sent by mail to the Charlotte Branch of the Federal Reserve Bank of Richmond in a letter dated April 14, 1928, for collection in accordance with the Regulations of the Federal Reserve Board and of the circulars and agreements hereafter mentioned. The Federal Reserve Bank of

Richmond has no knowledge or information sufficient to form a belief concerning the other matters and things alleged in the eighth paragraph of the complaint and therefore denies the allegations in the eighth paragraph of the complaint, except in so far as they are herein admitted.

IX.

The defendant, Federal Reserve Bank of Richmond, on April 16, 1928, forwarded the check in the eighth paragraph of this answer mentioned by mail from its Charlotte Branch to the Commercial National Bank of Statesville along with certain other checks drawn on said bank aggregating twenty thousand six hundred twenty-nine dollars and fifty-three cents ($20,629.53), as more fully hereafter set forth. Federal Reserve Bank of Richmond denies the allegations of the ninth paragraph of the complaint, except in so far as they are herein admitted.

X.

The defendant, Federal Reserve Bank of Richmond, on the morning of April 18, 1928, at its Charlotte Branch, received from the Commercial National Bank of Statesville a printed form or remittance letter authorizing it to charge the reserve account of the Commercial National Bank of Statesville with the sum of twenty thousand five hundred sixty-one dollars and three cents ($20,561.03). The amount of the reserve balance of the Commercial National Bank of Statesville at the opening of business on April 18, 1928, was one thousand eighty-four dollars and sixty-two cents ($1,084.62). Certain credits and debits were made in the said account during that day and thereafter as hereafter set forth. The Federal Reserve Bank of Richmond admits that it notified the Commercial National Bank of Raleigh that it had not received actual and final payment for the check for six thousand nine hundred twenty-eight dollars and ninety-four cents ($6,928.94) received by it from the Commercial National Bank of Raleigh and charged the amount of said check to the account of the Commercial National Bank of Raleigh. The Federal Reserve

Bank of Richmond has no knowledge or information sufficient to form a belief as to the other matters and things set forth in the tenth paragraph of the complaint and therefore denies all such allegations except in so far as they are herein admitted.

XI.

The defendant, Federal Reserve Bank of Richmond, has no knowledge or information sufficient to form a belief concerning the allegations of the eleventh paragraph of the complaint and therefore denies the same.

XII.

The defendant, Federal Reserve Bank of Richmond, admits that the Commercial National Bank of Statesville did not open for business on April 19, 1928, and that sometime after that date C. L. Williams was duly appointed receiver thereof. Federal Reserve Bank of Richmond is informed and believes that the Commercial National Bank of Statesville transacted business throughout the entire day of April 18th. Federal Reserve Bank of Richmond therefore denies that it suspended business on that date.

XIII.

The defendant, Federal Reserve Bank of Richmond, has not sufficient knowledge or information to form a belief concerning the allegations in the thirteenth paragraph of the complaint and therefore denies the same.

XIV.

The defendant, Federal Reserve Bank of Richmond, has not sufficient knowledge or information to form a belief concerning the allegations of the fourteenth paragraph of the complaint and therefore denies the same.

XV.

The defendant, Federal Reserve Bank of Richmond, denies that it acted as agent of the plaintiff in handling the check described in the complaint or in any other matter. As to the other matters and things set

forth in the fifteenth paragraph, Federal Reserve Bank of Richmond has no knowledge or information sufficient to form a belief, and therefore denies all the allegations in the fifteenth paragraph of the complaint.

XVI.

The defendant, Federal Reserve Bank of Richmond, denies the allegations of the sixteenth paragraph of the complaint in so far as they relate to itself, and in so far as they relate to other defendants says it has no knowledge or information sufficient to form a belief and therefore denies all allegations of the sixteenth paragraph of the complaint.

XVII.

The defendant, Federal Reserve Bank of Richmond, admits that it now has in its hands the sum of seventeen thousand one hundred fourteen dollars and twenty-seven cents ($17,114.27), as is more fully hereafter set forth, and says that it is advised that the other allegations in the seventeenth paragraph of the complaint are matters of law upon which it prays the judgment of the court; but it denies all allegations of fact in said paragraph, except in so far as they are herein admitted.

FURTHER AND AFFIRMATIVE DEFENSE.

Federal Reserve Bank of Richmond alleges as a further and affirmative defense:

XVIII.

That it is and at all times hereafter mentioned was a Federal Reserve Bank organized and doing business under the laws of the United States and especially under a certain Act of Congress known as the Federal Reserve Act and that its chief office and place of business is and was in the city of Richmond in the state of Virginia, and that the district or territory assigned to it was and is the state of Maryland, a part of the state of West Virginia, the state of Virginia, the state of North Carolina, and the state of South Carolina and the District of Columbia, and that before

the time mentioned in the complaint it had established a branch in the city 182
of Charlotte in the state of North Carolina and was operating the said branch at all times in the complaint mentioned.

XIX.

The Commercial National Bank of Raleigh, defendant herein, was at all times hereafter mentioned a national banking association duly organized and doing business under the laws of the United States, and as such was a member of the Federal Reserve System and a stockholder of the Federal Reserve Bank of Richmond and maintained a reserve deposit or account with the Federal Reserve Bank of Richmond, which account was kept at the main office in Richmond, Virginia.

XX.

The Commercial National Bank of Statesville was until closed, as herein set forth, a national banking association duly organized and doing business under the laws of the United States, and as such a member of the Federal Reserve System and a stockholder of the Federal Reserve Bank of Richmond, and maintained a reserve deposit or account with the Federal Reserve Bank of Richmond, which account was kept at the Charlotte Branch of the Federal Reserve Bank of Richmond.

XXI.

Prior to the times mentioned herein the Federal Reserve Board had made and promulgated a certain regulation governing the collection of checks by Federal Reserve banks, which regulation was in force on the 14th day of April 1928 and at all times thereafter. A copy of said regulation which is known as Regulation J, Series 1928, is hereto attached, marked Exhibit I, and is made a part hereof as if it were here set forth in full.

XXII.

Prior to the times mentioned herein the Federal Reserve Bank of Richmond had duly issued a certain circular stating the terms and

conditions upon which it was authorized and willing to accept checks for collection and the manner in which said checks would be handled and collected by it, a copy of which circular had been sent to all other Federal Reserve banks and to all member banks holding stock in and maintaining reserve accounts with the Federal Reserve Bank of Richmond, including the Commercial National Bank of Raleigh and the Commercial National Bank of Statesville, both of which had acknowledged in writing receipt of the said circular. A copy of the said circular, known as No. 143, is hereto attached, marked Exhibit 2, and made a part hereof as if it were here set forth in full.

XXIII.

It was the practice and custom of the Federal Reserve Bank of Richmond to accept at its main office or any branch checks drawn upon any member banks which maintained a reserve deposit with it at the office where the depositing or forwarding bank kept its reserve account or did business, or in certain cases to accept such checks at the office with which the member bank upon which such checks were drawn did business. This practice or custom was known to the Commercial National Bank of Raleigh and the Commercial National Bank of Statesville.

XXIV.

It was the practice and custom of the Federal Reserve Bank of Richmond to forward all such checks from the office at which they were received directly to the member bank upon which they were drawn and to direct or require that bank to make remittance or settlement for such checks as it desired to pay by sending to the office at which its reserve account was kept money, or immediately collectable draft drawn on some other bank with which the remitting bank had funds on deposit, or an order or direction to charge such checks against the available reserve deposit or account of the remitting bank. This practice or custom was known to the Commercial National Bank of Statesville and the Commercial National Bank of Raleigh.

184

XXV.

On the 16th day of April 1928 the Federal Reserve Bank of Richmond received at its Richmond Office for collection for the account of member banks in its district and other Federal Reserve banks checks drawn on the Commercial National Bank of Statesville amounting to two thousand nine hundred seventy-three dollars and ninety-five cents ($2,973.95). The depositing banks were in accordance with the terms and conditions of the time schedule mentioned in the said Regulation and Circular entitled to receive credit for the amount of such checks in two days after receipt, subject to all other terms and conditions of the Circular and Regulation.

XXVI.

These checks were on the 16th day of April 1928 sent by mail to the Commercial National Bank of Statesville along with a letter or list commonly called a "cash letter" showing the amount of said checks and requiring settlement or remittance therefor as in Paragraph twenty-four set forth.

XXVII.

On the 16th day of April 1928 the Federal Reserve Bank of Richmond received at its Charlotte Office for collection for the account of member banks in its district and other Federal Reserve banks checks drawn on the Commercial National Bank of Statesville amounting to twenty thousand six hundred twenty-nine dollars and fifty-three cents ($20,629.53). The depositing banks were in accordance with the terms and conditions of the time schedule and in the said Regulation and Circular given credit for the amount of such checks two days after receipt subject to all other terms and conditions of the said Circular and Regulation.

XXVIII.

These said checks were on the 16th day of April 1928 sent by mail to the Commercial National Bank of Statesville along with a letter or list, commonly called a "cash letter," showing the amount of said checks and requiring

a settlement or remittance therefor as in Paragraph twenty-four set forth.

XXIX.

Among the checks so received and handled at the Charlotte Office was a check for the sum of six thousand nine hundred and twenty-eight dollars and ninety-four cents ($6,928.94), which check was received from the Commercial National Bank of Raleigh for collection for its account in accordance with the terms and conditions of the said Regulation and Circular, and the Federal Reserve Bank of Richmond had no agreement with any person concerning the said check except the agreement embodied and set forth in the said Circular and Regulation, and the Federal Reserve Bank of Richmond had no notice or knowledge of any interest in or claim to such check on the part of any person other than the Commercial National Bank of Raleigh.

XXX.

On the 18th day of April 1928 the Federal Reserve Bank of Richmond received by mail from the Commercial National Bank of Statesville duly signed by its proper officer notices or forms commonly called "remittance letters" and "return item letters" as follows:

REMITTANCE LETTER

Use this form in remitting to Charlotte Branch for cash letter described below.
(REMIT SEPARATELY FOR COLLECTION ITEMS)

From
Commercial National Bank,
Statesville,
N. C.

APR. 17, 1928
(date)

To CHARLOTTE BRANCH, Federal Reserve Bank of Richmond,
CHARLOTTE, N.C.

We are remitting as indicated below

for your cash letter dated APR. 16, 1928	$ 20,629.53
Less:	
Total amount of unpaid items and protest fees	68.50
NET AMOUNT DUE	$ 20,561.03

REMITTANCE AS FOLLOWS:

Charge our reserve account ..... (For use of member banks only. Be sure to insert the net amount to be charged.)	$ 20,561.03
Draft on	$
Currency shipment today as per advice mailed under separate cover	$

D. M. Ausley, Ch.
Authorized Signature

RETURN ITEM LETTER

From
Commercial National Bank,
Statesville,
N. C.

Please use this letter in returning items to us. List separately below unpaid items actually returned herewith, including protest fees, if any.

CHARLOTTE BRANCH, Federal Reserve Bank of Richmond.

REASON FOR RETURN	AMOUNT
No Act here	$ 2.50
Insf	66.00
TOTAL	68.50

187

REMITTANCE LETTER

Use this form in remitting to Charlotte Branch, Federal Reserve Bank of Richmond, for cash letter described below.

From

Commercial National Bank,
Statesville,
66-140 N. C.

APR. 17, 1928
(Date)

To CHARLOTTE BRANCH, Federal Reserve Bank of Richmond,
CHARLOTTE, N. C.

We are remitting as indicated below for

RICHMOND'S cash letter dated APR. 16, 1928	$ 2,973.95
Less:	
Total amount of unpaid items and protest fees	$ 1,800.08
NET AMOUNT DUE	$ 1,173.87

REMITTANCE AS FOLLOWS:

Draft on ..... $

Charge our reserve account ..... $ 1,173.87
(For use of member banks only. Be sure to insert the net amount to be charged.)

Currency shipment today as per advice mailed under separate cover ..... $

D. M. Ausley, Ch
Authorized Signature

RETURN ITEM LETTER

APR. 18, 1928

From

Commercial National Bank,
Statesville,
66-140 N. C.

Please use this letter in returning items. List separately below unpaid items actually returned herewith; including protest fees, if any. Return all items to CHARLOTTE BRANCH, Federal Reserve Bank of Richmond.

REASON FOR RETURN	AMOUNT
Insf.	$ 1,797.83
Fee	2.25
TOTAL	1,800.08

Federal Reserve Bank of Richmond does not know the exact hour at which such forms were received by its Charlotte Branch, but it verily believes and therefore alleges that they were received by it by mail at or about 9:00 A. M.

These forms had been sent to the Commercial National Bank of Statesville by the Charlotte and Richmond Offices of the Federal Reserve Bank of Richmond along with the cash letters mentioned above, and were designed and intended for use by the member bank to which sent in making remittance for cash letters and for returning dishonored or unpaid checks sent in such letters.

XXXI.

At the close of business on April 17th the reserve account of the Commercial National Bank of Statesville showed a credit balance due it of one thousand eighty-four dollars and sixty-two cents ($1,084.62). On April 18th and thereafter charges and credits were made in that account as shown below:

Date	CREDITS Description	Amount
April 18	Balance	$ 1,084.62
18	Cash letter dated 4/16 rec'd 4/17	167.66
18	" " " 4/14 rec'd 4/16	2,631.09
18	Immediate cash letter dated 4/17	149.83
18	Currency shipment dated 4/17	5,000.00
18	Cash letter 4/14 credited Comm.Nat.Bk. Char. in error	599.85
18	Wire transfer from Wachovia Bk. & Tr. Winston-Salem	4,000.00
18	Immediate cash letter 4/17	12,500.00
19	Deferred cash letter 4/16 rec'd 4/17	1,001.48
19	" " " 4/14 rec'd 4/16	1,654.27
20	Protest fees from ck. $1,797.83 rt.from Rd's C/L 4/16	2.25
20	Reversing debit 4/18 Rd's C/L 4/16	1,173.87
20	" " 4/18 our C/L 4/16	20,561.03
20	Deferred cash letter 4/17 rec'd 4/18	1,330.71
26	Refund of postage on currency shipments from 3/26 to 4/25	.53

DEBITS

April 18	Interest on Discount No. 7374 & 7375	24.62
18	Our cash letter 4/16	20,561.03
18	" " " 4/16	1,173.87
18	Our collection #9431 Coupons City of Statesville	55.00
18	Deficient Reserve Penalty	122.74

April 18	Our return letter 4/18 ($12,500 bk. draft drawn by Statesville on American Tr. Char. dishonored on account of being drawn against uncollected funds - See our credit of this day)	12,501.50
19	Our return letter of 4/18	3.66
20	Our return letter of 4/19	58.00
21	Our return letter of 4/20	242.50
28	To transfer bal. in reserve acct. to Head Office	17,114.27

The credits in said account described as for cash letters, either deferred or immediate credit, are for the amounts of checks deposited by the Commercial National Bank of Statesville for collection under the terms of the Regulation, Circular, and time schedule above described. Checks payable in Charlotte were under such time schedule credited immediately to the account of the Commercial National Bank of Statesville; checks payable elsewhere were received upon a deferred credit basis and credit in the reserve account given in accordance with the estimated time necessary for collection. All checks were received and credited subject to final payment as in the said Regulation and Circular provided. The account shows the date of the letter containing such checks, and the date on which it was received, and the date on which it is credited is the date of availability mentioned in the Circular.

The debit or charge of twenty-four dollars and sixty-two cents ($24.62) is for interest upon notes discounted for the Commercial National Bank of Statesville on April 17th, and the proceeds of which were credited to it on that day, but according to the custom of the Federal Reserve Bank of Richmond, the discount or interest was not charged against the member bank until the following day. The other entries in said account are described in the account itself as set forth above.

XXXII.

On the 18th day of April 1928 as shown in said account the Federal Reserve Bank of Richmond received at its Charlotte Branch from the Commercial National Bank of Statesville a shipment of money or currency amounting to five thousand dollars ($5,000.00), also an order from the

Wachovia Bank and Trust Company of Winston-Salem transferring the sum of four thousand dollars ($4,000.00) on deposit and due to it to the account of the Commercial National Bank of Statesville, also from the Commercial National Bank of Statesville a draft drawn by it on the American Trust Company of Charlotte for twelve thousand five hundred dollars ($12,500.00). This draft was credited immediately to the account of the Commercial National Bank of Statesville subject to the terms of the Regulation and Circular mentioned above. Thereupon the Federal Reserve Bank of Richmond entered in the account of the Commercial National Bank of Statesville a charge for the amount of the two cash letters of April 16th sent to it from the Richmond and Charlotte Offices, respectively.

XXXIII.

The said draft for twelve thousand five hundred dollars ($12,500.00) was on April 18th presented to the American Trust Company of Charlotte through the clearing house of Charlotte, but payment thereof was refused and it was protested on the said day and the amount thereof and protest fees thereon were charged to the account of the Commercial National Bank of Statesville; so that at the close of business on said day the total available credits in said account amounted to thirteen thousand four hundred twenty-nine dollars and nineteen cents ($13,429.19), being insufficient to cover the amount of the two cash letters of April 16th aggregating twenty-one thousand seven hundred thirty-four dollars and ninety cents ($21,734.90), which were charged against the said credits.

XXXIV.

The Federal Reserve Bank of Richmond notified the Commercial National Bank of Raleigh that it had not received final payment in actually collected funds for said check for six thousand nine hundred twenty-eight dollars and ninety-four cents ($6,928.94) and thereafter charged the amount of said check to the account of the Commercial National Bank of Raleigh, and

likewise gave a similar notice to all other banks which had deposited any checks contained in the two cash letters of April 16th, and charged such checks to the accounts of the depositing banks. 191

XXXV.

On the dates shown in the account the Commercial National Bank of Statesville had deposited certain checks with the Federal Reserve Bank of Richmond, the amounts of which became available for credit in the reserve account of the Commercial National Bank of Statesville on April 19th and April 20th, as shown in the said account, and certain checks deposited by the Commercial National Bank of Statesville on or before April 18th were returned dishonored and unpaid and charged to it as shown in the said account, being described as return letters, so that the Federal Reserve Bank of Richmond held the balance of seventeen thousand one hundred fourteen dollars and twenty-seven cents ($17,114.27) as shown in said account.

XXXVI.

The Federal Reserve Bank of Richmond is willing and desires, if it is proper to do so, to distribute this balance among the Commercial National Bank of Raleigh and other banks which deposited the checks contained in the two cash letters dated April 16th, or to such other persons as may be the equitable owners, in the proportion that the amount of the checks received from each such bank bears to total amount of checks in such cash letters; that is to say, to the sum of twenty-one thousand seven hundred thirty-four dollars and ninety cents ($21,734.90); but the Federal Reserve Bank of Richmond is advised that of such checks C. L. Williams, Receiver of the Commercial National Bank of Statesville, claims that the balance stated above is payable to him as receiver of the said bank; and the Federal Reserve Bank of Richmond has been advised that if it should pay the said sum of money to the depositing banks or to the said receiver without a determination of their conflicting claims by a competent court, such payment would be

made at its own risk and peril. Therefore, Federal Reserve Bank of Richmond 192 is holding the said fund subject to the order of this court.

XXXVII.

Wherefore, the Federal Reserve Bank of Richmond prays that, in so far as the plaintiff claims that the Federal Reserve Bank of Richmond is liable further than to account for the fund mentioned above, the plaintiff may take nothing by his bill, and that this defendant may recover from the plaintiff its costs in this action expended.

In so far as the plaintiff seeks an accounting for or distribution of the fund mentioned, the defendant prays that this action may be treated as an action by it for an interpleader or for the administration and distribution of funds held in trust, and that all proper orders may be made, accounts taken, and inquiries directed, and that the court will adjudge and determine the rights of C. L. Williams, Receiver, and of the plaintiff and the other defendants, and of all other persons to said fund, and the defendant may be directed to pay and distribute the said fund to such persons as may be lawfully entitled thereto, and that the defendant may be allowed from said funds its costs and disbursements in this action expended, including a reasonable fee for the service of its attorneys in conducting this suit; and for such other further and general relief as may be proper.

(S) W. G. Wallace
Attorneys for Federal
Reserve Bank of Richmond.

STATE OF VIRGINIA)
) to-wit:
CITY OF RICHMOND)

George H. Keesee, being duly sworn, deposes and says that the Federal Reserve Bank of Richmond is a corporation and that he is an officer thereof, to-wit its cashier, and as such has access to and knowledge of its

records and accounts and knowledge of its business and dealings, and that he makes this affidavit because the said defendant is a corporation and he is an officer thereof, as above stated, and he has read the foregoing answer and that the allegations therein are true of his own knowledge, except as to those matters therein stated on information and belief, and as to those matters he believes them to be true.

(Signed) George H. Keesee

Subscribed and sworn to before me this
16th day of February, 1929.

My commission expires

(Signed) C. Vasal Blackburn
Notary Public.

X-6249

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, March 1, 1929.

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

Manufacturing and mining increased in January and the first part of February, while building continued to decline. Wholesale commodity prices rose slightly. Reserve bank credit declined between the middle of January and the middle of February reflecting chiefly a reduction in reserve balances of member banks.

Production--Industrial production increased in January and continued to be larger than a year ago. Output of pig iron, steel ingots, and automobiles was in record volume for January. The high rate of steel activity reflected large purchases from automobile manufacturers and also increased demand from railroads. Domestic output of refined copper, while continuing in large volume, was somewhat lower in January than in December. Activity of textile mills increased considerably in January. In the mineral group, output of copper ore, bituminous coal, and petroleum was exceptionally large, and anthracite coal and tin also increased.

In the first part of February preliminary reports indicate the maintenance of a high level of industrial activity. Steel plants operated at a high percentage of capacity; the output of coal continued large and employment in Detroit factories increased. The production of petroleum, however, declined slightly in the middle of February.

Building activity declined in January for the third successive month, reflecting primarily a large reduction in awards for residential building, while commercial

building awards increased somewhat. The value of building contracts let during the first six weeks of the year was substantially lower than in the corresponding period of either 1928 or 1927.

Trade--Shipments of freight by rail increased during January and the first two weeks of February and were larger than a year ago. The increase during January reflected primarily larger shipments of coal and coke and livestock. Sales by wholesale firms were seasonally larger in January and above the level of a year ago. Department store sales declined less than is usual at this season and were considerably larger than in January 1928.

Prices--The general level of wholesale prices rose somewhat in January. Prices of grains, livestock, and meats advanced, and there were also price advances in steel, automobiles, and copper. A decrease in the group index for building materials reflected reductions in the prices of lumber and brick, and prices of pig iron, silk, cotton, and petroleum also declined. Among the raw materials, rubber advanced sharply in price, while silk, cotton, and hides declined. During the first half of February, the price of copper advanced to a new high level, and the price of rubber continued to rise. Among the agricultural commodities, prices of wheat, corn, and hogs rose, while sugar and cattle declined slightly.

Bank credit--On February 20 total loans and investments of member banks in leading cities were nearly $90,000,000 smaller than in the middle of January, owing chiefly to reductions in the banks' investment holdings. After the first week in February, security loans declined, while all other loans, largely commercial, increased somewhat in February.

During the five weeks ending February 20, decline in the reserve balances of member banks, together with a considerable inflow of gold from abroad and some further decline in the demand for currency, were the chief factors accounting for a decline of $173,000,000 in the volume of reserve bank credit in use. A large

decline in reserve bank holdings of acceptances and U. S. securities was offset in part by a small increase in the volume of member bank borrowing.

Open market rates on bankers' acceptances and commercial paper advanced, while rates on collateral loans showed little change.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6250

February 27, 1929.

Dear Sir:

There is enclosed herewith for your information, copy of the reply made by the Board under date of February 26th to Senate Resolution 323, adopted February 11, 1929.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO CHAIRMEN AND GOVERNORS
OF ALL FEDERAL RESERVE BANKS.

(Enclosure)

COPY X-6250-a 198

February 26, 1929.

Sir:

The Federal Reserve Board is in receipt of Senate Resolution 323, reading as follows:

> Whereas in press dispatches recently, the Federal Reserve Board has complained that money is being drawn from the channels of business and used for speculative purposes, and that some of said speculation is illegitimate and harmful; Therefore be it
>
> Resolved, That the Federal Reserve Board is hereby requested to give to the Senate any information and suggestions that it feels would be helpful in securing legislation necessary to correct the evil complained of and prevent illegitimate and harmful speculation.

Inasmuch as this Resolution was occasioned by the statement issued by the Federal Reserve Board on February 6th, wherein the attitude and viewpoint of the Federal Reserve Board with respect to the growing volume of credit in speculative security loans was indicated, the statement is repeated here in order that there may be no misapprehension of the Board's position with reference either to the matter discussed in its statement or to that which is the subject of the Senate's Resolution.

"The United States has during the last six years experienced a most remarkable run of economic activity and productivity. The production, distribution and consumption of goods have been in unprecedented volume. The economic system of the country has functioned efficiently and smoothly. Among the factors which have contributed to this result, an important place must be assigned to the operation of our credit system and notably to the steadying influence and moderating policies of the Federal Reserve System.

"During the last year or more, however, the functioning of the Federal Reserve System has encountered interference by reason of the excessive amount of the country's credit absorbed in speculative security loans. The credit situation since the opening of the new year indicates that some of the factors which occasioned untoward developments during the year 1928 are still at work. The volume of speculative credit is still growing.

"Coming at a time when the country has lost some 500 million dollars of gold, the effect of the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1-1/2 per cent in the cost of credit for commercial uses. The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future.

"The Federal Reserve Board neither assumes the right nor has it any disposition to set itself up as an arbiter of security speculation or values. It is, however, its business to see to it that the Federal reserve banks function as effectively as conditions will permit. When it finds that conditions are arising which obstruct Federal reserve banks in the effective discharge of their function of so managing the credit facilities of the Federal Reserve System as to accommodate commerce and business, it is its duty to inquire into them and to take such measures as may be deemed suitable and effective in the circumstances to correct them; which, in the immediate situation, means to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit. In this connection, the Federal Reserve Board, under date of February 2nd, addressed a letter to the Federal reserve banks, which contains a fuller statement of its position:-

'The firming tendencies of the money market which have been in evidence since the beginning of the year--contrary to the usual trend at this season - make it incumbent upon the Federal reserve banks to give constant and close attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

'The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

'The resources of the Federal Reserve System are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal Reserve Act.

'The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

'The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a con-

> tributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country.'"

The Board begs leave to call the attention of the Senate to the fact that the purport and language of its statement do not agree with those in the preamble of the Senate resolution. The Board's statement concerned itself with credit conditions. It disclaimed both the authority and the desire "to set itself up as an arbiter of security speculation or values". That still is the Board's position.

At the time of the issue of its statement, it was the belief of the Board that it could count upon the cooperation not only of the Federal reserve banks but of leading member banks everywhere in the country in making successful an effort to bring about an orderly readjustment of the credit situation; and the Board has been confirmed in this belief by what has taken place since.

This also is the view of the Federal Advisory Council, as will be seen from the following minute of its proceedings which was presented to the Board February 15th on the occasion of its recent quarterly meeting:

> "The Federal Advisory Council approves the action of the Federal Reserve Board in instructing the Federal reserve banks to prevent, as far as possible, the diversion of Federal reserve funds for the purpose of carrying loans based on securities. The Federal Advisory Council suggests that all the member banks in each district be asked directly by the Federal reserve bank of the district to cooperate in order to attain the end desired. The Council believes beneficial results can be attained in this manner."

This whole matter is engaging the earnest attention and efforts of the Federal Reserve Board. If it should develop that the Board, through exercise of the powers granted under the provisions of the Federal Reserve Act, or through cooperation with the Federal Reserve and member banks, should be

unable to bring about a solution of the problem which has awakened the concern alike of the Senate, the FederalReserve Board, and the general body of public opinion, it will be glad to give consideration to the possibilities of remedy by way of legislation.

By direction of the Federal Reserve Board.

Respectfully,

Walter L. Eddy,
Secretary.

The President of the Senate,

Washington, D.C.

202

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6251

February 27, 1929.

SUBJECT: Topics for next Governors' Conference.

Dear Sir:

There are enclosed herewith, for your information in advance of the next Governors' Conference, copies of letters which have been addressed to the Secretary of the Conference submitting topics which the Board would like to have discussed at the meeting.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

(Enclosures)

COPY X-6251-a

February 26, 1929.

Dear Mr. Strater:

Some of the Federal reserve banks have established currency depots from time to time at interior and other important points, all of which have had the approval of the Federal Reserve Board. A number of years ago the Board permitted the establishment of a currency depot in a certain city because of unsettled conditions in that territory. Figures that the Board now has in its possession, however, convinced the Board that the emergency has passed and the Board has abolished the depot for the reason that its continuation would result in furnishing the member banks a good portion of their till money.

Requests for additional currency depots are being received and the Board has arrived at the conclusion that the practice must from now on be considered as a System matter rather than a regional one, because as various cities learn of the advantages of the currency depot they will request that accommodation, and it will be impossible to grant some and refuse others when the conditions are more or less identical.

In view of this situation, the Board would like to have this subject placed upon the program for discussion at the next Governors' Conference.

Yours very truly,

(S) R. A. Young,
Governor.

Mr. H. F. Strater, Secretary,
Governors' Conference,
Federal Reserve Bank,
Cleveland, Ohio.

COPY X-6251-b

February 26, 1929

Dear Mr. Strater:

I have been advised that the Texas legislature has passed a law authorizing depositary banks to include bankers acceptances of banks having a capital of $500,000 or more in the pledge of collateral to secure public deposits. Governor Talley believes this will broaden the demand for and the permanent use of bankers bills by banks in his state, and from my experience in the Ninth Federal Reserve District, I am inclined to agree with him.

The mechanics of the transaction, however, may be a bit difficult because no bank will care to turn over to inexperienced public officials the custody and handling of bankers bills any more than they would care to turn over to them Government bonds, and it seems to me that from the standpoint of serving member banks and also in order to promote the use of bankers bills, Federal reserve banks could well afford to act as custodian for public officials who have securities owned but pledged by member banks.

In view of this possibility, the Board would like to have this subject placed on the program for discussion at the next Governors' Conference.

Yours very truly,

(S) R. A. Young,
Governor.

Mr. H. F. Strater, Secretary,
Governors' Conference,
Federal Reserve Bank,
Cleveland, Ohio.

X-6255

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 at 3:00 p. m. March 1, 1929.

The Federal Reserve Board announces that the Federal Reserve Bank of Dallas has established a rediscount rate of 5 per cent on all classes of paper of all maturities, effective March 2, 1929.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6258

March 8, 1929.

SUBJECT: Code word to cover new Issue of Treasury Certificates of Indebtedness, Series TD2-1929, in telegraphic transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOWHEST" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TD2-1929, dated March 15, 1929, due December 15, 1929.

This word should be inserted in the Federal Reserve Telegraphic Code Book, following the code word "NOWHESSIAN" on page 172.

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-6259

March 8, 1929.

SUBJECT: Biographical Information.

Dear Sir:

In order that the Board's file of biographical sketches of Federal reserve bank and branch directors may be up to date, it is requested that the Board be advised from time to time of changes in the business affiliations of the directors. It is also requested that you advise the Board, at your convenience, of any changes in business affiliations which may have taken place since the biographical sketches of the present directors were filed with the Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TC CHAIRMEN OF ALL F. R. BANKS.

X-6260

COPY

March 7, 1929.

TO: The Federal Reserve Board

FROM: Mr. Wyatt, General Counsel.

SUBJECT: Power of Board to enforce principles regarding proper use of credit facilities of Federal Reserve System laid down in Board's letter of February 2, 1929.

C O N F I D E N T I A L

At the Board meeting on March 5th, I was requested "To report as to what powers the Board has under the Federal Reserve Act for the enforcement, should it become necessary, of the principles regarding the proper use of the credit facilities of the Federal Reserve System, laid down in the Board's letter of February 2nd to all Federal reserve banks."

The following paragraphs of the Board's letter contain the statement of principles referred to:

> "The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.
>
> "The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country."

It would appear, therefore, that the Board desires to be informed as to the powers which it has under the Federal Reserve Act which could

be used to prevent member banks from using Federal reserve credit for the purpose of making or maintaining speculative security loans.

In view of the further remarks contained in the press statement issued by the Board under date of February 5th (X-6233) and published on page 93 of the Federal Reserve Bulletin for February, 1929, to the effect that, "the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1½ per cent in the cost of credit for commercial use," I assume that the Board does not wish to know what powers it might exercise with a view of tightening the general credit situation, such as the power to increase the rediscount rates or further restrict the volume of open market investments of the Federal reserve banks.

With this understanding, I shall endeavor to point out certain powers which the Board possesses under the Federal Reserve Act and which might be exercised with a view of accomplishing the above purposes. In suggesting these powers, however, it is my intention merely to inform the Federal Reserve Board of its lawful rights; and the mention of these rights is not intended as a suggestion that they should be exercised. The question whether these rights ought to be exercised is a question of policy on which I intend to express no opinion.-

OPINION.

(1) Under Section 13 of the Federal Reserve Act, the Board has ample power to prescribe such restrictions, limitations and regu-

lations governing the rediscount of notes, drafts, bills of exchange and bankers' acceptances, the making of advances to member banks on their promissory notes, and the purchase of bills of exchange, bankers' acceptances and government, State, and municipal securities (including purchases under so-called repurchase agreements), as may be necessary to prevent member banks from using the credit resources of the Federal Reserve System for the purpose of making or maintaining speculative security loans.

(2) Thus, the Board could, if it deems it advisable, prescribe a regulation forbidding any Federal reserve bank to rediscount any paper for, make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State, or municipal securities (under repurchase agreements or otherwise) from, any member bank which at the time: (1) Has loans outstanding to brokers or dealers in stocks, bonds or other investment securities; or (2) has unreasonably large amounts of speculative loans outstanding to customers secured by stocks, bonds, or other investment securities, or the proceeds of which have been or are to be used for the purpose of carrying or trading in stocks, bonds, or other investment securities.

(3) The Board has ample power to enforce such a regulation by suspending or removing from office the officers and directors of any Federal reserve bank which violates it.

(4) The Board has no independent power under Section 4 of the Federal Reserve Act to issue orders restricting or qualifying the right of member banks to demand of their Federal reserve banks "such discounts, advancements, and accommodations as may be safely and

reasonably made with due regard for the claims and demands of other member banks".

(5) This right of member banks, however, is expressly made subject to the exercise of such powers as the Federal Reserve Board has under other provisions of the Federal Reserve Act, including the power under Section 13 to prescribe restrictions, limitations and regulations governing 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; and the Board could order a Federal reserve bank to cease violations of any such restrictions, limitations or regulations which it may have prescribed.

(6) The Board could, if it so desires, prescribe a special rate (higher than the rediscount rate on industrial, commercial or agricultural paper) for advances to member banks on their promissory notes secured by bonds or notes of the Government of the United States.

DISCUSSION

I.

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

> "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, in my opinion, confers upon the Federal Reserve Board ample power to prescribe such restrictions, limitations and regulations governing the rediscount of notes, drafts and bills of exchange

by Federal reserve banks, the making of advancements by Federal reserve banks to member banks on the promissory notes of such member banks, and the purchase and sale of bankers' acceptances, bills of exchange, and Government, State and municipal securities under Section 14 (including the purchase of such bills, acceptances, and securities under repurchase agreements) as may be necessary to prevent member banks from using the credit resources of the Federal Reserve System for the purpose of making or maintaining speculative loans.

The above quoted provision of Section 13 has heretofore been considered by this office and it has been found that it applies not only to rediscounts under Section 13 but also to purchases and sales at home or abroad under Section 14. (See my opinion of October 20, 1927 (X-4980), pages 5 and 6, a copy of which is attached hereto.) It also applies to the making of advances to member banks on their promissory notes under the seventh paragraph of Section 13 (See opinion of Mr. Vest dated June 21, 1928, (X-6124-a), a copy of which is attached hereto.

The question might be raised whether this paragraph pertains to the rediscount of notes and "drafts" as well as bills of exchange and bankers' acceptances, but it is clear that notes and "drafts" are included in the term "bills receivable". That term has been held by the courts to include promissory notes, bills of exchange or other instruments for the payment of money. (See Words and Phrases, Bouvier's Law Dictionary, and authorities cited therein.)

The term "bills receivable" would seem to apply also to bonds and notes of the United States and bills, notes, revenue bonds and warrants issued by States, counties, districts, political subdivisions and municipalities; since all such obligations are "instruments for the

payment of money". Even if the above-quoted paragraph in Section 13 does not apply to these classes of securities, however, the Board has ample power under Section 14(b) to prescribe rules and regulations governing the purchase of such securities.

The Board has power, therefore, to prescribe rules and regulations governing practically every method by which a member bank obtains credit accommodations from a Federal reserve bank, including not only the rediscount of notes, drafts, bills of exchange and bankers' acceptances, but also borrowings by member banks from Federal reserve banks on the promissory notes of such member banks and sales of bills of exchange, bankers' acceptances and Government and municipal securities to Federal reserve banks under Section 14, including sales under so-called "repurchase agreements".

The exercise of all these powers is by the above quoted paragraph of Section 13 made subject to "such restrictions, limitations and regulations as may be imposed by the Federal Reserve Board." There is no limitation in the law on the character of restrictions, limitations and regulations which the Board may prescribe; and the matter is left to the discretion of the Federal Reserve Board, subject only to the usual qualification that the restrictions, limitations

and regulations prescribed by the Board must not be in conflict with other provisions of the Federal Reserve Act and must not be arbitrary, capricious or unreasonable. Any restriction, limitation, or regulation which is reasonably calculated to carry out the purposes of the Federal Reserve Act and the policies which Congress had in mind when it enacted the Federal Reserve Act would clearly be reasonable and within the Board's power.

Certain of these purposes and policies were summarized as follows on page 33 of the Board's Annual Report for the year 1923:

> "The Federal reserve act has laid down as the broad principle for the guidance of the Federal reserve banks and of the Federal Reserve Board in the discharge of their functions with respect to the administration of the credit facilities of the Federal reserve banks the principle of 'accommodating commerce and business.' (Sec. 14 of the Federal reserve act, par.(d).) The act goes further. It gives a further indication of the meaning of the broad principle of accommodating commerce and business. These further guides are to be found in section 13 of the Federal reserve act, where the purposes for which Federal reserve credit may be provided are described as 'agricultural, industrial, or commercial purposes'. It is clear that the accommodation of commerce and business contemplated as providing the proper occasion for the use of the credit facilities of the Federal reserve banks means the accommodation of agriculture, industry, and trade. The extension of credit for purposes 'covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States,' is not permitted by the Federal reserve act. The Federal reserve system is a system of productive credit. It is not a system of credit for either investment or speculative purposes. Credit in the service of agriculture, industry, and trade may be described comprehensively as credit for productive use. <u>The exclusion of the use of Federal reserve credit for speculative and investment purposes and its limitation to agricultural, industrial, or commercial purposes thus clearly indicates the nature of the tests which are appropriate as guides in the extension of Federal reserve credit</u>.

"They clearly describe the nature or character of the purposes for which such credit and currency may be extended. The qualitative tests appropriate in Federal reserve bank credit administration laid down by the act are, therefore, definite and ample."

That this is an accurate statement of certain of the purposes which Congress had in mind when it enacted the Federal Reserve Act can be conclusively demonstrated by a review of the legislative history of the Act.

After defining the character of paper which is eligible for rediscount at Federal reserve banks, Section 13 provides that:

"Such definition shall not include notes, drafts or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States."

The policy of this provision is indicated by the following passages from the report of the Committee on Banking and Currency of the House of Representatives on the original Federal Reserve Act (H.R. Report No. 69, 63rd Congress, 1st Session, pages 11, 19, 20, 48, 59, 62 and 63):

ESSENTIAL FEATURES OF REFORM.

"The other plans before the committee or examined by it have likewise been found unsatisfactory-some for reasons analogous to those which made the Aldrich bill unacceptable, others because of defective detail, erroneous principle, or faulty construction. An effort was, however, made to ascertain the constituent elements of these measures and of the Aldrich bill, common to all, which should be recognized and provided for in any new plan because representing the fundamentals of legislation. It is believed that these are as follows:

"1. Establishment of a more nearly uniform rate of discount throughout the United States, and thereby the furnishing of a certain kind of preventive against over expansion of credit which should be similar in all parts of the country.

"2. General economy of reserves in order that such reserves might be held ready for use in protecting the banks of any section of the country and for enabling them to go on meeting their obligations instead of suspending payments, as so often in the past.

"3. Furnishing of an elastic currency by the abolition of the existing bond-secured note issue in whole or in part, and the substitution of a freely issued and adequately protected system of bank notes which should be available to all institutions which had the proper class of paper for presentation.

"4. Management and commercial use of the funds of the Government which are now isolated in the Treasury and subtreasuries in large amounts.

"5. General supervision of the banking business and furnishing of stringent and careful oversight.

"6. Creation of market for commercial paper.

"Other objects are sought, incidentally, in these plans, but they are not as basic as the chief purposes thus enumerated.

* * * *

"TRANSFER OF RESERVES.

"Reference has been briefly made to the fact that the committee's proposals provide for the transfer of bank reserves from existing banks which hold them for others to the proposed reserve banks. At present the national banking act recognizes three systems of reserves:

* * * *

"The original reason for creating this so-called 'pyramidal' system of reserves was that inasmuch as central banking institutions were absent, and inasmuch as banks outside of centers were obliged to keep exchange funds on deposit with other banks in such centers, it was fair to allow exchange balances with such centrally located banks to count as reserves inasmuch as they were presumably at all times available in cash. * * * * As matters have developed, it has been vicious in the extreme. Coupled with the inelasticity of the bank currency, the system has tended to create periodical stringencies and periodical plethoras of funds. Banks in the country districts unable to withdraw notes and contract credit when they have seen fit to do so, because of the rigidity of the bond-secured currency, have redeposited such funds with other banks in reserve and central reserve cities and have thus built up the balances which they were entitled to keep there as a part of their reserves. Moreover,

"the practice of thus redepositing funds having been once established, it has been carried to extreme lengths, and at times has been decidedly injurious in its influence. The payment of interest on deposits by banks in the centers has been used for the purpose of attracting to such banks funds which otherwise would have gone to other centers or to other banks in the same centers or which would have been retained at home. The funds thus redeposited, even when not attracted by any artificial means, have of course constituted a demand liability, and have been so regarded by the banks to which they were intrusted.

"In consequence, such banks have sought to find the most profitable means of employment for their resources and at the same time to have them in such condition as would permit their prompt realization when demanded by the depositing banks which put them there. The result has been an effort on the part of the national banks, particularly in central reserve cities, to dispose of a substantial portion of their funds in call loans protected by stock-exchange collateral as a rule. This was on the theory that, inasmuch as listed stock-exchange securities could be readily sold, call loans of this type were for practical purposes equivalent to cash in hand. The theory is of course close enough to the facts when an effort to realize is made by only one or few banks, but is entirely erroneous whenever the attempt to withdraw deposits is made by a number of banks simultaneously. At such times, the banks in central reserve and reserve cities are wholly unable to meet the demands that are brought to bear on them by country banks; and the latter, realizing the difficulties of the case, seek to protect themselves by an unnecessary accumulation of cash which they draw from their correspondents, thereby weakening the latter and frequently strengthening themselves to an undue degree. Under such circumstances the reserves of the country, which ought to constitute a readily available homogeneous fund, ready for use in any direction where sudden necessities may develop, are in fact scattered and entirely lose their efficiency and strength owing to their being diffused through a great number of institutions in relatively small amount and thereby rendered nearly unavailable. This evil has been met in times past by the suspension of specie payments by banks and by the substitution of unauthorized and extra-legal substitutes for currency in the form of cashiers' checks, clearing-house certificates and other methods of furnishing a medium of exchange. Needless to say such a method of meeting the evilisthe worst kind of makeshift and is only somewhat better than actual disaster.

"HOLDING OF FUNDS.

"The committee believes that the only way to correct this condition of affairs is to provide for the holding of reserves by duly qualified institutions which shall act primarily in the public interest and whose motives and conduct shall be so absolutely well known and above suspicion as to inspire unquestioning confidence on the part of the community. It believes

"that the reserve banks which it proposes to provide for will afford such a type of institutions and that they may be made the effective means for the holding of the liquid reserve funds of the country to the extent that the latter are not needed in the vaults of the banks themselves. * * *

* * * * *

"Section 20 (i.e., section 19 of the Federal Reserve Act) seeks to readjust the reserve requirements now provided by the national banking act in such a way as to make them conform to the dictates of scientific banking, and to adjust them to the provisions of the proposed bill. The following main objects have been had in mind:

"1. To abolish entirely the present system of redeposited or 'pyramided' reserves.

"2. To establish a moderate required reserve actually to be held in cash in the vaults of the banks.

"3. To prescribe a secondary reserve to take the form of a credit with the Federal reserve banks.

* * * * *

"In outlining the general philosophy of the proposed banking bill it was pointed out that the existing system of redeposited reserves gives rise to cheap money for stock-exchange speculation in the centers while it fails to provide in times of panic a reserve upon which the country can draw with assurance, because at such times stock-exchange securities can not be easily liquidated, so that call loans are unavailable as a resource, and the city banks in self-defense have deemed themselves warranted in suspending specie payments. It is contended, however, that these difficulties and irregularities of the existing system are mere blemishes upon the surface of an otherwise desirable state of affairs, and that there is good and sufficient economic reason for maintaining the present system of redeposited reserves at least in part. This claim may be reduced to a series of propositions as follows:

"1. The redeposited reserves are placed with the city banks not for stock speculation, but in large measure at least to supply exchange funds upon which the depositing banks may draw.

"2. The redeposited balances must be kept with the banks which now hold them, because the country banks look to these city banks for accommodation and the latter gauge the amount of accommodation to be granted them by the size of the balances.

"3. The country banks, and in general all banks making the redeposits get a rate of interest thereon. They are thus able to make use of a reserve which would otherwise be 'dead,' and which when held in cash or in the Federal reserve banks will yield them no revenue, the latter banks being forbidden by the terms of the bill to pay interest on deposits.

"These contentions are worthy of careful study, because they are widely urged.

* * * * *

"The second point already noted has even less force than the first. Not only does the proposed bill provide more extensive facilities for rediscount than have ever been known, but even if it didnot do so, and even if, as alleged, there are many kinds and classes of security not eligible for rediscount under the bill which country banks can use as a basis for accommodation only with city banks, it would still remain true that this does not afford any warrant for demanding the maintenance of the existing situation.* *

* * * * *

"* * In view of the great difficulty of defining 'commercial paper,' the actual definition of the same has been left to the Federal reserve board in order that it may adjust the definition to the practices prevailing in different parts of the country in regard to the transaction of business and the making of paper. For obvious reasons it is forbidden that any such paper shall be admitted to rediscount if made for the purpose of carrying stocks or bonds."

From this, it is perfectly clear that one of the fundamental purposes of the Federal Reserve Act was to prevent the bank reserves of the country from being tied up in speculative loans on stocks, bonds and other investment securities. It is obvious, therefore, that it would be entirely in accordance with the purposes of the Federal Reserve Act and the policy of Congress when it enacted the Federal Reserve Act if the Board should promulgate restrictions, limitations and regulations designed to prevent member banks of the Federal Reserve System from using the credit resources of the Federal Reserve System for the purpose of making

or maintaining loans, the proceeds of which are used for the purpose of carrying or trading in stocks, bonds or other investment securities.

It is true that the above-quoted provision of the Federal Reserve Act excluding loans of this character from the definition of eligible paper, does not itself prevent member banks from discounting eligible paper and using the proceeds to make loans on stocks, bonds and other investment securities; but it is equally clear that the broad powers of the Federal Reserve Board to prescribe restrictions, limitations and regulations governing the operations of Federal reserve banks were intended to enable the Board to meet just such contingencies and to prescribe such rules, regulations and restrictions as might be necessary to supplement the express provisions of the Act and more fully to carry out the broad purposes of the Act.

It has been argued that it is not inconsistent with the provisions of the FederalReserve Act for Federal reserve banks to make loans to, or to rediscount eligible paper for, member banks which at the time have surplus funds loaned to brokers or dealers in stocks, bonds and other investment securities; because it is impossible to trace the proceeds of any particular rediscount or advance to a member bank and show that the credit obtained from the Federal reserve bank is used for the purpose of making or obtaining such loans. While it may be true that this is not a technical violation of the Federal Reserve Act, it obviously is contrary to the policy of the Act, as indicated by the above quotations from the Committee report; and it clearly is within the Board's power to prescribe such rules, regulations and restrictions as may be nec-

essary to prevent any such evasion of the express provisions of the Act.

II.

One of the most direct, appropriate and effective powers which the Board could exercise for the enforcement of the principles laid down in its letter of February 2, 1929, therefore, would be to prescribe a regulation forbidding any Federal reserve bank to rediscount any paper for, or to make any loans or advances to, or to purchase any bills of exchange, bankers' acceptances or Government, State, or municipal securities (either outright or under repurchase agreements) from, any member bank which at the time: (1) Has loans outstanding to brokers or dealers in stocks, bonds or other investment securities; or (2) Has unreasonably large amounts of speculative loans outstanding to customers secured by stocks, bonds, or other investment securities, or the proceeds of which have been or are to be used for the purpose of carrying or trading in stocks, bonds, or other investment securities.

If the Board should decide to promulgate such a regulation, it probably would find it necessary, for practical reasons, to incorporate therein certain exceptions which would enable member banks embarrassed by sudden fluctuations in their reserves or their reserve requirements to obtain temporary accommodations at the Federal reserve bank until they could liquidate their investments in loans to brokers or dealers in stocks, bonds or other investment securities. However, exceptions to cover this practical difficulty can be devised; and, if the Board desires to promulgate such a regu-

lation, I believe that a thoroughly practical and workable regulation can be drawn.

III.

There can be no doubt that the Board has ample power to enforce such a regulation, or any other lawful regulation which it might prescribe; since Section 11 (f) of the Federal Reserve Act authorizes the Board,

> "To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank".

This power to removal is subject only to the condition that the Board communicate the cuase of such removal in writing to the removed officer and to the Federal reserve bank. The cause of removal is not specified in the law but is left to the discretion of the Federal Reserve Board, the only limitation being that it must be reasonable and not capricious or arbitrary.

Clearly, the willful violation of a lawful regulation prescribed by the Federal Reserve Board would be a reasonable and valid cause for the removal of any officer or director of any Federal reserve bank.

The question has been raised whether, under the following provision of Section 4 of the Federal Reserve Act, the Federal Reserve Board has power to order a particular Federal reserve bank to cease or suspend the granting of any discounts, advancements or accommodations to a particular member bank.

> "Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

In view of the importance of this question, I have made a careful study of the legislative history of this paragraph of the Federal Reserve Act before undertaking to construe it. A complete statement of the legislative history of this paragraph, with lengthy quotations from the debates in Congress, has been prepared by this office and will be furnished to any member of the Board desiring to read it; but I believe that a brief statement of the situation and one or two quotations from the debates will be sufficient for the purposes of this opinion.

The above quoted paragraph was included in Section 4 of the Federal Reserve Act as originally enacted and has never been amended. It was not discussed in the reports on the original Federal Reserve Act either by the House Banking andCurrency Committee, by the Senate Committee, or by the conferees. This paragraph, however, was not contained in the

bill when it passed the House of Representatives, but was inserted in the bill by the Senate Committee on Banking & Currency as a compromise between various conflicting views.

It appears that certain Senators feared that the Federal reserve banks would come under the domination of the larger member banks and would discriminate against other member banks. It was feared that, through such discrimination, some member banks might be denied credit accommodations at the Federal reserve banks when it was badly needed in times of emergency; and, in order to prevent such discrimination, it was proposed to amend the bill so as to provide that, "Each member bank shall be entitled as a matter of right to the rediscount of eligible paper to the full amount of its capital stock upon the lowest current rate of discount." This was incorporated in an amendment proposed by Senator Hitchcock and was the subject of a bitter fight both in the committee and on the floor of the Senate.

It was felt, however, that such a provision would be absolutely contrary to accepted banking practices and would be extremely dangerous and unsound; and finally the above-quoted paragraph was inserted in the bill by the Senate Committee as a compromise. Senator Shafroth explained the matter as follows (Congressional Record for Dec. 13, 1913, Vol. 51, Part 1, page 859):

> Mr. SHAFROTH. "Mr. President, that clause was placed in that paragraph largely for the reason that the Hitchcock bill contained a provision for compulsory discounts, asserting that any member bank going with paper to a Federal reserve bank should be entitled, as

> a matter of right, which it could enforce perhaps by mandamus, to compel the Federal reserve bank to discount that paper. We thought that was too extreme a provision; it was thought wise that there might be conditions of the bank that would not justify the discounting of its paper. For that reason we put in a clause, which to a large extent is advisory to them, but which, nevertheless, indicates the policy that should be pursued by them in making these discounts where they fairly can."

It appears that this compromise was suggested by Senator Reed of Missouri during the meetings of the Senate Committee on Banking and Currency and that the above quoted paragraph was inserted in Section 4 of the Federal Reserve Act at his suggestion. Senator Reed's explanation of the purpose and effect of this paragraph, therefore, is entitled to great weight in construing it.

On pages 173 and 174 of the Congressional Record for December 4, 1913, (Vol. 51, Part 1) Senator Reed explained this paragraph as follows:

> "Mr. President, we did not stop at that point. I myself had the honor of offering an amendment prescribing or defining the duties of these directors. It is as follows:
>
> > "The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.
> >
> > "Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.
>
> "Mr. President, the importance of that amendment lies in the fact that for the first time it wrote into the bill

language which commanded the directors of the regional banks to treat all member banks alike. It prohibits favoritism; it forbids discrimination; it gives to member banks the right to demand impartial treatment. The member bank is not left to solicit favors; it may insist upon rights.

"Mr. President, the provisions I have just discussed might be ineffectual if it were not for the fact that at the same time we enlarged the powers of the Federal reserve board so that it can compel regional banks to obey this mandate of the law. We conferred this power by providing in section 11, paragraph J, as follows: The Federal reserve board shall have power--

"To exercise general supervision over said Federal reserve banks.

"When, therefore, we imposed the duty upon the directors of the regional banks to treat all member banks fairly and impartially and without discrimination, and gave the Federal reserve board, which is appointed by the President of the United States, authority to exercise general supervision over the Federal reserve bank, we gave the Federal reserve board power and authority to compel the Federal reserve banks to be impartial in their dealings with member banks. The same authority empowers the Federal reserve board to protect the public against wrongs sought to be perpetrated by the reserve banks. The power conferred is sufficient to accomplish these ends, and if it be wisely exercised there is but slight danger of discrimination in favor of some bank and against others; or in favor of one section of the country and against another; or, I will add, the adoption of a policy by regional banks which will be oppressive to the public.

Powers of Reserve Board Increased.

"The Federal reserve board, appointed by the President, is, by the two amendments I have set out, given absolute command of the system. It can make the regional directors perform their full duty with fairness and impartiality to all.

"We followed these amendments with others of equal importance. We gave the reserve board the unrestricted right to remove any of the directors of a regional bank. Here is the language: 'The Federal Reserve Board shall have power to suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.' The House bill only gave a restricted right of removal."

* * * * * *

"Putting together, then, these several provisions to which I have adverted, I believe we can say to the country with a clear conscience that while we have drawn these banks together into this great system, while we have given them a common stock ownership, while we have placed the control of the regional banks in the hands of the bankers, we have at the same time so safeguarded every avenue and so locked every door that the people may be content. In the last analysis the Federal reserve board, appointed by the President and representing the entire country, has

complete and absolute power, and will control the entire system and prevent discriminations, combinations, or other wrongs."

In view of this explanation, it is quite clear that this paragraph alone was not intended to confer additional power upon the Federal Reserve Board but was intended to prescribe a rule governing the administration of the affairs of the Federal reserve bank by the board of directors of the Federal reserve bank. This rule was intended to do two things: (1) To prevent discrimination either in favor of or against any member bank; and (2) To make it clear that member banks are entitled as a matter of right to "such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

It was contemplated that, if any Federal reserve bank should discriminate against any member bank or should deny it such discounts, advancements and accommodations as might be safely and reasonably made with due regard to the claims and demands of other member banks, the bank so discriminated against could appeal to the Federal Reserve Board and the Board could order the Federal reserve bank to comply with the law and to cease such discrimination. It was pointed out, however, that such power was included in the Board's power under Section 11 (j) to exercise general supervision over the Federal reserve banks and could be enforced by the exercise of the Board's power under Section 11 (f) to suspend or remove any officer or director of any Federal reserve bank.

The power to exercise general supervision over the Federal reserve banks was inserted in Section 11 at the suggestion of Senator Reed, in order to enable the Board to enforce the above quoted paragraph

of Section 4; and this shows clearly that the provision of Section 4 was not intended to confer any independent power upon the Board.

Moreover, the fact that the whole purpose of this paragraph was to make it clear that member banks are entitled to reasonable credit accommodation from the Federal reserve banks without discrimination is clearly inconsistent with the thought that the same paragraph might possibly confer power upon the Federal Reserve Board to order a Federal reserve bank to deny credit accommodations to a particular member bank. Such an order by the Federal Reserve Board might amount to the very kind of discrimination against individual banks which this paragraph was intended to prevent.

The words "subject to the provisions of law and the orders of the Federal Reserve Board" obviously were inserted in this paragraph as a qualifying or saving clause similar to those found elsewhere in the Act and must have been intended to have substantially the following meaning: Subject to the provisions of law and to such orders, regulations, etc., as the Federal Reserve Board may lawfully promulgate pursuant to the power granted the Board under other provisions of the Federal Reserve Act.

I am of the opinion, therefore, that this language does not confer any additional power on the Federal Reserve Board and that any authority which the Board may have to issue orders qualifying the right of member banks to credit accommodations from the Federal reserve banks must be found elsewhere in the Act.

The clause "subject to the provisions of law and the orders of

the Federal Reserve Board", however, is important, since it makes the right of member banks to credit accommodations from the Federal reserve banks subject to such rules, regulations and restrictions as the Federal Reserve Board may lawfully prescribe under authority granted elsewhere in the Act. Thus, it makes this right of the member banks subject to such restrictions, limitations and regulations as may be imposed by the Federal Reserve Board under the paragraph of Section 13 discussed elsewhere in this opinion.

V.

Although the paragraph of Section 4 of the Federal Reserve Act discussed above does not itself confer any such power upon the Federal Reserve Board, it is perfectly obvious that, if the Federal Reserve Board should prescribe a regulation forbidding any Federal reserve bank to rediscount any paper for, grant any loan to, or purchase any bills of exchange, bankers' acceptances or Government, State, or municipal securities from, any member bank which at the time has loans outstanding to brokers or dealers in stocks, bonds or other investment securities, the Board would have power to issue such orders in specific cases as might be necessary to stop violations of this regulation.

Thus, if such a regulation were promulgated and the Board should find that a particular Federal reserve bank is rediscounting paper for, or making loans to, a particular member bank which has loans outstanding to brokers or dealers in stocks, bonds or other investment securities, the Board could order the Federal reserve bank to cease re-

discounting paper for, or making loans to, such member bank; and, if the Federal reserve bank should fail or refuse to comply with such an order, the Board could enforce its order by suspending or removing from office the offending officers and directors of the Federal reserve bank..

VI.

The question has been raised whether the Board could, if it so desires, prescribe a special rate (higher than the rediscount rate on industrial, commercial or agricultural paper) for advances to member banks on their promissory notes secured by bonds or notes of the Government of the United States.

While this does not have a direct bearing on the main question discussed in this opinion, it has been suggested that it might have a very practical and helpful effect on the main problem confronting the Board in this connection. Thus, it has been suggested by one member of the Board that, in practice, most of the credit accommodations obtained from the Federal reserve banks by reserve city member banks which are at the same time lending large sums to brokers and dealers in investment securities are obtained in the form of advances on the promissory notes of such member banks secured by bonds and notes of the Government of the United States; that this practice might be checked if a higher rate of interest should be prescribed for borrowings in this form; and that such a higher rate of interest of interest would not increase the cost of credit to commerce, industry and agriculture. One member of the Board, therefore, requested me to cover this point in this opinion.

The power to make advances to member banks on their promissory notes is conferred by the following paragraph of Section 13 of the Federal Reserve Act:

> "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 Act, or by the deposit or pledge of bonds or notes of the United States."

It will be noted that this paragraph provides that such advances shall be made at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board. It will be noted that the language here used is very similar to that used in Section 14(d) pertaining to other rates of discount to be charged by the Federal reserve banks and that the qualifying clause "subject to review and determination of the Federal Reserve Board" is precisely the same, word for word, in both sections.

The Attorney General of the United States has held that under Section 14(d) the Federal Reserve Board "has the right under the powers conferred by the Federal Reserve Act, to determine what rates of discount should be charged from time to time by the Federal reserve bank, and under their powers of review and supervision, to require such rates to be put into effect by such bank." (32 Op. Atty. Gen., p. 81.)

It is perfectly obvious that the Board has the same power with respect to the rates at which Federal reserve banks may make advances on the promissory notes of member banks under Section 13 as it has over the rates of discount to be established under Section 14(d).

It is well recognized that the Federal reserve banks may establish

and the Federal Reserve Board may approve, different rediscount rates for different classes of paper; and it would seem that the same power could be exercised in approving or fixing the rates at which advances will be made to member banks on their promissory notes under Section 13. While Section 13 does not contain the phrase "for each class of paper" found in Section 14(d), it is significant that Section 13 uses the plural "rates" and does not merely authorize the fixing of "a rate" at which Federal reserve banks may make advances to member banks.

The fact that the subject is treated separately clearly indicates that the promissory notes of member banks constitute a separate class of paper; and it would seem obvious that this class of paper may be further subdivided into other classes according to the maturity of the notes or the character of collateral security. It would seem perfectly obvious that member banks' promissory notes secured by Government bonds, which are not eligible for rediscount, are clearly in a different class from those secured by agricultural, industrial and commercial paper, which is eligible for rediscount.

I am of the opinion, therefore, that the Board could, if it so desires, prescribe a special rate (higher than the rate of discount on industrial, commercial or agricultural paper) for advances to member banks on their promissory notes secured by bonds or notes of the Government of the United States.

Respectfully,

Walter Wyatt
General Counsel.

WW SAD VDB

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6261

March 11, 1929.

Dear Sir:

There are enclosed herewith copies of letters addressed to the Board by the Treasury Department, under date of February 14th and March 8th, with regard to arrangements which have been made by the Treasury Department with Mr. George H. Blake for the preparation of a complete collection of currency specimens.

The Board requests that your bank cooperate with the Treasury Department in this matter to the fullest extent.

Very truly yours,

R. A. Young,
Governor.

TO GOVERNORS OF ALL F. R. BANKS.

(Enclosures)

COPY

TREASURY DEPARTMENT

Washington

February 14, 1929.

Dear Mr. Eddy:

As you know the Department has accepted the cooperation of Mr. George H. Blake for the completion, so far as possible, for the Treasurer of the United States, of a set of specimens of paper currency issued by the United States. Under existing procedure practically all currency received from circulation is canceled at the Federal Reserve Banks and any pieces which otherwise might be preserved as specimens are so mutilated as not properly to serve the purpose. The established policy of the Department to retire certain kinds and certain denominations of currency, and the pending issue of the small size currency, suggest the advisability of attempting to secure at this time, and reserve from cancellation, the specimens needed to complete the collection. Accordingly, will you please instruct the Federal Reserve Banks if in assorting currency received from circulation specimens of uncurrent issues are observed, that such specimens be omitted from cancellation, and that they be forwarded to the Treasurer of the United States, Redemption Division, uncanceled, by registered mail insured, as transfers of funds. In this connection, the directions given in paragraphs 19 and 20 of the currency instructions of January 31, 1929, with respect to Treasury notes of 1890, may be

followed. Shipments of such uncurrent currency should be made infrequently, preferably monthly, and invariably as separate items. Uncurrent issues may be defined, for United States currency, - any series prior to the series now issued or issuable, and for National bank notes, - any notes prior to the series of 1902. Federal reserve notes and Federal reserve bank notes are not included in this request.

Very truly yours,

(S) OGDEN L. MILLS
Undersecretary of the Treasury.

Walter L. Eddy, Esq.,

Secretary, Federal Reserve Board.

COPY X-6261-b

TREASURY DEPARTMENT

Washington

March 8, 1929.

Dear Mr. Eddy:

As an aid in completing the Department's collection of specimens of currency, in Department's letter of February 14, 1929, you were requested to ask Federal Reserve Banks to forward uncanceled certain obsolete issues of paper money if detected in assortment. It now appears in order to make the collection complete that certain issues of Federal reserve notes and Federal reserve bank notes are required. Your further courtesy will be appreciated if you will ask the Federal Reserve Banks concerned to be on the outlook for the notes in question which are set forth in the accompanying list.

Very truly yours,

(S) Henry Herrick Bond
Assistant Secretary of the Treasury.

Walter L. Eddy, Esq.,

Secretary, Federal Reserve Board.

Enclosure.

COPY X-6261-c

LIST OF FEDERAL RESERVE NOTES NEEDED FOR COLLECTION

RED SEALS

	$5	$10	$20	$50	$100	$500	$1,000	$5,000	$10,000
Boston	-	-	-	$50	$100	-	-	-	-
Philadelphia	-	-	-	$50	-	-	-	-	-
Cleveland	-	$10	-	-	-	-	-	-	-
Richmond	-	$10	$20	-	$100	-	-	-	-
Atlanta	$5	$10	$20	$50	$100	-	-	-	-
Chicago	-	-	-	$50	-	-	-	-	-
St. Louis	$5	-	$20	-	$100	-	-	-	-
Minneapolis	$5	$10	$20	-	-	-	-	-	-
Kansas City	$5	-	$20	-	-	-	-	-	-
Dallas	$5	$10	$20	$50	-	-	-	-	-

BLUE SEALS

Boston	$5	$10	$20	$50	$100	$500	$1,000	$5,000	$10,000
New York	$5	$10	$20	$50	-	-	-	-	-
Philadelphia	$5	$10	$20	$50	-	-	-	-	-
Cleveland	$5	$10	$20	$50	$100	-	-	-	-
Richmond	$5	-	-	$50	-	$500	$1,000	$5,000	$10,000
Atlanta	-	-	-	$50	$100	$500	$1,000	-	-
Chicago	-	$10	$20	$50	$100	$500	$1,000	$5,000	-
St. Louis	$5	$10	-	$50	$100	$500	$1,000	$5,000	$10,000
Minneapolis	$5	$10	$20	$50	$100	$500	$1,000	-	-
Kansas City	$5	$10	$20	$50	$100	$500	$1,000	-	-
Dallas	$5	$10	-	$50	$100	$500	$1,000	-	-
San Francisco	$5	$10	$20	$50	$100	$500	$1,000	$5,000	$10,000

COPY X-6261-d

LIST OF FEDERAL RESERVE BANKNOTES NEEDED FOR COLLECTION

ALL BLUE SEALS

	$1	$2	$5	$10	$20	$50	
Boston	$1	$2	$5				(None above $5)
New York	$1	$2	$5	$10			(None above $10)
Philadelphia	$1	$2	$5				(None above $5)
Cleveland	$1	$2	$5				(None above $5)
Richmond	$1	$2					(None above $2)
Atlanta	$1	$2	$5	$10	$20		(None above $20)
Chicago	$1	$2	$5	$10	$20		(None above $20)
St. Louis	$1	$2	$5	$10	$20	$50	(None above $50)
Minneapolis	$1	$2	$5				(None above $5)
Kansas City	$1	$2	$5	$10	$20		(None above $20)
Dallas	$1	$2	$5	$10	$20		(None above $20)
San Francisco	$1	$2	$5				(None above $5)

All the above are wanted with signatures of Teehee and Burke and Elliott and Burke.

The higher denominations are contingent upon having been issued.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6262

March 12, 1929.

SUBJECT: Topic for Governors' Conference.

Dear Sir:

There is enclosed herewith copy of a letter which the Board has today forwarded to Mr. H.F. Strater, Secretary of the Governors' Conference, advising that it would like to have discussed at the conference to be held on April 1-3, 1929, the question of the advisability of establishing a higher rate of discount on member bank collateral notes secured by Government obligations than is maintained for discounting eligible paper.

As the time is limited, advice of the placing of this topic on the program of the conference is being forwarded to you direct, and it would be appreciated by the Board if you would come prepared to present your views.

Very truly yours,

R. A. Young,
Governor.

TO GOVERNORS OF ALL F. R. BANKS.

Enclosure.

COPY

X-6262-a

March 12, 1929.

Dear Mr. Strater:

The Governor of one of the Federal reserve banks has had some correspondence with the Federal Reserve Board as to the desirability of establishing a higher rate of discount on member bank collateral notes secured by Government obligations than is maintained for discounting eligible paper.

If I remember correctly, this question has been discussed by the Governors, at least informally, but the present situation has developed so many unusual angles that some very strong arguments are presented in support of the proposal, in view of which the Board wishes to place the topic on the program for the next Governors' Conference.

Inasmuch as the time is limited, I am today sending a copy of this letter to the Governors of the various Federal reserve banks.

Yours very truly,

(S) R. A. Young,
Governor.

Mr. H. F. Strater, Secretary,
Governors' Conference,
Federal Reserve Bank,
Cleveland, Ohio.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6263

March 14, 1929.

SUBJECT: Topic for Governors' Conference.

Dear Sir:

The Federal Reserve Board has voted to place the following topic on the program for the forthcoming Governors' Conference:

> Policy to be Pursued by Federal Reserve Banks in Asserting Rights on Behalf of Depositors of Unremitted for Transit Items against Receivers of Insolvent Member Banks.

The Board is also arranging for a conference of Counsel of all Federal reserve banks to be held in Washington concurrently with the Governors' Conference, with a view of having Counsel consider the above question and make recommendations thereon to the Governors' Conference. Mr. Wyatt, the Board's General Counsel, is addressing a letter on this subject to Counsel for each of the Federal reserve banks; and a copy of that letter with attached documents is enclosed herewith for your information, together with a copy of certain correspondence between Mr. Wyatt and Judge Ueland, Counsel to the Federal Reserve Bank of Minneapolis, which first raised this question.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6264

March 14, 1929.

Dear Sir:

As I wired you last night, the Federal Reserve Board has directed me to arrange a conference of counsel of all Federal reserve banks to be held in Washington concurrently with the forthcoming Governors' Conference, which will be held in Washington commencing on Monday morning, April 1. For reasons which will hereinafter be explained, it is important that our conference begin as early as possible on Monday morning and I suggest that we all try to meet in my office at nine o'clock.

The purpose of this conference is to consider the various questions dealt with in Mr. Ueland's memorandum of January 8 (X-6226-b), which I sent you under date of January 30, dealing with the policy to be pursued by the Federal reserve banks in asserting rights on behalf of depositors of unremitted for transit items against receivers of insolvent member banks in the light of recent court decisions. The feeling here is that counsel for all of the Federal reserve banks ought to endeavor to agree upon a uniform policy to be recommended to the Conference of Governors, with a view of having such recommendations considered immediately by the Conference of Governors while counsel for the various banks are still in Washington and available for consultation either with their respective governors or with the Governors' Conference as a whole.

There are enclosed for your information in this connection copies of letters received from Messrs. Stroud, Agnew, Parker, Wallace, and McConkey, commenting upon Mr. Ueland's memorandum. As soon as I receive comments from other counsel, I shall furnish you with copies of same.

While it is true, as pointed out by Mr. Wallace, that certain of the cases giving rise to this discussion are still in the process of appeal, it is believed that an early consideration of this subject by counsel may lead to the adoption of policies and possibly of amendments to Regulation J, the check collection circulars of the Federal reserve banks, and the forms used by the Federal reserve banks in connection with the pledge of collateral which will be calculated to minimize the confusion,

litigation, and possible loss to Federal reserve banks which might otherwise result from recent court decisions such as those in the case of Early v. Federal Reserve Bank of Richmond and Midland National Bank and Trust Company v. First State Bank of Sioux Falls.

In this connection, I believe that it would be advisable for each of us to consider in advance of the conference the advisability of:

(1) Amending Regulation J so as to provide expressly that the reserve balance either shall, or shall not, be available for the purpose of collecting unremitted for cash letters on insolvent member banks;

(2) Inserting similar express provisions in the check collection circulars of the various Federal reserve banks;

(3) Amending the forms used by the Federal reserve banks covering the pledge of collateral so as to provide expressly either that such collateral shall, or shall not, be available for use by the Federal reserve bank for the same purpose; and

(4) Amending Subdivision 4 of Section V of Regulation J so as to eliminate therefrom the words, "Or at the option of such Federal reserve bank to authorize such Federal reserve bank to charge their reserve accounts or clearing accounts".

In connection with the last suggestion, it is important to note that all of the Federal reserve banks are now collecting checks on the remittance system, the Federal reserve banks of Richmond and Philadelphia having recently changed from the system of collecting checks by charging same to the reserve accounts of the drawee banks as a normal method of collection.

If any of the counsel believe that amendments such as those outlined above are advisable, it would be very helpful if, in advance of the conference, they would prepare drafts of such amendments as they consider appropriate. It would also be helpful if any counsel having very definite and well crystallized views as to the policy which the Federal reserve banks should adopt in connection with this problem would prepare drafts of resolutions recommending such policies to the Governors' Conference.

In order to leave as much time as possible for the consideration of this subject by the Conference of Governors before that conference adjourns on April 3, the Conference of

Counsel should endeavor, if possible, to formulate its recommendations on the questions raised by Mr. Ueland's memorandum by Monday night, April 1, and transmit same to the Governors' Conference on Tuesday morning. We can then proceed to the consideration of other matters until such time as the Governors' Conference may call upon us for consultation.

It is quite possible that some of the counsel will have other topics which they would like to have considered during the conference; and it would be conducive to more thorough consideration if such topics could be suggested in advance, a formal program arranged, and all of the counsel notified in time to enable them to study such additional topics in advance of the conference. Hence, the last suggestion contained in my telegram of March 12.

I regret exceedingly that circumstances prevented me from wiring all of the counsel in advance and obtaining suggestions as to the dates most convenient to all parties for this conference. The Federal Reserve Board had already fixed the date of the Governors' Conference before I was able to get them to take this matter up for consideration; and, when the subject of a conference of counsel was taken up, Governor Young felt very strongly that it should be held concurrently with the Governors' Conference.

I sincerely hope that you can attend our forthcoming conference and that you will not hesitate to call upon me if there is anything I can do to be of assistance to you.

Yours very truly,

Walter Wyatt,
General Counsel.

Enclosures

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245

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

February 11, 1929.

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

Dear Mr. Wyatt:

We have read with interest the memorandum of Mr. Sigurd Ueland to the Federal Reserve Bank of Minneapolis, dated January 14, 1929.

We think that the questions of policy raised in this memorandum are of vital importance to the Federal Reserve System. In view of the fact that our ideas with reference to the proper policy of federal reserve banks in exercising their check clearing and collection functions are different from those expressed in Mr. Ueland's memorandum, we are giving you hereafter a very complete statement of our views on the questions of policy raised.

FEDERAL RESERVE ACT AND REGULATIONS
OF FEDERAL RESERVE BOARD.

It seems to us that any question of policy in connection with the collection of checks by federal reserve banks must be determined in the light of the Federal Reserve Act and regulations of the Federal Reserve Board made pursuant thereto.

Under the terms of Section 13, any federal reserve bank may receive from any of its members deposits of checks and drafts payable upon presentation and, also, for collection maturing notes and bills. It may receive from other federal reserve banks solely for the purpose of exchange or collection, checks and drafts payable upon presentation within its district, and it may receive from non-member banks and trust companies, under certain conditions, solely for the purpose of exchange and collection, notes and drafts payable upon presentation or maturing notes and bills.

Section 16 provides that federal reserve banks shall receive certain checks for deposit from member banks and federal reserve banks and authorizes the Federal Reserve Board to make and promulgate from time to time regulations requiring federal reserve banks to exercise the functions of a clearing house for its member banks.

While Section 13 authorizes federal reserve banks to accept deposits of checks from its member banks and Section 16 provides that they shall receive

certain checks for deposit, it is a fact, which we think cannot be contradicted, that in no instance has a federal reserve bank, within recent years at least, accepted checks from member banks in all practical respects for any other purpose whatsoever than that of collection. We think no federal reserve bank would wish to depart from such policy.

The authority for regulation J, as we view the law, proceeds from Section 16 of the Federal Reserve Act. The policy of the Federal Reserve Board, as it has existed continuously since the institution of the check clearing and collection functions, is expressed in regulation J as follows:

> "The Federal Reserve Board, desiring to afford, both to the public and to the various banks of the country, a direct, expeditious and economical system of check collection and settlement of balances, has arranged to have each federal reserve bank exercise the functions of a clearing house and collect checks for such of its member banks as desire to avail themselves of its privileges, etc."

The functions of a clearing house, as commonly understood, and as is undoubtedly intended in regulation J, is to present checks for payment. This intention upon the part of the Federal Reserve Board is further emphasized in sub-paragraph (1) of Section V, in which it is stated:

> "A federal reserve bank will act only as agent of the bank from which it receives such checks, etc."

In other words, as we view the Federal Reserve Act and the regulations of the Federal Reserve Board made pursuant thereto, in handling checks a federal reserve bank acts purely and simply as a collection agent. To this extent, we think there is no disagreement.

Thus we think that in determining policies to be followed by a federal reserve bank we should always have in mind the fact that the federal reserve bank is discharging the functions of a clearing house and acting purely in the capacity of an agent for collection.

RESERVE BALANCE.

In determining the policy which a federal reserve bank should follow with respect to the uses of the reserve balance of a member bank, it is important to consider the nature of reserve balances and how the same are treated by the Federal Reserve Act and the regulations of the Federal Reserve Board.

As we understand, it has for many years been considered prudent and proper that a bank should retain, in cash or its equivalent, such a percentage of all of its liabilities as, in the ordinary course, it could be expected to need in meeting the demands that might be made at any one time by all of its creditors.

The fund so maintained is designated "Reserves."

The amount maintained, insofar as banks that are now members of the Federal Reserve system is concerned, was formerly very much larger than the amount required under the terms of the Federal Reserve Act. It was felt at the time

the Federal Reserve Act was passed that the reserves could be materially reduced because of the concentration brought about through the establishment of federal reserve banks. The practice upon the part of banks to carry secondary reserves, consisting of securities that can be readily converted into money, to meet unusual or unexpected demands contributed to the reduction of the amount of reserves. The so-called secondary reserves are under the full control of the member bank.

Prior to the establishment of federal reserve banks, the commercial banks of the country were permitted to carry their reserves partly in the form of cash in their vaults and partly with other banks of their own choosing, provided such other banks had been designated as proper reserve agents.

Upon the establishment of the Federal Reserve Bank, however, all reserves were required to be carried with the Federal Reserve Bank of which a commercial bank was a stockholder, thus making it mandatory that the reserves be concentrated in the Federal Reserve Bank rather than to be carried in the vaults of the commercial banks or with agents of the bank's selection.

If we have the correct understanding of the nature of reserves and of changes brought about through the enactment of the Federal Reserve Act, then it would seem to follow that, reserves being intended as a protection against all liabilities of a member bank and being by law concentrated in federal reserve banks, the federal reserve banks are to some extent, insofar as the reserve is concerned, a trustee for all creditors, rather than for those creditors only who seek to effect collection of their indebtedness through the medium of the federal reserve bank.

That the reserves of a member bank are intended as a protection for all liabilities of a member bank, rather than a fund set up in the federal reserve bank to use in effecting collection of checks, is, we think supported by an analysis of the Federal Reserve Act and regulations of the Federal Reserve Board. In this connection, we call attention to the following points:

1. Under the terms of the Federal Reserve Act, the amount of reserves which a bank is required to carry is determined by the amount of demand and time deposits of the bank. Had the reserve been considered a fund out of which federal reserve banks might collect checks sent them for collection, it would appear that the amount of this fund should have been calculated in some proportion to the average amount of checks which the federal reserve bank had outstanding for collection.

2. We find the following provision in Section 19 of the Federal Reserve Act:

> "The required balance carried by a member bank with a federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored."

Referring to regulation D of the Federal Reserve Board, the first thing we notice is the provision contained in section 3 (c) which prohibits checks deposited by a member bank from being counted as a part of the bank's reserves until such time as may be provided in the appropriate time schedule referred to in section 4 of regulation J. The effect of this provision, as we understand it, is to prohibit federal reserve banks from accepting deposits of checks for immediate credit as might be contemplated by sections 13 and 16 of the Federal Reserve Act, and we believe that this practice has been upheld by the Federal Courts in the case of Pascogoula National Bank v. Federal Reserve Bank of Atlanta, et al, 11 Fed. (2d) 866.

In section 4 of regulation D, we find the following language:

> "Inasmuch as it is essential that the law with respect to the maintenance by member banks of the required minimum reserve balances be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes the following rules governing penalties for deficiencies in reserves:"

Then follow some rather drastic penalties for a bank failing to maintain its reserves intact, such provisions consisting of (a) Penalties to be assessed against the bank; (b) Instructions to Federal Reserve Agents to take matter up with the bank; and (c) Provisions for a progressive penalty.

Section 5 of this regulation calls attention to the fact that it is unlawful for any member bank to pay dividends or make any loans while its reserve is deficient.

All of these provisions of the act and regulations point towards an intention of Congress and the Federal Reserve Board to require banks to maintain reserves for the very purpose for which reserves were maintained prior to the enactment of the Federal Reserve Act and not to cause member banks to create a fund out of which the federal reserve bank might effect collection of checks sent it for that purpose. In other words, the collection of checks is incident to the maintenance of reserves rather than the maintenance of reserves being incident to the collection of checks.

We think this view is further supported by the discussions in Congress preceding and leading to the enactment of the Federal Reserve Act.

If such is the policy of the Federal Reserve Board and of Congress with respect to reserves, then certainly the policy is, to some extent at least, defeated by the arbitrary appropriation and use by federal reserve banks of the reserve balances as a fund charged primarily with the payment ofchecks.

Nor do we think the argument advanced on page seven of Mr. Ueland's memorandum, with reference to non-member clearing banks is at all persuasive against the view hereinabove expressed because of the fact that a non-member clearing bank is limited by law from doing any character of business whatsoever with the federal reserve bank except that of clearing checks. The deposit required of the non-member clearing bank is not, insofar as the Federal Reserve

Act is concerned, a reserve of any kind or character, whereas the deposits of a member bank are purely and wholly reserves.

Summarizing, - it is our opinion that the reserves maintained in the federal reserve bank by a member bank are intended (a) from the origination of the practice of carrying reserves; (b) the Federal Reserve Act; and (c) the regulations of the Federal Reserve Board, as a fund intended for use by the member bank in meeting demands that might be made upon it at any one time for all of its liabilities, and not a fund which should be used by the federal reserve bank, simply because it might have the power to do so, for the protection of the particular creditors of the member bank which might see fit to use the federal reserve bank as their agency for collection.

CAPITAL STOCK SUBSCRIPTIONS.

Section 6 of the Federal Reserve Act gives specific directions as to what shall be done with the stock of a member bank which shall have been declared insolvent. The substance of this section is that the cash paid subscriptions on said stock, together with the accumulated dividend, 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. Certainly, in a broad sense, if not in a narrow and technical one, claims existing against drawee banks on account of checks which a federal reserve bank has handled purely as agent for someone else cannot be said to be a debt due the federal reserve bank. And, therefore, we think that it clearly was not the intent of the Federal Reserve Act to use the capital stock subscription of a member bank as a fund from which checks might be collected.

COLLATERAL.

We find no provision in the Federal Reserve Act for a federal reserve bank taking collateral for any purpose other than as security for member banks' 15-day promissory notes. We think that undoubtedly, under section 4-Seventh, as follows:

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

a federal reserve bank has ample power to require collateral from a member bank to secure both rediscounted notes and member bank promissory notes. We also think that under special and peculiar circumstances, there would be no doubt but that under this provision a federal reserve bank would have the right to require collateral to secure transit items forwarded for collection. We doubt, however, the necessity for collateral generally in order to carry on the business of banking, within the limitations prescribed by the act governing the check clearing and collection functions of the federal reserve bank, because we believe, as hereinafter outlined, that the proper course to pursue is to use ordinary care in collecting checks at the time the collection is undertaken, rather than to set up avenues of protection to be resorted to at a later date.

COURT DECISIONS.

We observe, and to some extent are familiar with, the cases referred to

in Mr. Ueland's memorandum. We do not in the least disagree with the effect of the decisions in these cases. At the outset, however, we wish to make this observation, - that while these cases are undoubtedly precedents, we question the principles which they attempt to assert.

We make this observation because we wish to approach these questions from the standpoint of principle, rather than precedent, that is, not what we can do but what we should do.

It must be borne in mind that the twelve federal reserve banks have heretofore been, and in the future will be, to a much greater extent required to litigate cases of this character in many jurisdictions. It is not unlikely that every appellate court of each state in the Union, as well as of the United States, may have occasion to pass upon some phase of the questions involved. It would be practically impossible to present the same questions, under the different conditions that would necessarily exist, to such a large number of courts without obtaining conflicting precedents. Therefore, we feel that, due to the fact that precedents are such a guiding factor in court decisions, the Federal Reserve system as a whole should be highly interested and guard with the greatest care the precedents which are established.

Furthermore, with our complex and varied judicial procedure, we think it fairly easy to establish most any sort of a precedent. To illustrate what we mean, without intending in the least to be offensive, if we were involved here in litigation affecting some point set out in Mr. Ueland's memorandum and in such case should have opposed to us counsel with no familiarity with check collections and with no ability as a lawyer, we might obtain one precedent; whereas, in the same case, with competent and well informed opposition an entirely different outcome might easily result.

Therefore, in our opinion, we cannot lean too strongly, in determining these questions of policy, upon precedents which have heretofore been established, and for these reasons we will not attempt in this communication to state our opinions with reference to what should or should not have been the result of the particular cases mentioned.

VIEWPOINT.

We recall the old geometrical expression, that in order to arrive at a proper perspective it is first necessary to establish a viewpoint. This is the important principle involved here. If we can establish as a policy the proper viewpoint, then we feel sure that the perspective, that is, the subordinate questions of policy, will necessarily be uniform and correct. At the present time it appears to us that there is, generally speaking, two viewpoints from which these questions are approached:

FIRST: In discharging the check clearing and collection functions a federal reserve bank shall act as agent only, employing those means for presenting and collecting checks which are the normal, natural and accepted means afforded by the commercial structure of the country.

SECOND: In discharging their check clearing and collection functions a federal reserve bank shall act as agent, employing those means for

presenting and collecting checks which are the normal, natural and accepted means afforded by the commercial structure of the country, and, in addition, shall take every other means available by virtue of the peculiar nature of federal reserve banks and involving unusual, uncommon and extraordinary practices not expected, required nor undertaken by a person acting in the capacity of agent only.

Those banks having the first viewpoint approach the collection of checks somewhat as follows: A circular is sent to every bank or other person authorized to send checks to a federal reserve bank for collection. This circular states just how the federal reserve bank will collect checks and briefly may be summarized as follows:

(1) We will use ordinary care under all circumstances in presenting your check for payment.

(2) Ordinarily we will present your check direct to the bank on which it is drawn, because we feel that this is the most direct and expeditious manner of collecting checks.

(3) We will take a bank draft from the drawee bank in payment of these checks because you must realize that under the accepted practices of this country funds are transferred from one point to another through the medium of checks and because we have no means of presenting all of the checks sent to us, other than those afforded by the commercial structure of the country, notably the postoffices.

(4) It would not be practical for us to employ any means of collection other than the postoffice, except in unusual cases where we will exercise ordinary care under the special circumstances surrounding the collection.

(5) You do not have to send us your checks for collection. If our methods of collecting checks is not suitable to you, you may employ other agents.

(6) In the event we have used ordinary care under the circumstances to collect your check and fail to do so, you must look elsewhere than to us to recover your loss.

Banks having the second viewpoint, say by their circulars to member banks substantially that stated above but, in addition, and contrary to the normal, natural and accepted practices of an agent only, they undertake to resort to unusual practices in the following respects, if not others:

(1) By appropriating the reserve account of the member bank to which checks have been sent for collection.

(2) By attempting to use capital stock refund due the insolvent member bank.

(3) By seeking to apply collateral given by the member bank primarily to secure loans made to it by the federal reserve bank in the discharge of an entirely distinct function from that of collecting checks.

Banks having the first viewpoint, in the event the drawee bank fails before remitting for checks transmitted to it for collection, find themselves in this situation: The only parties that can complain are the parties from whom they receive checks. If such parties do complain, but one question arises and that is: Did the federal reserve bank exercise ordinary care in presenting the checks for payment? This question can always be decided in favor of the federal reserve bank, provided that bank has taken pains to exercise ordinary care under the circumstances at the time the collection is undertaken. 252

Banks having the second viewpoint, find themselves involved in litigation frequently, not only with the persons sending the checks for collection but with receivers of insolvent banks. This is but natural because federal reserve banks following such practice encourage their endorsers to feel that they should not, under any circumstances, sustain a loss; and likewise they necessarily find themselves in conflict with the office of the comptroller of the currency and receivers of insolvent banks, because it is their duty to see that the funds of the insolvent bank are applied pro rata to all creditors and are not used to the preference of one over another.

It is not hard to understand how a bank with the last mentioned viewpoint can frequently find itself "to some extent on the horns of a dilemma" because "if the surplus is paid over to your endorsers of the transit items your bank may be liable to the receiver and if surrendered to the receiver there might possibly be liability to your endorsers." We cannot help but feel that the federal reserve bank makes the dilemma by the course of conduct which it has chosen to follow and, in this connection, we wish to state that we are in entire accord with the thought expressed in paragraph numbered four on the last page of Mr. Wyatt's letter to Mr. A. Ueland, of date January 26, 1929.

CONSIDERATION OF FUNCTIONS AND RESPONSIBILITIES OF FEDERAL RESERVE BANKS OTHER THAN THOSE OF COLLECTING CHECKS.

Every federal reserve bank operating in a district that has experienced a large number of bank failures (and bank failures are the cause of our considering any of the questions of policy involved) have found themselves confronted with a situation similar to the following:

> A member bank is in a rather strained and extended condition. This condition has been known by the federal reserve bank for sometime. It finally works itself to more or less of a crisis. The bank's reserve balance is very much depleted, if not exhausted. The bank has sent in, and the federal reserve bank is considering, an offering for rediscount, sent for the purpose of restoring the bank's reserve. At the same time and on the very day that this offering is being considered, cash items have been received drawn against this member, aggregating as much, or more, than the offering and required reserve balance.

Under such conditions, the reserve bank is confronted generally with two questions:

I. Are we going to rediscount the offering?

II. What steps are we going to take looking towards the proper discharge of our duty in the collection of these checks?

Those banks having the first viewpoint mentioned above will decide these questions somewhat along the following lines:

I. Insofar as the rediscount offering is concerned the questions that will be considered will be-

(a) Are the notes offered for rediscount acceptable from a credit standpoint?

(b) Does the bank's condition justify the extension of the credit?

(c) Does the situation of the member bank, as we know it to be, justify us in expecting, if the loan is made, that the bank will be assisted in restoring itself to a sound and safe condition?

II. Insofar as the collection of the cash letter is concerned, this bank approaches the question somewhat as follows:

(a) Does the knowledge which we have of the bank's condition justify us in sending the checks direct by mail?

(b) What course of collection should we follow in order to discharge our duty to the holders of these checks to use ordinary care in their collection?

Thus the two questions are decided upon their merits, having in mind the distinct functions which a federal reserve bank is discharging.

Banks having the second viewpoint must necessarily, in order to be logical, approach the two questions somewhat in this manner:

I. Insofar as the rediscount offering is concerned they must take into consideration:

(a) The matters outlined under I (a); I (b) and I (c) on pages 11 and 12 hereof.

(b) And in addition, they must necessarily have in mind at the time the rediscount is made, if it is made, the fact that the cash letter is to go forward and, therefore, they must necessarily think of the collateral which they are taking to secure the advances made the bank in the light of subsequent indebtedness that might be created by virtue of the outgoing cash letter and, hence, the member bank is to this extent penalized in its rediscount operations; and

(c) The offering has been made to restore the reserve balance and that the reserve balance is treated as a fund to protect the cash letter. Therefore, assuming that the

notes are perfectly good but that the member bank's condition generally would not justify the federal reserve bank in extending the credit, would not the federal reserve bank find itself again in a dilemma, that is, should it discount the notes and build up the reserve balance to protect the endorsers of the checks or should it refuse to discount the notes because such action is to the best interest of the member bank concerned.

II. In as far as the collection of the cash letter is concerned, they must necessarily take into consideration:

(a) The matter referred to under II (a) and II (b) on page 12 hereof; and

(b) In the event the checks are not actually paid by the bank to which they are sent, will the reserve balance of such bank be sufficient to protect our endorsers?

(c) If the reserve balance is not sufficient, will the sum in it plus the collateral which we are holding, including the capital stock refund, be sufficient?

If these questions are decided in the affirmative, will such bank use ordinary care in presenting the checks for collection or will it be prone to rely upon the protection which it has in the forms above outlined, rather than to use ordinary care in the presentation of the checks. If it fails to use ordinary care and thus renders itself liable, what assurance does it have that the reserve balance will not be withdrawn before it can be used by the federal reserve bank and, also, what assurance does the federal reserve bank have that the collateral in its hands, after the failure of the member bank, will be worth as much as had been counted on?

DUTY OF THE FEDERAL RESERVE BANKS TO THE COMMUNITY IN WHICH INSOLVENT BANKS ARE LOCATED AND TO THE CREDITORS OF SUCH INSOLVENT BANKS.

Because of the confidential relationship existing between federal reserve banks and their members and because of the fact that the great majority of member banks, that is, national banks, are compelled to retain their membership in the Federal Reserve system in order to keep their charters and because of the peculiar nature and functions of federal reserve banks, we feel that each federal reserve bank owes a duty to the community in which an insolvent bank is located and to the creditors of such insolvent bank.

Furthermore, if there is anything in our thought that insofar as reserves are concerned federal reserve banks are to some extent trustees for all creditors of any particular bank maintaining such reserve, then we think it necessary follows that a federal reserve bank is charged, to some extent at least, with the same responsibility as that of the comptroller of the currency in seeing that, in the event of insolvency, these reserves are applied pro rata to all creditors rather than to the select few who might have happened to choose the federal reserve bank as their agency through which to effect collection of their indebtedness.

It is true that knowledge gained by a federal reserve bank in its confidential dealings with member banks will put a federal reserve bank on notice initially that extraordinary steps might be required in order to exercise ordinary care in the collection of checks. This cannot be helped and, to this extent, we think it proper for a federal reserve bank to use its confidential information. To go further and to set up avenues of preferment for those creditors selecting the federal reserve bank as their agency for collecting their debts would, in our opinion, be a failure to discharge the proper functions of a federal reserve bank.

In the event any question of preference should arise, we would prefer to let it arise from some voluntary act of the member bank, rather than from some arbitrary action of the federal reserve bank.

DOES THE FEDERAL RESERVE BANK BEST SERVE ITS ENDORSERS BY FOLLOWING THE POLICY OF APPLYING RESERVE BALANCES, COLLATERAL AND CAPITAL STOCK REFUNDS TO CLAIMS ARISING BY FAILURE OF THE DRAWEE BANK TO REMIT FOR TRANSIT SENDINGS.

We are familiar with the fact that many decisions hold, in effect, that where checks are sent to the drawee bank and are by that bank received, stamped paid and charged to the account of the drawer, the drawer is discharged from liability by such action.

In our opinion, however, these decisions are unsound and while we must admit that, at the present time, they express generally the law in most jurisdictions, nevertheless, having the convictions we do, we cannot help but feel that when properly presented this question will be decided otherwise. We base this feeling upon the fact that the mere stamping of a check paid and charging it to the account of a person does not in any manner constitute payment nor does it in anywise conform to the definition of payment which is generally and uniformally laid down by practically all courts dealing with the question of payment in other cases.

Assuming that a federal reserve bank should follow the policies suggested in Mr. Ueland's memorandum and the reserve balance, collateral and capital stock refund is not sufficient to pay the entire amount of the transit sendings involved, then nedessarily the amount on hand must be pro rated. In such event, it occurs to us that necessarily the drawer would be discharged and the payee or his endorser would be required to look elsewhere than to the drawer for the recovery of the amount unpaid.

To this extent, we feel that to pursue the policies recommended by Mr. Ueland would be a detriment rather than a help.

In this connection, we feel that the questions which we are now considering would become academic should the various states of the Union be prevailed upon to pass a proper statutory enactment to the effect that where the payee or his endorser of a check uses ordinary care and the usual and customary means of collection, the drawer of the check is not discharged regardless of whether the check in question has been stamped paid and charged to his account, unless the drawee bank has actually paid the check.

CONCLUSION.

For the reasons herein stated, it is our opinion that federal reserve banks should, in discharging their check collection functions, adhere strictly to the idea that they are acting as agent only and that in discharging such duty they will use ordinary care, under all circumstances, to collect checks sent them for collection, employing those means for presentation and collection which are the normal, natural and accepted means afforded by the commercial structure of the country, but that they shall not undertake unusual, uncommon and extraordinary practices not expected, required nor undertaken by a person acting in the capacity of agent only.

We think it very important that uniformity exist throughout the entire Federal Reserve System as to the policies herein referred to, so that federal reserve banks in one district shall not establish precedents embarrassing to federal reserve banks in other districts. We feel this so strongly that we would be glad to recommend to the Federal Reserve Bank of Dallas that they make their practices conform to those practices favored by the majority of the federal reserve banks.

Yours very truly,

(S) Locke, Locke, Stroud & Randolph.

EBS:lm

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257

FEDERAL RESERVE BANK

OF SAN FRANCISCO

February 5, 1929.

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

Dear Mr. Wyatt:

I acknowledge your letter of January 30, 1929, transmitting the draft of memorandum prepared by Mr. Sigurd Ueland with respect to the policy to be pursued by the Federal Reserve Bank of Minneapolis in relation to reserve balances; also copy of your letter of January 26 commenting on Mr. Ueland's opinion.

I can say without reserve that I agree entirely with the conclusions which you have reached and in the expression of policy contained in your letter. I have felt from the beginning that the Midland National Bank case was bad law and would result in the creation of situations embarrassing to the Federal reserve banks. The adoption in toto of the theory of that case by Mr. Sigurd Ueland, and presumably by his father, makes the situation still more difficult. While, like you, I have the utmost respect for Judge Ueland's legal ability, as well as that of his son, I cannot but feel that these gentlemen have accorded the decisions to which they refer greater weight than that to which they are entitled and have given the principles announced therein broader application than is deserved. Personally I feel that if the Federal Reserve Bank of Minneapolis were to adopt and put into effect the recommendations contained in Mr. Sigurd Ueland's memorandum, a situation would be created fraught with grave danger to all Federal reserve banks. Even though the conclusions reached were justified under the decisions of the Supreme Court of Minnesota and the United States District Court in the Eureka case (a premise which I do not at all concede), the adoption of those conclusions as a basis of future policy on the part of the Federal Reserve Bank of Minneapolis would undoubtedly arise to confront all other Federal reserve banks even though such other Federal reserve banks followed entirely different methods of procedure. In other words, if the Federal Reserve Bank of Minneapolis alone, or perhaps in concert with the Federal Reserve Bank of Richmond, is to adopt the policy of treating reserve balances and funds created from the caneellation of capital stock as trust funds primarily or secondarily for the payment of obligations arising from unremitted cash letters, all other Federal reserve banks will ultimately have to adopt the same policy or be confronted with vexatious and expensive litigation engendered by following a different policy.

It has always been the endeavor of the Federal Reserve Bank of San Francisco, and I believe of most of the other Federal reserve banks, to maintain a strict agency relationship in the handling of cash items. Once the theory of

agency is departed from in the slightest degree, there is no way of telling to what extent member banks and non-member clearing banks may be able to hold the Federal reserve bank responsible for the fate of unpaid cash items. I therefore consider any departure from such agency relationship or any admission, express or implied, that such relationship does not continue, extremely dangerous.

Mr. Ueland refers to the recent amendment of Regulation J eliminating therefrom that provision to the effect that any Federal reserve bank may reserve the right to charge checks to the reserve account or clearing account of a bank at any time when in any particular case the Federal reserve bank deems it necessary to do so, and expresses the opinion that this amendment does not show an intention that the reserve balance is not intended to remain available for the payment of unpaid cash items after notice of suspension. I think this conclusion is incorrect. Harking back to the discussion which took place at our last conference in Washington, I am strongly of the opinion that it was for the purpose of removing any question as to the right of a Federal reserve bank to treat a reserve balance as a trust fund for the benefit of the owners of cash items, that we recommended the elimination of this clause, and I am equally firm in the opinion that this was the purpose of the Federal Reserve Board in causing this elimination.

I believe the entire matter of the treatment of reserve balances and the rights of forwarding banks in relation thereto should receive early and thorough treatment and I agree with you that as a preliminary to any action on the part of the Federal Reserve Board, it would be well to hold a conference of counsel at Washington for the purpose of a thorough discussion.

I should be glad to attend such a conference at any time that may be selected. Personally I should prefer that if a meeting is held it be set for the month of April, as engagements here would make it difficult for me to be present during either March or May.

I have thoroughly discussed the matters referred to herein with the executive officers of this bank. Governor Calkins suggests that if a conference is held, it might be well to arrange to have Mr. Baker present.

Yours very truly,

(S) Albert C. Agnew,
Counsel.

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FEDERAL RESERVE BANK

OF ATLANTA

February 5, 1929.

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

Dear Mr. Wyatt:

I have read with interest your letter of January 26, addressed to my firm, with which there was enclosed a copy of a letter written to you by Judge Ueland and Mr. Sigurd Ueland, as well as a copy of the memorandum prepared by Mr. Sigurd Ueland and a copy of your letter to Judge Ueland - all having reference to the policy to be pursued by the Federal Reserve Bank of Minneapolis in asserting rights against receivers of insolvent member banks on behalf of the owners of unremitted for transit items.

In obedience to your request, I am herein expressing my views on the questions discussed in the above mentioned correspondence and memoranda. In considering the matter I have, of course, been mindful of the weight which should be given any opinion representing the matured judgment of the Messrs. Ueland. I am, however, constrained to disagree with these Gentlemen in the conclusions which they have reached. My opinion accords with your own.

It seems to me that we should not lose sight of certain fundamental propositions which, but for the recent decision in the case of the Federal Reserve Bank of Richmond vs Earley, Receiver, might well have been regarded as elementary, and which are not necessarily foreclosed by that case:

1. Whenever a receiver is appointed, whether in bankruptcy, by a court of equity or by other authority, bank balances to the credit of the insolvent automatically become not withdrawable upon his check, but may be withdrawn only by such receiver, acting pursuant to the general or statutory authority vested in him. Whether such result is brought about by a statute, such as the Bankruptcy Act, or upon general equitable principles seems to be immaterial.

2. The reserve account of a member bank, as well as the clearing account of a non-member clear-

ing bank, may, for the purposes of this discussion, be regarded as nothing more nor less than a "checking account", subject to the same legal principles as would apply to a deposit account maintained under ordinary banking usages by a depositor in a commercial bank.

3. The Federal Reserve Bank handles cash items only as agent for banks forwarding the same to it for collection, or, at least, if such is not the status of the Federal Reserve Banks, quoad such checks, Regulation J fails of its intended purpose in this regard.

4. Federal Reserve Banks do not take such checks and drafts on general deposit and thereby become the owners thereof, and, unless they stand in the relation of owners to such checks, it is difficult to see upon what rule they would be justified in off-setting checks, for which remittances have not been received, against reserve balances or in applying collateral in their hands for the protection of the same, in the absence, at least, of an express agreement authorizing any such procedure.

5. The underlying purpose of Regulation J and of the cognate collection circulars of the various Reserve Banks was to relieve the banks of the duty or obligation to do precisely the things which it is now suggested should be done.

I realize that, since the decision in the Earley case, any opinion must be given dubitante. I cannot, however, believe that the Earley case will finally stand as the last word on the subject, and I am, furthermore, hopeful that, in any event, the holding of that case would not, in subsequent litigation, be extended beyond the particular facts which were there involved. In so far as concerns the banks using the so-called "remittance" system in collecting cash letters, the case would not, necessarily, be conclusive. The Richmond bank, under its own collection circular, had adopted the practice of charging cash letters to reserve accounts at the expiration of a specified transit time, and the Court seems to have predicated its opinion very largely upon this practice.

The banks using the remittance system customarily receive returns on cash letters in the shape of checks drawn

upon the reserve balances of the remitting banks or in acceptable and immediately available exchange. It would clearly seem that after a member bank has been closed the Federal Reserve Bank could not thereafter pay a draft drawn upon itself by the closed member, even though the same had been mailed prior to suspension of business. The banks using the remittance system sometimes accept in payment of cash letters express written authorizations to charge reserve accounts with the amount of the same. I see no difference in legal effect (in so far as concerns the questions now under discussion) between a check drawn upon the reserve account of a member and its written authorization to charge its reserve account with a specified amount; and, if the authorization to charge be not received until after the closing of the bank, the situation is exactly the same, in my opinion, as if remittance had been attempted by draft.

Prior to the recent revision of Regulation J, the Atlanta bank, and perhaps others using the remittance system, reserved the right in their check collection circulars to charge cash letters to reserve account whenever returns thereon were not received when, in the light of railway mail schedules and ordinary experience, they should have been in hand. It was intended, however, by such stipulation merely to provide a method for forcing payment as against slow remitting banks. It was not the intention to provide such method for enforcing payment after a member bank had been closed; nor do I believe that a general reservation in the check collection circular of the tenor indicated would alter or vary the fundamental propositions outlined above.

It is generally recognized that it is unjust and inequitable for a drawee bank to pay and discharge the checks of its customers and then fail to remit therefor, but I do not believe that the Federal Reserve Banks should undertake to correct this injustice by adopting a policy which might, in effect, force them to protect all checks sent to them for collection for which remittances had not been received and which could not be returned to their endorsers.

In the first place, in every instance where a Federal Reserve Bank might hold a reserve balance or collateral in sufficient amount, it would almost be compelled to protect unremitted for items, even at its own expense. Mr. Ueland, in his memorandum, states that collateral securities and reserve balances could legally be appropriated, first, in satisfaction of obligations due to the Reserve Bank by the closed member. Theoretically, this may be true, although I am not so certain about the proposition as is Mr. Ueland. Practically speaking, however, any Reserve Bank which protected itself primarily and its endorsers of transit items secondarily, would be subjected to criticism which

would certainly prove embarrassing. My own opinion is that, in practice, the policy advocated by Judge Ueland, even if legally permissible, would result in a prior, or at least pro rata, payment by the Reserve Banks of such transit items in any case where payment could be effected out of the reserve balance or general collateral in its hands.

In the second place, it is most important, in my opinion, that nothing be done to affect the strict agency relationship touching collections which should be maintained by the Federal Reserve Banks. The volume of checks passing through the Federal Reserve system is enormous and will inevitably increase from year to year. While no one questions the utility of the Federal Reserve Bank collection system, nor begrudges the expense entailed thereby, the Reserve Banks should not be burdened with responsibilities beyond those which inhere in the proper discharge of their duties as agents. For its own negligence, a Federal Reserve Bank should pay, but for the negligence or defaults of others it should not be held liable. It seems to me that anything which tends to superimpose upon a pure agency status an indicia of ownership, with respect to the subject matter of the agency, is a step in the wrong direction. The tendency, at least, of the plan proposed for the Minneapolis District would be to make a Federal Reserve Bank responsible for items entrusted to it for collection, even though the failure to secure returns thereon, in actually collected funds, may not have been due to any negligence or fault on its part. There is no more reason to require a Federal Reserve Bank to pay a check out of a reserve account (or charge the same with the amount thereof) after the insolvency of the drawer than to expect an ordinary commercial bank to make payment under similar circumstances; and, unless remittance in actually available funds has been received, a mere collection agent should not be held responsible.

I shall not attempt to discuss at any length the cases cited in Mr. Ueland's memorandum. I have not read the unreported case of Keyes, Receiver, vs Federal Reserve Bank of Minneapolis. The pertinent holding of Federal Reserve Bank vs First National Bank of Eureka, which I have not read for some time, was, as I recall it, based on the theory that the reserve account of a member was a clearing fund through which "balances" in favor of the Reserve Bank might be extinguished just as such balances are wiped out in the operation of a clearing house. This theory is certainly incompatible with the rationale of Regulation J.

The recent case of Storing, Receiver vs First

National Bank of Minneapolis, which has been the subject matter of prior correspondence between us, seems clearly distinguishable. In the Storing case the Court was careful to point out that items which were received for collection by the First National Bank from its own customers "were credited to the accounts of the respective customers on the books of defendant", i.e. the Minneapolis Bank. At the time, therefore, when they were forwarded to the North Dakota Bank (which subsequently became insolvent) the same had been placed on general deposit with the Minneapolis bank and were treated by the Court as being the property of that bank. The Court also held that the "accounts of the two banks with each other constituted mutual accounts", for which reason a right of off-set existed. The distinguishing elements in the Storing case emphasize the dangers of undertaking to apply the doctrine of that case to the check collection functions of the Reserve Banks. To make the Storing case applicable, the relation between a Reserve Bank and its members might have to be regarded as that of banks maintaining "mutual accounts" - certainly the Reserve Bank would necessarily have to be conceded to be (prima facie at least) the owner of all checks in its hands for collection, despite the contrary declaration of Regulation J. The legal complications which might ensue readily suggest themselves.

No specific comment is made upon the case of Midland National Bank, etc. vs State Bank of Sioux Falls, et al, for the reason that this letter is written in an attempt to show the unsoundness of its holdings.

There are one or two other considerations which, in my opinion, might be urged on the negative side of the questions raised, but I hesitate to burden the debate with any further comment, particularly since your letter to Judge Ueland of January 26 really needs no supplementing.

With best personal regards, I am

Sincerely yours,

(S) Robt. S. Parker.

RSP/w.

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264

FEDERAL RESERVE BANK

OF RICHMOND

February 5, 1929.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel.

Dear Mr. Wyatt:

I read with much interest the interesting and helpful memorandum prepared by Mr. Sigurd Ueland. I am personally much gratified by the knowledge that I do not stand alone in my view with respect to the soundness of the decision of the Circuit Court of Appeals in Farmers and Merchants National Bank of Lake City v. Federal Reserve Bank of Richmond.

The proposition for a conference of Counsel of the Federal Reserve banks always carries such pleasant suggestions that I am never exactly opposed to such a conference, but in thinking over the matter it appears to me that very little in the way of definite action could be taken by such a conference at the present time. The Lake City case cannot be regarded as a final decision because it may be reviewed by certiorari. The case of Storing v. First National Bank, 28 Fed. (2nd) 587, is in the same situation. The case of Midland National Bank and Trust Company v. First State Bank is a final decision by a State court but rests upon the terms of a particular contract, which terms are not identical with the terms of the circular or collateral agreement used by any Federal Reserve bank. The decisions in all of these cases are constructions of contracts except that part of the Lake City case which deals with the surrender value of the stock held by a member bank in a Federal Reserve bank. The circulars used by the respective Federal Reserve banks are not uniform, and therefore if the object of the conference is to discuss past transactions, it seems to me that we should merely be in the position of attempting to forecast decisions upon our respective circulars in the light of decided cases which are still subject to reversal.

If the conference is to concern itself with future transactions, it appears to me that we shall be greatly handicapped by the fact that the decisions which at present form the last known statement of the law are subject to reversal and may be modified or distinguished in the cases which are now pending in the Atlanta and San Francisco Districts. We therefore would meet with no positive assurance of what the law now is upon the contracts which are at present in force, and could not even make an intelligent guess at what the courts may decide with respect to contracts which might hereafter be drawn. It therefore seems to me that a conference

held after a final decision in the Lake City case, and perhaps after a decision in the cases effecting the Federal Reserve Banks of Atlanta and San Francisco, would be much more profitable than one held at the present time.

In addition to the above, it seems to me that the main source of our difficulties at present lie in a difference of view with respect to policy. There are three funds which might possibly be made applicable to the protection of cash letters. These are: (1) The reserve balance; (2) The collateral; (3) The surrender value of the stock.

I am, of course, persuaded that the decision of Judge Parker in the Lake City case is the correct interpretation of the contract existing between the Federal Reserve Bank of Richmond and its member banks, but I believe that all of us would concede that he is at least correct when he says that the question depends upon the construction of the circular. It should be fairly easy to prepare a circular which would make it clear that any reserve balance apparently due to a failed bank at the time of its failure should be applied to any unpaid cash letters regardless of whether or not the remittance system or charge system was used by a particular Federal Reserve bank. It would certainly be easy to provide by express words in the circular and Regulation that the reserve balance should not be chargeable with cash letters unless specific authority to make the charge was received and the charge made against an available balance sufficient to cover the letters before the failure.

The right of the Federal Reserve bank to hold the collateral is likewise merely a matter of contract. There can be no doubt that the Federal Reserve bank might make a contract under which the collateral was applicable to cash letters even though the Reserve bank had the right to charge these cash letters back to the depositors. In other words, the Federal Reserve bank might, by express contract, take and hold the collateral for the benefit of its depositors as well as for its own benefit and could provide that its own claims upon rediscounts and other matters should be preferred over the claims of persons interested in the cash letters so far as the collateral was concerned.

The application of the surrender value of the stock depends upon the construction of the Federal Reserve Act and no contract which could be made would alter the status of the surrender value. I am inclined to accept the decision in the Lake City Case as final upon this latter point, even though it appears to be contrary to Federal Reserve Bank v. First National Bank, 277 Fed. 300; but,

in any event, whether the Lake City case is on this point sound or not, nothing which could be inserted in the Regulations of the Board or in any circular would change the ultimate result.

It seems to me, therefore, that inasmuch as the present situation arises out of the possible differences in the interpretation of the circulars of various Federal Reserve banks, that there are three possible courses which may be adopted in the future.

All of the Federal Reserve banks may elect or be required by the Federal Reserve Board to adopt a uniform policy under which the reserve balances and the collateral will be applicable to cash letters; or the banks may elect or be required to adopt a policy under which neither of these funds can be applied to unpaid cash letters; or each bank may adopt one policy or the other as its own judgment determines. It is obvious that the decision upon these courses of action involves questions of policy rather than questions of law. If the Board intends to require all banks to adopt a uniform policy upon the points mentioned, then it should be fairly easy for you, with such assistance as Counsel for the Federal Reserve banks could give you, to prepare a regulation which would clearly and equivocably state the policy adopted. If the Board does not wish to require a uniform policy, then obviously the officers of each bank must determine for themselves the course which they will follow.

It therefore appears to me that very little could be accomplished by a conference of Counsel until the Board, which I assume would desire to confer with the Governors of the banks, had made a definite decision with respect to the questions of policy involved. When this decision was made, it then seems to me that a conference of Counsel would be most helpful as a means of embodying the decision in clear and unambiguous words.

With best personal regards, I remain,

Very truly yours,

(S) M. G. Wallace,
Counsel.

MGW L

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207

FEDERAL RESERVE BANK

OF

ST. LOUIS

February 20, 1929.

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

Dear Mr. Wyatt:-

Since writing to you on February 2, 1929, I have gone more carefully into the cases referred to in the correspondence passing between you and Judge Ueland relative to the Legal Rights and corresponding obligations of Federal Reserve Banks in their Clearing House operations with National Bank Receiverships.

In the case of THOS. A.EARLY, Receiver of the FARMERS & MERCHANTS NATIONAL BANK of LAKE CITY, S. C. vs. the FEDERAL RESERVE BANK OF RICHMOND (hereinafter referred to as the EARLY case) the Court had before it two separate causes of action - (1) - the recovery of the deposit account standing on the books of the Federal Reserve Bank - (2) - the surrender value of the stock in the Federal Reserve Bank and counter claim filed by the Reserve Bank on the unremitted for cash letters.

The District Court, after referring to the Regulation and Circular letter, found in favor of EARLY on both counts,

> "The charges made on account of the outstanding cash letters against the insolvent bank, I do not regard as proper allowances or deductions. The right of the Reserve Bank to make the charges terminated with the insolvency of the member bank." **** "The counter-claim of defendant is based on items in transit that were being handled by the Reserve Bank for collection. They were received for deferred credit, under regulations and check collection circulars which provide that the Reserve Bank will act only as agent for the bank from which it receives such checks. The items cannot be regarded as the property of the Reserve Bank. The circumstances shown in respect to the counter-claim make it clearly apparent that the claims upon which the suit is brought, and the claim set out by defendant in its counter-claim, do not arise between the parties in the same capacity."

On appeal, the Circuit Court affirmed the ruling of the District Court as to the second cause of action:

"On the second question, we do not think that the Reserve Bank has the right to set off the balance due by the insolvent bank on the checks against its stock liability. The Reserve Bank was not the owner of these checks. It was merely an agent for collection; and although it credited them to the accounts of the forwarding banks, this was upon agreement that they might be charged back if not collected, and the second lot of checks has been charged back. The stock liability is a liability created by statute which provides that it "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." 12 U.S. C. A. 288. It is perfectly clear that the liability of the insolvent member bank for these checks is a liability owing to the owners of the checks in which the Reserve Bank is not interested except as collection agent, and is not "a debt of the insolvent member bank to the Federal Reserve Bank" within the meaning of the statute.

Even in the absence of a statutory direction as to how the liability should be applied, a set off of checks held for collection against such a liability would not be allowed, for the reason that demands to be set off against each other must be mutual, that is they must be due to and from the same parties and in the same capacity."

The Circuit Court reversed the ruling of the District Court as to the first count:

"The checks were forwarded by the Reserve Bank to the insolvent bank under an agreement that they should be charged against its account at the expiration of three days, unless returned immediately. They were so sent because the owners for whom the Reserve Bank was acting as agent had consented to the arrangement. As a substitute for the right to have them presented through another bank and collected in cash, the owners had agreed that they be sent direct to the drawee under the agreement that if not promptly returned they be charged against the drawee's reserve balance. When, therefore, they were accepted by the drawee, the owners had the right to demand that they be charged against the drawee's account and that the balance in that account be applied by the Reserve Bank to their payment. The only question that can arise is when does this right of the owners of the checks become fixed so as to constitute it a charge upon the reserve balance. We think that it becomes so fixed when the drawee bank either unequivocally accepts the checks, as in this case, or by failing to return them promptly becomes chargeable with them under the terms of the agreement. " ******
And this right, we think, depends not upon the theory that the Reserve Bank is the owner of the checks or that it has the right of set off against the insolvent bank; but upon

269

> the fact that the contract of the parties has created an equitable charge upon the reserve account of the drawee bank and that such agreement operates as an equitable assignment of so much thereof as may be necessary to pay the checks when they are unequivocally accepted by the drawee. Under familiar principles of equity, such an equitable charge upon a fund arises in favor of a party when he becomes entitled to have his claim paid from that fund."

It is apparent that the Circuit Court in arriving at the conclusion was governed by the Richmond circular and Regulations in force at the time, and the Richmond bank's method of operating under the 'Time Schedule Charge Account' exclusively - rather than under the 'remittance method' used in most of the other Reserve Banks. Based on the particular method in use by the Richmond bank the reasoning is logical, and, I believe the conclusions reached are sound and will be upheld by the Supreme Court.

Turning our attention now to the cases of KEYES, Receiver of the FIRST NATIONAL BANK of CLARKSFIELD vs. the FEDERAL RESERVE BANK of MINNEAPOLIS - not officially reported (hereinafter referred to as the CLARKSFIELD case)

The FEDERAL RESERVE BANK of MINNEAPOLIS vs. KEYES, Receiver of the FIRST NATIONAL BANK of EUREKA, 277 Fed. 300, and (hereinafter referred to as the EUREKA case); and,

The MIDLAND NATIONAL BANK of MINNEAPOLIS vs. the FIRST STATE BANK OF SIOUX FALLS, 222 N.W. 274, and (hereinafter referred to as the MIDLAND BANK and STATE BANK.)

In the CLARKSFIELD case the reserve bank had forwarded to the Clarksfield bank 'for collection and credit' a cash letter containing a number of items. The items were collected and credit given to the Federal Reserve Bank on the books of the Clarksfield bank on the 18th of September - the day they were collected - and, before the Clarksfield bank was closed on that date and its affairs were taken over by the Receiver, Keyes. At the time credit was given on the 18th, the balances of the Clarksfield bank in the Federal Reserve Bank were ample to sustain the credit. This balance was later augmented by the proceeds from the cancelled stock in the Federal Reserve Bank. After using so much of the augmented balances as were necessary to reimburse the Federal Reserve Bank for certain forged notes it held under rediscount from the Clarksfield bank the remaining augmented balances were applied on the outstanding cash letters.

It is apparent from the fact that the Clarksfield bank gave the Reserve Bank credit on its books for the funds collected on the day the collections were made, and, from the underscored lines in Paragraph 3 of the Minneapolis circular then in force, that the Minneapolis bank (like the Richmond bank) was operating under the "Time Schedule Charge Account" method exclusively:

> "Checks received by the Federal Reserve Bank, drawn on its member banks, will be forwarded direct to such member banks,

and will be charged to their accounts on the date which, under usual conditions, advice of payment may be expected. Member banks should credit all remittances received from the Federal Reserve Bank upon day of receipt, advising the Federal Reserve Bank, and should not remit their drafts in payment. Member banks are required by the Federal Reserve Board to provide funds to cover at par all checks received from, or for the account of, their Federal Reserve Bank."

The Court, after quoting the Regulations and Reserve Bank Circular relative to collections, says:

"It is not ('not' evidently a typographical error) apparent that upon the clearance being had between the Clarksfield banks, defendant had the right to a credit with the First National Bank of Clarksfield for this amount and to charge the same to the account of said bank, that credit was given but the charge was not made. It seems to me that Defendant then had a right of action against that bank for that amount in its own name and in its own right," and, if this is true it is clear it has had that right every since, and, therefore, has the right of setoff." **** "That the rights of the parties became fixed as of the time of the closing of the bank *** SCOTT vs. ARONSBURG. At that time the Reserve Bank had a right of action against the Clarksfield insolvent bank for the amount of the checks whether or not they were only received by it as an agent for collection and conditional credit and whether or not the endorsements thereon were restricted or unrestricted."

If the Minneapolis bank was operating exclusively under the "Time Schedule Charge Account" -as is apparent - the conclusions reached by the Circuit Court in the EARLY case would apply, and, while District Judge Morris arrives at the same conclusion over a different route, it would appear that if the Minnesota Statutes referred to give the agent the right to maintain the suit, then the reasoning used is sound and the result justified.

In the EUREKA bank case, the Eureka bank, at the time it closed, had under rediscount with the Reserve Bank a number of notes, and, just prior to closing it had collected a number of items forwarded to it by the Reserve bank for collection, and, attempted to remit by draft, uncollectible, because of the failure of the Eureka bank. Two questions were before the Court: (1st) - did the Reserve bank have to exhaust all means to collect from the makers of the notes before it was entitled to prove its claim against the trust and receive dividends? - (2nd) - Could the Reserve bank apply the balances it held as a set-off against the unpaid remittance draft?

The Court, after commenting upon the purpose of the Federal Reserve Act, answers the 1st question by holding that the EUREKA bank

was primarily liable on the rediscounted paper, and claim could be filed against the trust just as if the insolvent bank had been the maker instead of the endorser. Answering the 2nd question, the Court, after quoting the following from Regulation 'J'

> "Member and clearing member banks will be required by the Federal Reserve Board to provide funds to cover at par all checks received from or for the account of the Federal Reserve Bank."
>
> Says - at page 304:
> "From the time of the promulgation of this rule, the credit of a member bank with its Federal Reserve bank was rightfully treated by the reserve bank as a fund to cover all checks received from or for its account by a member bank" ******
> "Immediately upon the refusal of the drawee bank to pay the remittance draft, the sum became a primary obligation of Defendant to the Plaintiff, which constitutes a valid claim against the Receiver."

In this case, the Federal Reserve Bank of Minneapolis seems to have been operating under the 'remittance' instead of the "Time Schedule Charge Account" plan and used in the CLARKSFIELD case, nevertheless, the Court holds that under the terms of the Reserve Act and the Regulations issued thereunder the Reserve bank had the right to make the charge against the balances of the EUREKA bank.

In the case of the MIDLAND BANK vs. the STATE BANK, the Midland bank was the correspondent of the State Bank - loaned it money and rediscounted paper for it. The State bank had given the Midland bank a pledge agreement whereby it was agreed that all securities deposited under the pledge, or, held by the Midland bank in any way, as well as the balances of the State bank, should be held by the Midland bank as security for any liability of the State bank to the Midland bank then existing or thereafter contracted. The Midland bank was using the State bank as its collection agent to collect all items payable in the territory of the State bank.

Under this arrangement, it forwarded to the State bank for collection and remittance a number of checks payable in the vicinity of the State bank. The State bank collected the items, and, attempted to remit the funds so collected by draft on the Midland bank and in its favor, and, failed before the draft reached the Midland bank. The State bank had no funds with the Midland bank to pay the drafts and the drafts were dishonored. The checks in question had been deposited by the depositors with the understanding that they would be immediately credited to the depositor's account but the depositors could not withdraw them until paid, and, if not paid, they would be charged back against the depositor.

Upon suit to foreclose on the collateral and apply the proceeds towards the payment of the uncollected remittance draft an objection was made that since the checks had been deposited with the Midland bank, under an agreement with the depositors that if not paid they could be

charged back to the depositors' account. The Midland bank was neither the owner nor under any legal liability to the owners; consequently, could not apply the proceeds derived from the sale of the collateral to paying the uncollected remittance draft. The Court, in passing upon this claim, says:

> "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 collection is clear.***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 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."
>
> "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."

In the MIDLAND bank case there was neither circular nor Regulation governing this transaction. There was no contract between the MIDLAND bank and the STATE bank similar to the contract between the RICHMOND bank and the LAKE CITY bank, of which EARLY was Receiver, authorizing the items to be charged against the collecting bank's account, and, which contract the Court, in the EARLY case, held ran to the benefit of and was enforcible on behalf of the owners of the items involved. The Court, however, held that, notwithstanding the MIDLAND bank had the express right to charge the items back to the depositors, the STATE bank had actually collected the funds, released the drawers of the separate items, and, had attempted to remit by uncollectible draft; that the MIDLAND bank had the legal title to the dishonored draft which draft constituted an indebtedness to the MIDLAND bank covered by the pledge agreement and collectible out of the collateral.

It is hard to follow the reasoning in this case in establishing the right unless the Court was of the opinion that the MIDLAND bank - by accepting the draft instead of money - had become liable to the owners of the items for the loss occasioned by accepting the draft instead of money in payment, and, being so liable, had the legal right to the draft, and, right to a set off against the securities held under the pledge agreement.

I cannot believe that under the Federal Reserve Banks' clearing operations the MIDLAND bank opinion would apply. The debt is not one owing to the Federal Reserve bank. The agency is made so plain that no Court would hold the right to exist unless the express right is reserved in the pledge agreement to hold the excess collateral for the benefit of the owners.

What effect will the ruling in these cases have on Regulation 'J' as amended, effective February 1, 1929?

I believe that the answer to this question depends upon whether the Federal Reserve Banks follow the "Time Schedule- Charge Account" method in use by Richmond when the EARLY case arose, and, by Minneapolis when the CLARKSFIELD case arose, or, whether they follow the 'Collection and Remittance' plan in use in the other Federal Reserve Banks.

The Federal Reserve Bank of St. Louis has never considered that the 'at any time' charge account clause afforded any practical protection. It was only intended as a weapon to enforce prompt remittance and useless for the reason that whenever a member bank reached a condition that the weapon had to be used it was then too late to accomplish the intended purpose.

The Federal Reserve Bank of St.Louis has gone on the theory that the member bank in the first instance could pay in cash, or, remit by draft acceptable to the reserve bank; that a draft on a correspondent collectable on the day of receipt was acceptable; that a draft against the member bank's balances (if the balances justified the charge) was acceptable; that a telegraphic order of the member bank to charge its balances (if sufficient) with the sum collected in the particular instance had the same force and effect as a draft against sufficient balances; that whether the remittance was made by draft against the member bank's balances or by an order directing the charge against member banks balances, the only option the Reserve bank had was to reject the draft or the order when the member banks' balances were not sufficient to withstand the charge.

If this is the correct interpretation of the amended Regulation, it would follow that Federal Reserve Banks will have to discontinue the exclusive "Time Schedule Charge Account" method and we will not be bothered further by the ruling in the EARLY case.

If, on the other hand, the 'at the option of such Federal Reserve Bank to authorize such Federal Reserve bank to charge their reserve account" - which was left in the amendment, - is susceptible to an interpretation that the amended Regulation gives to the Federal Reserve bank the option to obtain from member banks blanket authority to charge the member banks' accounts with the funds collected, and, the Federal Reserve Bank, exercising this option, has obtained the blanket authority, then the Federal Reserve Bank would be in just the same position with reference to its rights and obligations as the Richmond bank was in, under the rule in the EARLY case before the amendment was made; and, further, if the amended Regulation is susceptible to this interpretation, might it not be plausibly argued with sufficient force to gain the ear of the Court that since the Regulation gives to the Federal Reserve bank the option to require the authorization to charge the member banks' balances with the collections, it is liable to the owner if in a particular instance it could have protected the owner by obtaining the authority and did not do so: THEREFORE, would it not be better for the several Federal Reserve Banks to get together on a Uniform Method, and adopt either the "Time Schedule Charge Account" method and reinstate the original Regulation - or, adopt the "Collection and Remittance" method exclusively, accepting in payment money, draft on its correspondent (collectible on day of receipt), draft against sufficient balances in the

Reserve bank, or a telegraphic or written order to charge the account when the balances justified the charge.

If the 'Collection and Remittance' method was adopted, would it not be better to leave the "at the option of such Federal Reserve Bank" out of the amendment entirely and have the amendment read:

> "Checks received by a Federal Reserve Bank on its member or non-member clearing banks will ordinarily be forwarded or presented direct to such banks, and, such banks will be required to remit or pay for them at par in cash or bank draft acceptable to the collecting Federal Reserve Bank."

Then to have the reserve bank circular provide that a draft against a correspondent bank is acceptable within the meaning of Regulation 'J' when it can be collected in money upon the day of receipt; that a draft against the reserve account of the member bank or the clearing account of the non-member bank is acceptable within the meaning of this Regulation when the books of the Federal Reserve Bank show sufficient funds in the account to justify the payment of the draft; that a telegraphic order from the member or non-member clearing bank to charge its account with the collection will be treated the same as a draft on its account.

My personal views are that, in the event the EARLY decision is affirmed and any of the banks continue to operate under the "Charge Account" instead of the "Collection and Remittance" method, we will be heading for trouble. Especially will this be true if the decision in the MIDLAND bank case is sound law.

Based on the 14 years' Clearing House operations, our observation in the 8th District shows that in practically every member bank failure, the reserves, stock cancellation proceeds, and all we can collect on collateral held under our Collateral Pledge Agreement, are rarely sufficient to more than take care of the insolvent bank's rediscount liability to the Federal Reserve Bank, and, if the right to charge the reserves, stock cancellation funds, and, proceeds received from the sale of the collateral held under the Collateral Pledge Agreement, are chargeable with the payment of unremitted for cash letters, there will not be sufficient funds to pay both.

How would the allocation of such funds be made as between the debt due to the bank on rediscount operations and the debt due the bank, as agent, for the owners of the unremitted for collection items?

Courts do not look with favor upon the transactionsof an agent holding a fund as security for a debt due the agent individually, and, a debt due him in his agency relation, preferring himself to the disadvantage of the person for whom he is acting as agent.

It is true that provision might be made in the pledge agreement to the effect that the proceeds derived from the Collateral Pledge should

first be applied to the rediscount and over-draft obligations, and, so much of the remainder (if any) as was necessary be applied towards paying outstanding unremitted for cash letters. The Pledge Agreement would probably solve the question of the allocation of the pledge funds, but, the same question would arise covering the reserve balances and the stock cancellation funds as between the discount indebtedness and the indebtedness on unremitted for cash letters.

We are familiar with the different holdings of the Courts on Commercial Law questions prior to the adoption of the Uniform Negotiable Instruments Act and the chaotic condition incident thereto, and, with how much assurance we can now advise a client as to his rights and corresponding obligations in Commercial Law matters.

We know from practical experience how hard it has been to get the Courts to recognize that the rights and corresponding obligations of Federal Reserve Banks operating under the Federal Reserve Board's Regulations and the Federal Reserve Banks' circulars, are different from the rights and corresponding obligations of Commercial bank's operating under the Negotiable Instrument Act.

Now that we have been able (in a limited degree) to gain the recognition of the distinction between a Commercial Bank's rights and obligations under the Negotiable Instruments Law and the Federal Reserve Banks' rights and obligations under the Federal Reserve Board's Regulations and banks circulars, we ought not to confuse the situation further by having two reserve banks, operating under the same Regulations and practically the same circular letter, operate under such entirely different methods as to enable the Courts in one District to rule one way and the Courts in another District to rule directly to the contrary on the same Regulations and Circular Letter.

It would therefore seem that a uniformity of action by the Federal Reserve Banks is highly desirable and you might say necessary if we would adopt the safest course.

Very truly yours,

(S) Jas. G. McConkey,
Counsel.

COPY

X-6226

276

January 26, 1929.

Honorable A. Ueland,
401 New York Life Bldg.,
Minneapolis, Minnesota.

Dear Judge Ueland:

I have received your letter of January 14 and have read with much interest the enclosed memorandum addressed by Mr. Sigurd Ueland to the Federal Reserve Bank of Minneapolis with regard to the policy to be followed by that bank in asserting rights on behalf of depositors of unremitted for transit items against receivers of insolvent member banks.

You suggest that this raises a question of policy which is of interest not only to the Federal Reserve Bank of Minneapolis but to the other Federal reserve banks, and request an informal and entirely unofficial expression of my views.

I agree with you that the questions raised in this memorandum are of interest to the entire Federal reserve system; and, inasmuch as they vitally affect the understanding arrived at between counsel for all the Federal reserve banks and the office of the Comptroller of the Currency during the conference of counsel held on July 13, 1925, I telegraphed for your permission to send copies of this memorandum to counsel for all Federal reserve banks. Having received your consent, I am sending copies of this memorandum to counsel for all Federal reserve banks and am requesting an expression of their views. I am omitting from the copy which I am sending them, however, subdivisions 5 and 6 of the memorandum, which pertain solely to the peculiar situation of the Federal Reserve Bank of Minneapolis and which you do not desire to have circulated. Of course, I shall respect the confidential nature of this memorandum and not disclose the contents of the same to anyone in the office of the Comptroller of the Currency.

In view of the importance of the questions raised by this memorandum and in view of the changed situation resulting from the court decisions discussed therein, I believe that it would be well to have a conference of counsel of all Federal reserve banks in Washington some time in the near future to discuss this entire subject, endeavor to reach an agreement among ourselves, and then discuss the subject with the Comptroller of the Currency in an effort to reach an agreement with that office. I have not yet been authorized by the Federal Reserve Board to call such a conference,

but expect to take the matter up with Governor Young in the near future and I shall appreciate an expression of your views as to the advisability of calling such a conference.

I am so greatly pressed for time that I cannot at this moment give you a full statement of my views with regard to the matters discussed in your memorandum. My offhand views, however, based upon only a hasty consideration of the subject, may be stated briefly as follows:

(1) With all due respect, I disagree with all three of the legal conclusions stated on page 8 of the memorandum. In doing so I recognize that the decision of the Circuit Court of Appeals in the Early case and the decisions in the cases of Keyes v. Federal Reserve Bank of Minneapolis and Federal Reserve Bank of Minneapolis v. First National Bank of Eureka apparently sustain your views on the first point. The Early case, however, will be taken to the Supreme Court of the United States, and I believe the decision of the Circuit Court of Appeals will be reversed. Even if the Supreme Court does not reverse the Circuit Court of Appeals, I think the decision in the Early case is distinguishable from any case arising in a district where checks are collected on the remittance basis instead of the charge basis; because the Circuit Court of Appeals based its decision so largely upon the fact that the normal course of business of the Federal Reserve Bank of Richmond was to collect checks by charging same to the reserve account of a drawee, and the banks which deposited such checks with the Federal Reserve Bank of Richmond did so in reliance upon the belief that they would be collected by charging them to the reserve accounts of the drawee banks. The Circuit Court of Appeals sustained the District Court on the question of the use of the proceeds of the canceled Federal reserve bank stock, holding that, under the specific provisions of the Federal Reserve Act, the proceeds of this stock could not be used to pay the cash letters. On the question of the application of the collateral, I believe the decision in the Midland National Bank case is clearly wrong and is also distinguishable from the case of a Federal reserve bank collecting checks under Regulation J, which specifically provides that the Federal reserve bank shall act only as agent and that, "The amount of any check for which payment is actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned".

(2) I agree with you that, in the present state of the law, it is unsafe for a Federal reserve bank to release to the receiver the reserve account and probably the collateral, but not the proceeds of the canceled stock, without first obtaining a release of liability from the depositors of its uncollected cash items drawn on the insolvent bank or a court order instructing the Federal reserve bank to release such assets to the receiver.

(3) I believe that, if your views of the law as expressed on page 8 of the memorandum are upheld by the courts, there is

grave danger that the courts will hold that, having the right to apply the reserve account, the proceeds of the canceled stock and the collateral to the collection of outstanding unremitted for cash letters, the Federal reserve bank has the duty to do so and cannot, as an agent have any interest adverse to its principal, utilize these assets to protect itself against losses on rediscounts. I have no positive view that the courts should reach this conclusion, but I feel that there is danger that they may do so.

(4) I believe, therefore, that, in order to avoid placing the Federal reserve banks on the horns of the dilemma pointed out by Mr. Sigurd Ueland at the bottom of page 9, the Federal reserve banks should, as a matter of policy, not insist upon the right to collect cash letters out of the reserve accounts, the proceeds of the canceled stock, or the collateral, but, on the contrary, should do everything in their power to divest themselves of this right and the corresponding possibility of a duty to exercise it.

(5) I believe this is especially important in view of the fact that, if the courts should hold that the Federal reserve banks have such a duty and must exercise it, it would seriously interfere with the freedom of the Federal reserve banks in extending aid through rediscounts or loans to a member bank in a badly extended condition. By taking additional collateral they can often extend financial assistance and sometimes prevent the insolvency of a member bank; but would hesitate to grant additional credit without taking additional collateral. If the courts hold that the collateral must first be applied to the collection of unremitted for cash letters, the possibility of extending such aid will be greatly curtailed, because the additional collateral will not afford the same protection to the Federal reserve bank as it has in the past.

(6) I also disagree with the view expressed at the top of page 7 that the recent amendment to Regulation J was not intended to prevent the reserve balance from being available to pay unremitted for cash letters after notice of suspension. On the contrary, that was the sole purpose of the amendment.

I have the greatest respect for your opinions and those of Mr. Sigurd Ueland; and it is with much regret that I disagree to such a large extent with the views expressed in the memorandum. I could not, however, conscientiously refrain from expressing my disagreement when you requested an informal expression of my views.

With kindest personal regards and all best wishes for both you and Mr. Sigurd Ueland, I am

Cordially yours,

Walter Wyatt,
General Counsel.

WW:vdb

COPY X-6226-a

FEDERAL RESERVE BANK

OF MINNEAPOLIS

January 14, 1929.

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

Dear Mr. Wyatt:

We are taking the liberty of enclosing copy of a rather lengthy communication from us to the Federal Reserve Bank of Minneapolis, dealing with a question of policy which it seems to us is of interest not only to the Minneapolis bank but to the other Federal Reserve Banks. You are familiar with the questions discussed in this communication and if you feel so inclined we would very much appreciate having an expression of your views. We would understand, of course, that any such expression of views would be entirely unofficial.

We do not know how the Minneapolis bank will deal with this problem. If the bank should adopt our recommendations it occurs to us it might be advisable to have a discussion of the whole subject with representatives of the Comptroller's office. If this were done, we believe your good offices might prove invaluable in bringing about an understanding.

We should be glad to have you show the enclosed opinion to Governor Young or any member of the Board, but of course we would not want it submitted to the Comptroller's office in its present form.

Yours very truly,

(S) A. Ueland
Sigurd Ueland

SU:ME

COPY

January 8, 1929.

Harry Yaeger,

Deputy Governor.

The recent decision of the Supreme Court of Minnesota in the case of Midland National Bank & Trust Company vs. First State Bank of Sioux Falls et al. has again brought to the fore the question which has repeatedly vexed the Federal Reserve Bank of Minneapolis. That question has various phases, but broadly it may be stated thus:

> What is to be the policy of the Federal Reserve Bank of Minneapolis with respect to asserting rights on behalf of its depositors of unremitted for transit items against receivers of insolvent member banks?

The failure to answer this question correctly involves the possibility of so much future trouble, litigation and liability that we have deemed it wise to reconsider it in all its aspects at the present time. On account of your interest in and familiarity with the subject, we will deal with it at some length, without making much of an attempt at condensation.

1.

A member bank closes and your bank has an unremitted for transit letter addressed to that bank outstanding. The letter may be returned with the items unpaid and protested. In that case there is no problem. The items are simply charged back to your endorsers. In such a case, with rare exceptions, the closed bank never became liable on the items.

But suppose the drawee bank has charged up the checks to the respective drawers and has attempted to remit to your bank by draft or otherwise. In such a case your bank has sometimes charged up the draft to the reserve account of the member bank, after notice of its suspension. More often the credits given for the items deposited with you have been charged back to the respective depositors. Where this has been done, your bank has requested authority from each depositor to file a general claim in the receivership of the closed bank as the depositor's "agent" and "with the understanding" that the depositor "would not look to" your bank "except for such dividends as it might receive" on account of the depositor's items. In a typical case some of the depositors of the checks represented by the dishonored remittance draft have authorized your bank to file a claim on their behalf and others have preferred to file their own claims. Accordingly the amount of the transit claims filed by your bank has, in most cases, been less than the aggregate amount of the unremitted for items.

In some cases the closed bank is liable to your bank on rediscounts or bills payable. The closed bank has stock in your bank; it may have a reserve balance to its credit, and it may have deposited collateral securities under a collateral agreement almost identical in terms with the one involved in the Midland National Bank case. Hence, the general question under consideration may be subdivided as follows:

(1) Are you entitled to charge remittance drafts to the reserve account after notice of the suspension of the remitting bank?

(2) Are you entitled to hold the proceeds of the cancelled Federal Reserve bank stock for the benefit of depositors of unremitted for transit items?

282

(3) Are you entitled to hold the collateral securities and the proceeds thereof for the same purpose?

(4) If the preceding three questions are answered in the affirmative, is there a correlative duty to your depositors to assert these rights in their favor?

2.

In the Midland National Bank case the court held that collateral securities held pursuant to a collateral agreement in the form used by your bank could be held as security for dishonored remittance drafts notwithstanding the fact that the items attempted to be remitted for by such drafts had been deposited for conditional credit and subject to the right to charge back if not collected, and notwithstanding the fact that such checks had actually been charged back to the depositors after notice of the suspension. The view of the court was that the collection of checks creates a liability on the part of the collecting bank to the forwarding bank; that such a liability is within the terms of the collateral agreement, and that it is no business of the collecting bank or its receiver that the forwarding bank may stand in a relation of trust to its depositors, or that the latter may be the parties beneficially interested.

If the Midland decision is good law, as we think it is, then in every case where your bank holds a collateral agreement you are entitled to hold or foreclose on excess collateral from a closed national bank until your claim on account of unremitted for transit items has been paid in full. We limit this conclusion to national banks because there are statutes in certain of the states of the ninth district, notably North Dakota and Minnesota, which might affect the result in the case of member state banks.

As the decision of the state court would not be controlling in cases in the federal courts, we will consider briefly the relevant decisions of the latter.

In the case of Keyes, as Receiver of the First National Bank of Clarkfield v. Federal Reserve Bank of Minneapolis, the United States District Court for this district decided in 1918 that the reserve account was available by way of setoff to pay unremitted for transit items the credits for which had been charged back to its depositors by the Federal Reserve Bank after notice of suspension.

In Federal Reserve Bank of Minneapolis v. First National Bank of Eureka (277 Fed. 300) it was held by the United States District Court for South Dakota that the reserve account and also the proceeds of the cancelled stock could be applied towards the liquidation of a dishonored draft sent in attempted remittance of a transit letter.

In the case of Thos. Early, Receiver of the Farmers and Merchants National Bank of Lake City v. Federal Reserve Bank of Richmond, the United States District Court for South Carolina has rendered a decision against the Federal Reserve Bank of Richmond and has held that the latter was not entitled to use a reserve balance to pay unremitted for checks. So far as we know no written opinion was filed by the court. The Richmond bank's method of collecting transit letters was by charging the reserve account in accordance with a time schedule. We doubt, however, whether this could distinguish the case from the Clarkfield and Eureka cases and it seems to us that there is a conflict. An appeal to the United States Circuit Court of Appeals for the Fourth Circuit is pending. We have read the briefs on both sides and it is not unlikely that there will be a reversal.

Federal district courts will usually follow the decision of circuit

courts of appeals for other circuits even though inconsistent with their own previous holdings. 284

Foster on Federal Practice, #375.

In re Baird, 154 Fed. 215.

Warren Bros. Co. v. Evans, 234 Fed. 659.

Vacuum Cleaner Co. v. Thompson Mnfg. Co. 238 Fed. 239.

However, the decision of the Circuit Court of Appeals in the Richmond case would not be followed here if in conflict with principles laid down by the Circuit Court of Appeals for this circuit (the 8th). That court in the recent case of Storing, as Receiver of the Merchants National Bank of Mandan vs. First National Bank of Minneapolis held that the First National Bank of Minneapolis had the right to hold a deposit balance against the receiver of a national bank to reimburse itself for a transit letter where the remittance draft in attempted payment thereof was received after notice of suspension. This case was submitted in such a way that the point that the depositors of the First National Bank were the beneficial owners of the claim against the insolvent bank was probably not before the court. The receiver, however, is attempting to make this point in his petition for reargument which is still pending. On this point Judge Cant, the trial judge, said in his opinion:

> "No matter what the relation of the two banks here in question may have been with their respective patrons on and prior to December 21, 1923, the banks themselves were dealing with each other as principals."

In any litigation between your bank and a receiver of a national bank it is probable that the receiver could either bring the action in or remove it to the federal court.

See Studebaker Corporation vs. First National Bank, 10 Fed. (2nd) 590.

All we can say at present about the law in the federal courts is that the decision of the lower court in the Richmond case raises doubt as to what will be the ultimate answer to questions (1) (2) and (3) put above.

3.

The Federal Reserve Board has recently amended paragraph (4) of Section V of Regulation J by eliminating the clause: "any Federal reserve bank may reserve the right in its check-collection circular to charge such items (checks) 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 becomes effective February 1, 1929.

The right indicated has been reserved by your bank in your check-collection circulars since August 1, 1924. Such reservation certainly strengthens the claim of your bank to apply the reserve balance against unremitted for transit letters.

The reason for amending Regulation J was doubtless the feeling that if the Federal reserve banks had the right to utilize reserve balances for the payment of check collections, there might be a correlative duty to the prejudice of their own claims on rediscounts, and notes of the member banks maintaining the balances. See letter of A. Ueland to Gov. Geery dated April 11, 1928. The comptroller's office will undoubtedly contend that this amendment of Regulation J shows an intention that the reserve balance is no longer to be available to pay unremitted for transit letters after notice of suspension. In our opinion this was not the purpose or effect of the amendment.

The pledge agreement form used by your bank provides that your bank "shall also have a lien upon any balance of the deposit account" of the member bank "existing from time to time * * * <u>for any liability</u>" of the

member bank to your bank "now existing or hereafter contracted." Under the construction given in the Midland National Bank case this is an express agreement that the reserve shall be available to pay unremitted for checks.

The reserve balance of a member bank is also, in a sense, a clearing balance. As to non-member clearing banks the Federal Reserve Act, #13, provides that such banks must maintain "a balance sufficient to offset the items in transit held for its account by the Federal reserve bank." A former counsel of the Federal Reserve Board has ruled that this phrase "items in transit" refers to checks drawn upon the non-member clearing bank and forwarded to it for collection by the Federal Reserve Bank. Federal Reserve Bulletin, Vol. 3, p. 617. If this view is correct, then there is clear intention shown on the part of Congress that the credit balance of a non-member clearing bank shall stand as security for clearing balances against it. While not expressed in the Act itself it is persuasive to us that Congress intended the same as to reserve balances.

We will summarize our own views upon the questions under consideration as follows:

1. Where a member bank or a non-member clearing bank fails to return or to remit for transit letters, you are entitled to charge the amount thereof to the reserve or clearing account even though the remittance draft be received after notice of suspension.

2. Where a member bank fails to return or remit for transit letters, you are entitled to use the proceeds of the cancelled Federal Reserve bank stock to reimburse your depositors of the items in such letters even though such items have been charged back to such depositors.

3. Where a member national bank fails to return or remit

for transit letters, and your bank holds collateral securities pursuant to the usual form of collateral agreement you are entitled to hold this collateral or its proceeds to reimburse your depositors of the items in such letters. We reserve our opinion as far as collateral securities deposited by member state banks is concerned.

With the decisions in the somewhat muddled condition pointed out above, a legal opinion is only what the law should be; we can only guess what the law will be. While we have always been able to maintain the foregoing views in litigation up to the present time, decisions in other litigation may prove controlling against them.

However, we do not believe that even though the Circuit Court of Appeals should affirm the lower court in the Richmond case that would necessarily require us to revise our opinion as to the rights of your bank in another circuit. Such an affirmance would only have the effect of making your rights and obligations more doubtful than they are at present.

4.

The next question to be considered is whether the rule in the Midland National Bank case, the rule we are contending for, has as a corollary the requirement that the pledgee bank must share pro rata in the collateral securities with its depositors of unremitted for checks. In our opinion this does not follow and we feel confident that your collateral securities may be appropriated first to the promissory notes and notes rediscounted by the insolvent member bank.

See U. S. Natl. Bank v. Westervelt, 55 Nebr. 424.

Freeman & Shaw v. Citizens Natl. Bank, 78 Iowa 150.

The next question is whether, assuming your bank has the rights herein indicated, there is not also a corresponding duty to utilize the balance in the reserve account, proceeds of cancelled Federal reserve stock, and excess collateral for the benefit of your depositors of unremitted for checks? In other words is your bank liable, as for a breach of trust, in cases where it has surrendered reserve balances or excess collateral to a reciever of a suspended member bank? On this point Sigurd Ueland in his memorandum to you dated June 20, 1928 (First National Bank of Colman) said:

> "In other words the Federal Reserve Bank * * * finds itself to some extent on the horns of a dilemma. If the surplus is paid over to your endorsers of the transit items your bank may be liable to the receiver; if surrendered to the receiver there might possibly be liability to your endorsers.
>
> "There may be a question whether your bank is not under some moral duty to its depositors to protect them as far as possible. Especially in cases where an attempt was made to remit by draft on the reserve account, it seems unfair that the balance in that account should be returned to the receiver rather than used for the purpose intended by the officials of the suspended bank."

We are firmly of the opinion that if there is any obligation in this situation to either the receiver or your depositors of unremitted for checks, it is emphatically to the latter. In the light of the Midland National Bank decision it is certain that your bank cannot continue surrendering excess collateral to receivers without incurring a certain amount of unpopularity with the better posted among such depositors.

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Our recommendations are as follows:

1. That all settlements already made or agreed upon between your bank and the comptroller's office or a receiver, including all of the so-called "Oswego agreements" entered into, be allowed to stand.

2. That hereafter no reserve balance, proceeds of cancelled stock, or excess collateral held under a collateral agreement be surrendered to a receiver until all transit claims filed by your bank have been paid or until a court of last resort has so ordered.

3. That your form of collateral agreement be amended so as to state expressly that your bank has a prior lien on the reserve balance and collateral securities for the note, rediscount and overdraft indebtedness and a secondary lien for liability resulting from unremitted for transit and collection letters. (N. B. Some special consideration would have to be given to the case of member state banks in this connection.)

4. That the comptroller be advised of this change of policy and the reasons therefor, and that negotiations be opened looking toward a speedy determination of the questions involved by the Circuit Court of Appeals of this circuit.

Counsel.

Assistant Counsel.

X-6265

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Cost of preparing Federal Reserve Notes during February, 1929.

1929

Feb. 1-28 Federal Reserve Notes, Series 1914.

234,000 sheets $5) New York
53,000 " 10)
287,000 sheets @ $35.50 per M, ... $10,188.50

Jan.21-31 Federal Reserve Notes, Series 1928

	$5	Amount	
Boston,	174,000 sheets,	$15,573.00	
Chicago,	110,000 "	9,845.00	
San Francisco	30,000 "	2,685.00	
	314,000 sheets	$28,103.00	@ $89.50 per M, 28,103.00

Feb. 1-28 Federal Reserve Notes, Series 1928.

	$5	$10	Total Sheets	Amount
Boston	44,000	158,000	202,000	$18,079.00
New York	218,000	-	218,000	19,511.00
Philadelphia	158,000	-	158,000	14,141.00
Cleveland	266,000	-	266,000	23,807.00
Richmond	170,000	-	170,000	15,215.00
Atlanta	182,000	-	182,000	16,289.00
St. Louis	112,000	-	112,000	10,024.00
Minneapolis	70,000	-	70,000	6,265.00
San Francisco	98,000	-	98,000	8,771.00
	1,318,000	158,000	1,476,000	$132,102.00

1,318,000 sheets @ $89.50 per M, ... $132,102.00

Credit appropriations, 1929, as follows:

Comp. of Emp.,	Bur.Eng. & Prtg.	$89,697.05
Plate Printing,	Bur.Eng. & Prtg.	38,804.90
Mtls.& Misc.Exp.	Bur.Eng. & Prtg.	41,891.55

Total, $170,393.50

Bureau of Engraving and Printing.

Per C. R. Long,
Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6267

March 14, 1929.

SUBJECT: Classification of Personnel at Federal Reserve Banks.

Dear Sir:

Upon receipt of replies from the Federal reserve banks to the Board's letter X-6102, of July 31, 1928, subject, "Committee on Classification of Personnel at Federal Reserve Banks", the Board designated the following committee on personnel classification:

Boston	W. W. Paddock
New York	I. R. Rounds
Philadelphia	W. H. Hutt
Cleveland	*M. J. Fleming
Richmond	*J. S. Walden, Jr.
Atlanta	Creed Taylor
Chicago	*J. H. Dillard
St. Louis	O. M. Attebery
Minneapolis	*B. V. Moore
Kansas City	C. A. Worthington
Dallas	R. B. Coleman
San Francisco	C. E. Earhart

*Member of sub-committee

The sub-committee held a meeting in Cleveland on October 1, 1928, at which were present, in addition to all members, Mr. Smead of the Federal Reserve Board and Mr. Rounds of the Federal Reserve Bank of New York. Mr. Fleming was elected Chairman and after reviewing the whole question in some detail, a letter was written under date of October 9 to each member of the committee requesting him to submit certain detailed information regarding each position in his bank. Replies received to this letter were carefully analyzed by the Chairman of the sub-committee and another meeting was held in Cleveland on March 6, 1929. It was the conclusion of the sub-committee that it was not practicable from the data at hand to work up a proposed plan for submission to the full committee, as suggested in the Board's letter X-6102. The sub-committee has recommended, however, that a meeting of the complete com-

mittee be held at an early date for the purpose of fully acquainting each member with the progress of the work so far and of evolving some classification plan or plans which will be adaptable to the existing organization of each Federal reserve bank and branch. The sub-committee has advised the Board that those banks which have been operating under a classification plan of the character under consideration have found it so beneficial that they are strongly of the opinion that all Federal reserve banks would benefit materially from the adoption of a similar plan.

The Board has approved the recommendation of the sub-committee that a meeting of the complete committee be held at an early date and you are advised that the meeting will be held in Chicago beginning Monday, April 8, 1929.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO CHAIRMEN OF ALL F. R. BANKS

COPY X-6268

293

FEDERAL RESERVE BANK

OF SAN FRANCISCO

March 1, 1929

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

Dear Mr. Wyatt:

On February 13 and 14 last a general conference of the directors of this bank covering both the head office and all the branches was held at San Francisco. The meeting was a very interesting one and I believe great benefit was derived by all who attended.

One of the subjects placed upon the program at the suggestion of some of the directors of our Portland Branch was the question of stockholders' liability as applied to banks owned by holding companies. As you know, in many states where branch banking is prohibited by statute attempts have been and are being made to accomplish approximately the same object through the formation of holding corporations which, in turn, purchase all the capital stock of a number of banks. This is familiarly known as "chain banking," the difference between this method and branch banking being that each unit in the chain operates as a separate corporate entity, with more or less control on matters of policy and procedure coming from those who constitute the holding company. In the opinion of many, chain banking possesses all the weaknesses and very few, if any, of the virtues of branch banking. Some of the directors present evidenced considerable concern over the effect of this somewhat recent development in their states.

The question was propounded to me as to what, if any, legislation had been enacted seeking to impose upon the shareholders of the parent organization liability for the debts of the separate units constituting the chain. I was also asked what, if any, legislation had been enacted seeking to restrict the formation of corporations organized for the sole purpose of holding stock in banks and whether or not any regulation or control could be exercised through state laws or through amendments to the Federal Reserve Act. I was not able to give any very positive response to these inquiries. A suggestion was made that through you we seek information from Counsel to the other Federal reserve banks as to what legislation, if any, of this character had been enacted in their respective districts. I believe that in New Jersey there is a law prohibiting a corporation from holding more than ten per cent. of the

capital stock of any bank. I am also informed that in the State of Washington a bill is now pending seeking to prohibit the formation of corporations organized for the sole purpose of holding stocks in banking institutions and another bill seeking to impose upon the stockholders in the holding corporation the same liability as that imposed upon individual holders of bank stocks.

The question is chiefly important in those states which prohibit branch banking. For instance, in the State of Oregon branch banking is prohibited but stockholders in banks organized since 1912 are liable for the benefit of depositors to the extent of 100% of the par value of stock held. In other states double liability is imposed upon the holders of bank stocks and branch banking is now allowed. Let us suppose that in such a state a corporation organized under the laws of a foreign state in which no double liability exists seeks to own a number of state banks through the purchase of the entire capital stock. In the event of the insolvency of one or more of the banks so held what recourse have the creditors and depositors? Is it not true that by such device the double liability sought to be imposed may be entirely defeated?

Another problem is presented in this situation:

A corporation is organized for the sole purpose of acquiring the entire capital stock of a number of banks. The stockholders of the holding company are not bankers and under the existing law in most jurisdictions are not subject to the restrictions imposed upon banks. Each bank acquired by the holding corporation is officered by men having no proprietary interest in the institution which they operate, being merely employees of the holding company. If the holding corporation is well managed and exercises close and direct control over the units composing the system or chain, all may be well, but if the holding corporation is organized solely as a money-making proposition and if no well directed efforts are used to control or supervise the manner in which the unit banks constituting the chain are conducted, it may be seen that a very serious situation may be created. The elements of local pride and local identity are lacking, the banks scattered throughout the state becoming merely money-making agencies of an absentee corporation.

These problems and others which naturally occur to one in connection with the situation thus created are those which were disturbing our directors and upon which they desired information as to restrictive or regulatory legislation.

Mr. James, who was present at the conference, stated that he thought you would be willing to seek information from

Counsel to the other Federal reserve banks as to what, if any, legislation had been enacted or proposed seeking to reach these problems.

I am addressing letters of inquiry to the superintendents of banks in the states comprising the Twelfth Reserve District, asking for the necessary information, and I wonder if you will ask Counsel to the other Federal reserve banks to do likewise. The information thus acquired could be compiled either through your office or by me and would, I believe, make a very interesting study.

Thanking you in advance for your assistance in this matter, and with kindest personal regards, I am

Yours very truly,

(S) Albert C. Agnew,
Counsel.

COPY

X-6269 296

FEDERAL RESERVE BANK OF CHICAGO

CHICAGO , March 13, 1929.

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

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

Dear Mr. Wyatt:-

I regret more than I can say that I have not been able to give attention to your letter of January 30th which, of course, came to my office during my absence on vacation. I returned to the office on the 20th of February but was almost immediately called to Washington and on my return I have been unable on account of threatened pneumonia to pay any attention to business.

The matter discussed by you and Mr. Ueland is of very great interest to all of the Federal Reserve Banks. Of course, since Mr. Ueland's original memorandum was written, the Early case has been decided by the Circuit Court of Appeals.

Frankly, I am not very much impressed with the argument of the court in that case, which resulted in a reversal in part, but I am not prepared to say that the reasoning is unsound; and I am inclined to agree with you that that case is distinguishable from cases arising in a district where checks are collected on the remittance basis.

I am strongly of the view that the owners of these transit items should be protected by the Federal Reserve Bank if such protection can be had without danger to the Federal Reserve Bank. In one noticeable case in this district I am taking the position that the Federal Reserve Bank is entitled to charge the dishonored remittance draft to the account of the insolvent bank. The comptroller is taking the contrary position and in a letter just received from the Receiver of that bank, the Receiver advises that he will insist on his view that he is entitled to have this money restored; but in effect he says that he will await the appeal to the Supreme Court in the Early case.

Perhaps you will recall that in one of our conferences at Washington, I called to your attention and the attention of the other counsel present a form of agreement for deposit of collateral in use in this bank in which I said I thought this matter was well cared for; this matter doubtless escaped your attention at that time and accordingly I am enclosing herewith a copy of one of our agreements

for deposit of collateral and I call your attention to the last two paragraphs thereof.

It occurs to me that the solution of this vexing question might be had by an agreement such as is here enclosed.

I am not protected by this agreement in the case above mentioned where a controversy is now being had with a Receiver of a failed bank and this for the reason that that particular bank had never signed this particular form of agreement, in fact it had never been called on to put up collateral with the Federal Reserve Bank of Chicago.

I look forward to the conference on April 1st with great interest, and I again want to express my regret that I was unable to give the above referred to matter the attention which it deserved.

Yours truly,

(S) Chas. L. Powell,
Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6271

March 18, 1929.

SUBJECT: Holidays during April, 1929.

Dear Sir:

The Federal reserve banks and branches listed below will be closed on dates specified during the month of April, on account of holidays:

Monday	April 1	Detroit	Election Day
Friday	April 12	Charlotte	Halifax Day
Saturday	April 13	Birmingham	Thomas Jefferson's birthday
Monday	April 15	Salt Lake City	Arbor Day
Friday	April 19	Boston	Patriots' Day
Monday	April 22	Omaha	Arbor Day
		Dallas El Paso Houston San Antonio	San Jacinto Day
Friday	April 26	Atlanta Birmingham Jacksonville	Southern Memorial Day

On the dates indicated, the banks affected will not participate in either the Gold Fund Clearing or the Federal Reserve Note Clearing.

Please include credits for the banks affected on each of the holidays with your credits for the following business day in the Gold Fund Clearing, and make no shipments of Federal reserve notes, fit or unfit, for account of the head offices concerned on the holidays mentioned.

Kindly notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6272

March 18, 1929.

Dear Sir:

In connection with the Board's letter of March 11th, 1929, X-6261, with regard to the arrangements which have been made by the Treasury Department for the preparation of a complete collection of currency specimens, a letter has now been received from the Treasury Department, arising out of an inquiry by one of the Federal reserve banks, which advises that one good specimen of each of the Federal reserve notes and Federal reserve bank notes indicated in the lists transmitted with our letter of March 11th, will meet the requirements of the Department.

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-6273

March 20, 1929.

SUBJECT: Expense, Main Line, Leased Wire System, February, 1929.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6273-a and X-6273-b, covering in detail operations of the main line, Leased Wire System, during the month of February, 1929.

Please credit the amount payable by your bank in the general account, Treasurer, U.S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to the Federal Reserve Board.

Yours very truly,

Fiscal Agent.

Enclosures.

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

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1929

X-6273-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	25,572	944	26,516	3.14
New York	138,209	-	138,209	16.39
Philadelphia	30,985	1,292	32,277	3.83
Cleveland	80,113	1,858	81,971	9.72
Richmond	51,203	1,604	52,807	6.26
Atlanta	57,429	5,599	63,028	7.47
Chicago	98,269	1,874	100,143	11.88
St. Louis	72,759	2,148	74,907	8.88
Minneapolis	27,526	1,989	29,515	3.50
Kansas City	70,864	1,442	72,306	8.58
Dallas	68,159	6,761	74,920	8.89
San Francisco	93,610	3,009	96,619	11.46
Total	814,698	28,520	843,218	100.00

F. R. Board business	218,581	1,061,799
Treasury Department business - Incoming and Outgoing		81,700
Total words transmitted over main lines		1,143,499

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6273-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-6273-b

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, FEBRUARY, 1929.

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	$ 691.09	$ 260.00	$ 431.09
New York	1,204.12	-	-	1,204.12	3,607.30	1,204.12	2,403.18
Philadelphia	225.00	-	-	225.00	842.95	225.00	617.95
Cleveland	296.66	-	-	296.66	2,139.29	296.66	1,842.63
Richmond	190.00	-	230.00(&)	420.00	1,377.77	420.00	957.77
Atlanta	270.00	-	-	270.00	1,644.09	270.00	1,374.09
Chicago	4,131.41 (#)	-	-	4,131.41	2,614.69	4,131.41	1,516.72(*)
St. Louis	205.00	-	-	205.00	1,954.41	205.00	1,749.41
Minneapolis	183.66	-	-	183.66	770.32	183.66	586.66
Kansas City	287.50	-	-	287.50	1,888.39	287.50	1,600.89
Dallas	251.00	-	-	251.00	1,956.62	251.00	1,705.62
San Francisco	380.00	-	-	380.00	2,522.25	380.00	2,142.25
Federal Reserve Board	-	-	15,588.31	15,588.31	-	-	-
Total	$7,884.35	-	$15,818.31	$23,702.66	$22,009.17	$8,114.35	$15,411.54
				1,693.49(a)			1,516.72(b)
				$22,009.17			$13,894.82

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,693.49 from Treasury Department covering business for the month of February, 1929.
(b) Amount reimbursable to Chicago.

2065

(CONFIDENTIAL TENTATIVE DRAFT)

FEDERAL RESERVE BOARD

REGULATION M, SERIES OF 1929.

Loans, Discounts or other Credit Accommodations for Member Banks having Speculative Security Loans.

SECTION I. DEFINITIONS.

(a) Security Broker. Within the meaning of this regulation, the term "security broker" shall include every person, firm, partnership, corporation, company, or association, whose principal business it is to negotiate purchases or sales of, or to purchase, sell, or otherwise deal in, stocks, bonds, or other investment securities, either for his or its own account or for the account of others.

(b) Speculative Security Loan. Within the meaning of this regulation, the term "speculative security loan" shall include every loan to a security broker and every other loan the proceeds of which have been or are to be used for the purpose of purchasing, paying for, carrying, or trading in, stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

Every loan made, renewed, extended or permitted to run past due after the effective date of this regulation which is secured by a pledge of stocks, bonds, or other investment securities (except bonds and notes of the Government of the United States) shall be deemed to be a speculative security loan within the meaning of this regulation, unless there is attached to the note, draft, bill of exchange or other evidence of such loan a written statement signed by the borrower to the effect that:

(1) The borrower is not a security broker as defined in this regulation;

(2) The stocks, bonds or other investment securities pledged to secure such loan are, and for at least thirty days have been, the absolute property of the borrower;

(3) The proceeds of the loan have not, and will not be, used for the purpose of purchasing, paying for, trading in, or carrying stocks, bonds or other investment securities, except bonds and notes of the Government of the United States;

(4) The proceeds of the loan have not, and will not be, loaned to any security broker or to any other person, firm, partnership, corporation, association or company for the purpose of purchasing, paying for, trading in, or carrying, stocks, bonds, or other investment securities; and

(5) The proceeds of such loan have been or are to be used for another purpose, which shall be stated in such affidavit.

SECTION II. RESTRICTIONS.

Except with the permission of the Federal Reserve Board, no Federal Reserve Bank shall discount or rediscount any note, draft or bill of exchange for, or make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreement or otherwise) from, any member bank which at the time has any speculative security loans outstanding.

SECTION III. EVIDENCE OF ELIGIBILITY.

In addition to the evidence of eligibility required by Regulation A, every application made by a member bank to a Federal

Reserve Bank for any discount or rediscount or any loan, advance, or other credit accommodation, shall be accompanied by a statement of the applying bank as to the amount of speculative security loans, which such bank has outstanding at the time of such application.

SECTION IV. PERMISSION OF THE FEDERAL RESERVE BOARD.

A Federal Reserve Bank desiring to obtain the permission of the Federal Reserve Board to discount or rediscount any notes, drafts, or bills of exchange for, make any loan or advance to, or to purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreements or otherwise) from, any member bank within the prohibitions of this regulation, shall make application therefor in writing or by telegraph (not by telephone) to the Federal Reserve Board and shall furnish with such application a full explanation of the circumstances giving rise to such application and the reasons why the applying Federal Reserve Bank thinks it should be granted.

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, Tuesday, March 26, 1929.

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

Industry and trade continued active in February and the first part of March and there was a growth in the volume of bank loans. Borrowing at reserve banks increased during the period and money rates advanced further.

Production--Production continued at a high rate throughout February and the first half of March and was substantially above a year ago. Automobile output was at a record rate in February, and there was also an unusually high daily average production of copper and iron and steel. Large output in the iron and steel industry reflected demands from manufacturers of automobiles, machine tools, and agricultural implements, and from railroad companies. Preliminary reports for the first half of March indicate further expansion in automobile and iron and steel production. During February the daily average output of coal and crude petroleum also increased, and production of cotton and wool textiles continued large, while silk output declined somewhat from the unusually high level of January. There was also some decline from January in the production of lumber and cement, and in the output of meat packing companies.

The high rate of activity in manufacturing during February was reflected in a larger than seasonal increase in factory employment and payrolls, both of which were considerably above the level of February 1928.

Building activity declined further in February, and the value of contracts awarded was over 20 per cent smaller than a year ago. Residential building con-

tracts showed the largest decline in comparison with February 1928, while those for public works and utilities were only slightly smaller in value, and commercial and industrial building awards increased. During the first half of March there was some seasonal increase in total building awards, but they continued to be substantially below a year ago.

Distribution--In February shipments of commodities by rail increased more than is usual for the season, reflecting larger loadings of coal and coke and miscellaneous freight, which includes automobiles. During the first two weeks of March, freight-car loadings continued to increase.

Sales of wholesale firms were generally smaller in February than a year ago. In comparison with January, sales of dry goods, shoes, and furniture increased seasonally, while sales of groceries and hardware were smaller. Department stores reported about the same daily volume of sales in February as in the preceding month, and larger sales than a year ago.

Prices--The general level of wholesale prices declined slightly in February, and was approximately the same as a year ago. The decline from January reflected primarily decreases in the prices of hides and leather, livestock, and meats, and small declines in the prices of wool, cotton and woolen goods. The influence of these declines on the general average was partly offset by increases in the prices of copper, lead, iron and steel, rubber, and grain.

During the first two weeks of March, prices of wool and petroleum continued to decline, and rubber prices receded somewhat after a marked rise in February, while leather prices declined sharply. Prices of copper rose further and there were small increases in prices of hides, raw cotton, and certain grades of lumber.

Bank credit--Between the middle of February and the middle of March there was a rapid growth of loans at member banks in leading cities. The increase was in loans chiefly for commercial purposes, which on March 13 were more than $200,000,000 larger than four weeks earlier. Investments of the reporting banks declined further

during the period.

Total volume of reserve bank credit declined somewhat between February 20 and March 20, reflecting for the most part some further gold imports from abroad. Member bank borrowing at Federal reserve banks was nearly $80,000,000 larger on March 20 than four weeks earlier, while acceptances showed a further decline of about $120,000,000 during the period. Security holdings showed relatively little change.

Money rates continued to advance. Rates on 90 day bankers' acceptances increased from 5 to 5 1/4 per cent, and on 4-6 month commercial paper from 5 1/2 - 5 3/4 to 5 3/4 - 6 per cent. Open market rates for collateral loans also increased.

COPY X-6277

IN THE DISTRICT COURT OF THE UNITED STATES,

FOR THE MIDDLE DISTRICT OF GEORGIA,

MACON DIVISION.

Federal Reserve Bank of Atlanta, Complainant,	No._____.
vs	IN EQUITY.
Claude Gilbert, as Receiver of the Fourth National Bank of Macon, Georgia, et al. Defendants.	BILL OF INTERPLEADER.

TO THE HONORABLE, THE JUDGE OF SAID COURT:

Federal Reserve Bank of Atlanta, averring itself to be a body corporate, organized and existing under and by virtue of the laws of the United States, having its principal office and place of business in the City of Atlanta, Fulton County, Georgia, brings this its bill of complaint, same being a bill of interpleader, against Claude Gilbert, the duly appointed and acting Receiver of the Fourth National Bank of Macon, Georgia, a national banking association, having its principal office and place of business in the City of Macon, Bibb County, Georgia, and in the Middle District of Georgia; Farmers National Bank of Monticello, Georgia, a national banking association under the laws of the United States, having its principal office and place of business in the City of Monticello,

Jasper County, and in the Middle District of Georgia; Monroe County Bank, a corporation under the laws of the State of Georgia, having its principal office and place of business in the City of Forsyth, Monroe County and in the Middle District of Georgia; First National Bank of Shellman, Georgia, a national banking association under the laws of the United States, having its principal office and place of business in the City of Shellman, Randolph County and in the Middle District of Georgia; First National Bank of Pelham, a national banking Association under the laws of the United States, having its principal office and place of business in the City of Pelham, Mitchell County and in the Middle District of Georgia; First National Bank of Bainbridge, Georgia, a national Banking Association under the laws of the United States, having its principal office and place of business in the City of Bainbridge, Decatur County and in the Middle District of Georgia; First National Bank of Ocilla, Georgia, a national banking association under the laws of the United States, having its principal office and place of business in the City of Ocilla, Irwin County and in the Middle District of Georgia; Brunswick Bank & Trust Company, a corporation under the laws of the State of Georgia, having its principal office and place of business in the City of Brunswick, Glynn County and in the Southern District of Georgia; First National Bank of Reynolds, Georgia, a national banking association under the laws of the United States, having its principal office and place of business in the City of Reynolds, Taylor County and in the Middle District of Georgia; First National Bank of Waycross, Georgia, a national banking association under the laws of the United States, having its principal office and place of business in the City of

312

Waycross, Ware County and in the Southern District of Georgia; First National Bank of Vidalia, Georgia, a national banking association under the laws of the United States, having its principal office and place of business in the City of Vidalia, Toombs County, and in the Southern District of Georgia; First National Bank of Milledgeville, a national banking association under the laws of the United States, having its principal office and place of business in the City of Milledgeville, Baldwin County and in the Middle District of Georgia; City National Bank of Knoxville, Tennessee, a national banking association under the laws of the United States, having its principal office and place of business in the City of Knoxville, Knox County, Tennessee and in the Eastern District of Tennessee; and the Fourth & First National Bank of Nashville, Tennessee, a national banking association under the laws of the United States, having its principal office and place of business in the City of Nashville, Davidson County, Tennessee and in the Middle District of Tennessee.

-2-

Said parties, that is to say, the said Claude Gilbert, as Receiver, as aforesaid, and the various banking associations hereinabove listed, are made parties defendant to this action. Complainant avers that all of said defendants can be reached by the processes of this Court except the City National Bank of Knoxville, Tennessee and said Fourth & First National Bank of Nashville, Tennessee, which said two named defendants this complainant is advised and believes will acknowledge or waive service of subpoena and enter an appearance herein.

-3-

This cause arises under the Constitution and laws of the

United States for that one of the parties defendant, to-wit, Claude Gilbert, is Receiver of the Fourth National Bank of Macon, a national banking association, as heretofore stated, he having been heretofore appointed as such by the Honorable, the Comptroller of the Currency of the United States, acting under and pursuant to the Statutes of the United States for such cases made and provided, and, as such Receiver, being an officer of the United States. The amount involved, exclusive of interest and costs, exceeds the sum or value of three thousand dollars.

-4-

This is a suit in equity, to-wit, a bill of interpleader, seeking such equitable relief as is hereinafter prayed.

-5-

Complainant is one of the twelve Federal Reserve Banks organized and now functioning pursuant to that certain Act of Congress known as the Federal Reserve Act, as from time to time amended.

-6-

All of the banking corporations hereinabove named are member banks of complainant except that said Fourth National Bank of Macon, now being liquidated as aforesaid, is not now a member bank, the capital stock holdings of said Fourth National Bank in complainant having been heretofore withdrawn by the Receiver pursuant to law.

-7-

Among the functions of complainant as a Federal Reserve Bank is to take on deposit the reserve accounts or balances of its member banks, and each of the above mentioned defendant banks maintained at all the dates and times herein named, and now maintains, its reserve account with complainant. Said Fourth National Bank of Macon also maintained its reserve

balance with complainant and a portion of the same, to-wit, the fund herein mentioned, still remains on deposit.

-8-

The reserve account of a member bank is that balance required by law to be maintained with the Federal Reserve Bank of the District in which the member is located. Said reserve balance is an account subject to withdrawal by check of the depositor and is otherwise governed (in so far as is material for the purposes of this action) by the ordinary rules, usages and practices obtaining between a bank of deposit and its depositors.

-9-

Among the other functions of this complainant as a Federal Reserve Bank is the collection, for the account of its member banks, other Federal Reserve Banks, the United States, and others entitled to use the collection facilities of the Federal Reserve System, of checks and drafts drawn upon banks in the Sixth Federal Reserve District and payable at par.

-10-

In pursuance of its functions as a Federal Reserve Bank, Complainant received from time to time from the above mentioned defendant banks, as well as from said Fourth National Bank of Macon, deposits of funds and checks and drafts for credit to their respective reserve accounts. Complainant also sent to each of said banks, for collection or payment and remittance, checks and drafts drawn upon or collectible by them. Said banks would, customarily, remit for such items, so sent for payment or collection, by drafts drawn upon their said reserve accounts or in acceptable exchange, or by written authorization to complainant to charge such reserve accounts with the amounts to be remitted.

-11-

Checks or drafts, when forwarded by complainant to other banks for collection or payment and remittance, are enclosed with what is known as "cash letters" and remittances therefor are made for the aggregate amount of the same as reduced by particular items, checks or drafts which are not paid or collected by the addressee bank.

-12-

Prior to November 26, 1928, and up until about noon on said date, said Fourth National Bank of Macon was an active, going institution, operating as a national banking association. As such, it maintained, as heretofore stated, its reserve account with complainant. At the instance of said Fourth National Bank, complainant had agreed to receive, when tendered by any of the above named defendant banks, checks drawn by them or any of them on said Fourth National Bank of Macon and sent to complainant either in remittance for cash letters or for credit to the reserve accounts maintained with complainant by said defendant banks, under an arrangement calling for what was termed "immediate debit" to the reserve account of said Fourth National Bank of Macon: that is to say, when and as any of said defendant banks sent to complainant a check drawn upon said Fourth National Bank of Macon, whether the same was sent in remittance for collections or for credit to the reserve account of the bank sending the check to complainant, the amount thereof would be immediately charged against the reserve account of the Fourth National Bank; it having been understood, however, that payment of any such check should not be considered as final until said Fourth National Bank of Macon had had time to receive the same and report thereon.

-13-

The agreements under which said checks were to be received for

"immediate debit" were in writing, each signed by said Fourth National Bank of Macon, Georgia, addressed to complainant and drawn in the following form:

To the FEDERAL RESERVE BANK OF ATLANTA, _____
Date

The _____
Name of Bank

_____
Location

may have occasion from time to time to remit you, by its check or checks on the undersigned, for collections sent it by you, or for credit to its reserve account with you, or the bank mentioned may desire to remit us for your credit and advice. This will be your authority to debit our account immediately upon receipt, with checks drawn on us by the above mentioned bank, given you in payment of collections, or sent you for credit to its reserve account, or you may charge our account immediately with amount of such advices as you may receive from it, that remittances have been made to us, for your credit and advice. PROVIDED, however, that payment shall not be considered as final on such checks as you charge to us, until we have had time to receive the checks and report on same, we agreeing to wire at your expense non-payment of all checks $250.00 or over, not good on our books when received, nor shall payment be considered as final where you charge our account with amount of advices, received from the above mentioned bank, that remittances have been made to us for your credit, until sufficient time has elapsed for you to receive notice from us as to whether or not such remittances have reached us and have been credited. We agree to maintain on deposit with the Federal Reserve Bank of Atlanta sufficient collected, available funds, over and above the amount of our required reserve with you, to cover such checks or advices of remittances as described above.

(Sgd) FOURTH NATIONAL BANK OF
MACON, GEORGIA. ".

Each of said original writings shows the name of one of the defendant banks as being an institution to be accorded the benefits of

the arrangement for "immediate debit." If required so to do by the Court, complainant will produce at any hearing of this cause the signed originals of the said contracts.

-14-

On the morning of November 26, 1928, at the opening of complainant's business for that day and before said Fourth National Bank of Macon had been taken over by the Comptroller of the Currency, complainant received from the defendants next hereinafter listed certain checks, all drawn upon said Fourth National Bank of Macon in the following respective amounts, that is to say:

NAME		AMOUNT
Farmers National Bank,	Monticello,	$1,725.76
Monroe County Bank,	Forsyth,	1,878.84
First National Bank,	Shellman,	836.60
First National Bank,	Pelham,	1,030.67
First National Bank,	Bainbridge,	6,673.29
First National Bank,	Ocilla,	3,985.59
Brunswick Bk & Tr Co.	Brunswick,	10,000.00
First National Bank,	Reynolds,	1,256.30

As stated, said checks were drawn on accounts maintained by the drawers thereof with said Fourth National Bank of Macon. Each of the same, however, was sent to complainant pursuant to the arrangement for "immediate debit" as outlined above, and it was desired that each thereof should be charged by complainant against the reserve account of said Fourth National Bank of Macon under the terms and conditions of that arrangement. Said checks were sent, respectively, by the drawers thereof to complainant in payment for cash letters theretofore sent to them by complainant; that is to say, complainant had, prior to November 26, 1928, sent to each of the banks next above named, items (checks or drafts) drawn upon or collectible by said banks, and said banks had undertaken to remit by said checks for

such of said items as had been paid or collected by them respectively.

-15-

On the same day, that is, November 26, 1928, at the opening of complainant's business and before said Fourth National Bank of Macon had been taken in charge as aforesaid, complainant received from certain banks, next hereinafter listed, checks drawn on said Fourth National Bank of Macon with instructions to credit the amounts thereof to the respective reserve accounts of said banks. Said checks, like the checks described in the next preceding paragraph, were sent to complainant for immediate debit to the reserve account of said Fourth National Bank under the terms of the arrangement hereinbefore described. The banks so sending checks for credit to their respective reserve accounts and the amounts of such checks were as follows:

NAME		AMOUNT
City National Bank,	Knoxville,	$25,000.00
Fourth & First Nat'l Bk,	Nashville,	20,000.00
First National Bank,	Waycross,	10,000.00
First National Bank,	Vidalia,	5,000.00
First National Bank,	Milledgeville,	2,000.00
First National Bank,	Pelham,	1,700.00

-16-

In the regular routine of complainant's business, all of said checks would have been, at some time during the business day of November 26, 1928, charged to the reserve account of said Fourth National Bank of Macon and thereafter sent to it by mail for examination and report under the terms and conditions of the said arrangement for immediate debit. This routine was not followed with respect to any of the checks herein mentioned as having been received by complainant on November 26, 1928, for

the reason that, at about noon on said day, complainant was advised that said Fourth National Bank of Macon had been closed and its affairs taken in charge by the Comptroller of the Currency. In the regular routine of complainant's daily business no entries touching said checks had been made upon complainant's books at the time when it received such advice of the closing of said Fourth National Bank; nor were said checks, or any of them, sent to said Fourth National Bank of Macon for examination and report, it having been closed before such checks, or any of them, were ready for mailing. Upon being so advised of the suspension of said Fourth National Bank complainant notified the defendant banks listed in paragraph 14 that it could not accept the checks which they had sent in remittance for the cash letters in said paragraph referred to, and that it would not charge the reserve account of said Fourth National Bank therewith; and complainant, thereupon, charged the reserve account of each of said defendant banks with the amount of the check which it had sent to complainant as aforesaid. Because of the suspension of said Fourth National Bank, Complainant refused to charge against the reserve account of said bank the checks described in paragraph 15 hereof, and, thereupon, returned the same to the respective banks which had sent said checks to complainant for credit to their reserve accounts, as more fully set out in said paragraph 15.

-17-

At the opening for business on November 26, 1928, said Fourth National Bank of Macon had to its credit, in collected funds in its reserve account, only a nominal balance of approximately one thousand dollars. Thereafter, however, and prior to closing, said balance was built up by the discount of notes made at the instance of said Fourth

National Bank by complainant, by deposits made by said Fourth National Bank to its reserve account and by transfers of funds thereto, to a large aggregate amount, complainant hereby averring that, prior to the time when said Fourth National Bank of Macon suspended, it had funds to its credit in its reserve account of more than enough to have paid said checks and each thereof. Complainant is informed, and upon such information and belief avers the fact to be, that each of said named defendant banks, forwarding such checks to complainant as stated and for the purposes aforesaid, had to its credit with said Fourth National Bank of Macon funds in amounts sufficient to have paid the check or checks which it had so sent to complainant.

-18-

Shortly after said defendant, Claude Gilbert, Receiver, assumed the duties of his office, he made demand upon complainant for the transfer to him, as Receiver, of all of the reserve balance of said Fourth National Bank of Macon remaining after the satisfaction of the indebtedness due by said Fourth National Bank to complainant. At the same time, each of said defendant banks was demanding that this complainant charge against the reserve account of said Fourth National Bank the amount of the check which it had sent to complainant either in remittance for a cash letter or for credit to its reserve account, as aforesaid. Said Receiver contended, and now contends, that said checks, and each of them, while immediately chargeable to the reserve account of said Fourth National Bank of Macon, could not, under the terms of the arrangement aforesaid, be considered as finally paid until the same had been placed in the hands of said Fourth National Bank of Macon and by it examined to the end that it might be

321

determined whether or not such checks were properly payable. Said Receiver further contended, and now contends; that immediately upon the suspension of business by said Fourth National Bank any and all authority to charge its reserve account with said checks, or any of them, was automatically revoked and suspended, and that, inasmuch as none of said checks were finally paid, according to his contention, prior to suspension of business, the same cannot now be paid out of said reserve account. The defendant banks, on the other hand, contend that said Fourth National Bank of Macon had authorized complainant to charge its reserve account with the amount of any check drawn upon it which said defendant banks, or any of them, might send to complainant as aforesaid; that said checks being in the hands of complainant prior to the closing of business, the same should have been regarded, and should now be regarded, as payable out of said reserve account unless and except said checks, or any of them, were drawn upon insufficient funds on deposit with said Fourth National Bank of Macon or, for any other reason, would not have been properly payable in regular course had said Macon bank not closed as aforesaid.

-19-

With these conflicting contentions this complainant has no concern. Complainant has retained in its hands a sufficient amount of said reserve balance, to-wit, the sum of Ninety-One Thousand, Eighty-Seven and 05/100 (91,087.05) Dollars, to pay said checks, and all of them, should it be determined that the same were, and are, properly chargeable against said reserve account of said Fourth National Bank of Macon. Said fund complainant holds in trust and as a mere stakeholder. Complainant is entirely indifferent between the parties and is in collusion

with none of them; it has no interest in the premises except to disburse the fund in its hands as may be legally proper and as this Honorable Court, being advised, may direct.

-20-

Complainant is advised and believes that all of the above mentioned defendant banks, being creditors of said Fourth National Bank of Macon, have filed proofs of claim with the Receiver of said bank, in which proofs of claim have been included the full amounts of the deposit accounts maintained by said banks with said Fourth National Bank of Macon; but complainant is further advised and believes that the filing of such proofs of claim in such amounts was upon the understanding with the Receiver of said Fourth National Bank and/or with the Honorable, the Comptroller of the Currency of the United States that the same would be without prejudice to the assertion of any rights to have said checks satisfied out of the said reserve account of said Macon bank as contended by said defendant banks. Complainant is further advised that the Receiver of said Fourth National Bank of Macon has paid, or is prepared to pay, an initial dividend to all creditors of said bank to the extent of Fifty (50) Per Cent. of all claims allowed. Complainant avers, therefore, that, by reason of the above and foregoing facts, the actual amount in dispute is one-half of the aggregate of said checks, or the sum of Forty-Five Thousand, Five Hundred Forty-three and 53/100 (45,543.53) Dollars.

This defendant hereby offers to pay into the registry of this Honorable Court the sum of $45,543.53, being the amount of the fund now in its hands actually involved in the controversy between the parties named herein as defendants, that is, to say, between the Receiver of said Fourth

National Bank of Macon on the one hand, claiming all of said fund, and the defendant banks on the other hand, each defendant bank claiming the right to receive out of said fund and amount equal to one-half of the check, or checks, sent in by it to complainant for immediate debit, as aforesaid.

-22-

Complainant says that it is without remedy at law; that if it pays to said Receiver said fund, it will be subjected to the claims, demands and suits of said defendant banks, or some one or more of them; that if it pays to said defendant banks the amounts demanded, respectively, by them, it will have to answer the suit of the Receiver. Complainant is advised by its counsel that the conflicting claims and contentions of the said parties raise questions of law that are doubtful and difficult of solution and complainant is therefore uncertain as to how said fund should be disbursed. While said defendant banks each claim a portion of said fund and the Receiver is claiming the whole thereof, the legal rights of the defendant banks, and each of them, are determinable upon exactly the same principles and there is no issue which could arise in the determination of the claim of any one of said defendant banks which would not be involved in the determination of the claims of all. The bringing of this bill of interpleader will obviate a multiplicity of suits and will afford the opportunity of settling in one action the claims of all parties asserting an interest in and to said fund, or any part thereof.

-23-

Complainant avers that in the bringing of this bill it has incurred the expense of counsels' fees, and asks that such sum as may appear proper to the Court be decreed in its favor to cover the cost of the services of counsel, and that any sum so allowed, as well as the costs of this action,

be charged against the fund which is in its hands as a stakeholder, as heretofore more particularly set out.

WHEREFORE, being remediless except in a court of equity, where matters of this sort are properly cognizable and relievable, and to the end that complainant may have the relief herein prayed, it brings this its bill of interpleader and respectfully prays of the Court:

1. That this Honorable Court may enter an order permitting it to pay into the registry of the Court the sum of Forty-five Thousand, Five Hundred Forty-three and 53/100 (45,543.53) Dollars, being the amount of the fund in controversy and now in the hands of complainant as a stakeholder as aforesaid; that the Clerk of this Court be authorized to receive and receipt for said fund; and that, upon the payment of the same into Court, said complainant be discharged from any and all further liability to said defendants or any of them.

2. That the defendants may be decreed to interplead and settle between themselves their rights or claims to the said fund in the hands of complainant.

3. That the defendants, and each of them, be restrained by a preliminary order of injunction from commencing or prosecuting any action or proceeding against complainant concerning the matters above stated, and that, in due course, this injunction may be perpetuated.

4. That the Court issue a rule or order nisi, requiring said defendants, and each of them, to show cause at some time to be limited by the Court why the relief herein prayed should not be granted.

5. That complainant have such other and further relief as may be meet and agreeable to equity and as the nature of its case may require.

May it please your Honor to grant unto complainant not only a

writ of injunction conforming to the prayers of this bill, but also to grant a writ or writs of subpoena, to be issued by and out of this Court, to be directed to the defendant Claude Gilbert, as Reciever of the Fourth National Bank of Macon, and to the defendant banks, Farmers National Bank of Monticello, Monroe County Bank of Forsyth, First National Bank of Shellman, First National Bank of Pelham, First National Bank of Bainbridge, First National Bank of Ocilla, Brunswick Bank & Trust Company, First National Bank of Reynolds, First National Bank of Waycross, First National Bank of Vidalia, First National Bank of Milledgeville, City National Bank of Knoxville, and Fourth & First National Bank of Nashville, commanding them at a certain time and under a certain penalty to be therein specified, to be and appear before this Court then and there to answer the allegations hereof, but not under oath (answer under oath being hereby expressly waived), and to abide by the orders and decrees of the Court herein, and that the defendants may appear herein according to law.

RANDOLPH, PARKER & FORTSON
Solicitors for Complainant

ROBT. S. PARKER
Of Counsel

GEORGIA, FULTON COUNTY.

Before me, a notary public in and for said County, personally appeared Creed Taylor, who, being duly sworn, deposes and says that he is Deputy Governor of the Federal Reserve Bank of Atlanta, complainant in the within and foregoing bill, and that, as such officer, he is authorized to make this affidavit.

Deponent further says that the averments set forth in said bill, where charged positively are true and that such averments as are therein made upon information and belief are true to the best of deponent's information, knowledge and belief.

Deponent further says that said bill is not filed by the complainant in collusion with any or either of the defendants in said bill named, but that it is filed by complainant of its own accord for relief in this Honorable Court.

CREED TAYLOR

Sworn to and subscribed before me,
this the 18 day of February, 1929.

L. M. CLARKE
Notary Public

X-6277

IN THE DISTRICT COURT OF THE UNITED STATES,

FOR THE MIDDLE DISTRICT OF GEORGIA,

MACON DIVISION.

Federal Reserve Bank of Atlanta, Complainant	)	No. _____
vs.	)	IN EQUITY.
Claude Gilbert, as Receiver of the Fourth National Bank of Macon, Georgia, et al, Defendants.	)	BILL OF INTERPLEADER.

The within Bill of Interpleader read and considered: Let the same be filed and subpoenas issued as is in accordance with such cases and as is required by the equity rules of this Court.

It is further ordered that the defendants, and each of them, show cause before me on the 15 day of March, 1929, at 10 o'clock A. M. why they should not be required by order of this Court to interplead as prayed in complainant's bill, and why the complainant should not have the relief in and by said bill sought. Let this order and a copy of said bill be served upon each of said defendants unless they acknowledge service of the same.

This the 18 day of February, 1929.

BASCOM S. DEAVER
Judge United States Court.

COPY

X-6279 328

March 30, 1929.

Dear Mr. Strater:

In accordance with your letter a day or two ago requesting that you be advised in advance, if possible, of any added topics which the Board may have to suggest for discussion at the conference beginning Monday, the following is herewith submitted:

> "Should self-insurance reserves be carried by the Federal reserve banks and if so when and for what purposes should they be used and what effect if any should they have on the cost of fidelity or other insurance carried by the banks."

At the present time, five of the Federal reserve banks are maintaining self-insurance reserves as follows:

New York	$1,443,870.
Cleveland	541,017.
Richmond	300,000.
St. Louis	250,000.
Minneapolis	250,000.

The New York and Cleveland banks established the reserves for the purpose of ultimately carrying a fairly substantial amount of their own fidelity insurance, thus reducing materially their annual insurance premiums. The New York bank is carrying less fidelity insurance than it would carry if it were not for its self-insurance reserve, and available information indicates that the same is probably true of Cleveland. The Federal Reserve Bank of Richmond holds its reserve primarily as a protection against losses not covered, or only partly covered by insurance which it carries. It is understood that the St. Louis fund, which was established the first of the year, is intended for the same use.

Very truly yours,

(signed) E. M. McClelland,
Assistant Secretary.

Mr. H. F. Strater, Secretary,
Governors' Conference.

REPORT OF MAJORITY COMMITTEE.

WHEREAS there now exists a lack of uniformity among the twelve Federal reserve banks in their construction of Regulation J, as promulgated by the Federal Reserve Board, which lack of uniformity has given rise to litigation in the past and holds promise of increased litigation in the future with conflicting decisions in various judicial districts; and

WHEREAS, we deem it of the utmost importance that all of the Federal reserve banks follow a uniform policy in the respect stated:

BE IT RESOLVED that the following represents the consensus of opinion of the Conference of Counsel to the various Federal reserve banks, assembled pursuant to the call of the General Counsel to the Federal Reserve Board:

1. We construe Regulation J of the Federal Reserve Board as intended to provide that the Federal reserve banks shall take for collection checks sent to them for such purpose by other banks, merely as agents of the banks from which the same are received. We regard this policy as being economically sound, legally proper and fair in its operation.

2. We believe that it would be extremely unwise to take any step or to formulate any policy which would tend to change this relationship and, specifically, that it would be unwise to attempt to superimpose upon a pure agency status any indicia of ownership with respect to the subject matter of the agency.

3. We believe that it is incompatible with such agency status for Federal reserve banks to set-off amounts due to them, as agents for collection, against indebtedness due by them to insolvent member or non-member clearing banks; hence, we are of the opinion that after a bank has been closed the reserve bank of its district being notified of its suspension, should not thereafter attempt to charge unpaid cash items against the reserve

account of the closed bank. For the same reason we believe that after notice of suspension a remittance draft, drawn by the closed bank, should not be charged against its reserve account.

4. When a Federal reserve bank takes from one of its members collateral for the payment of indebtedness due to it by such member, such collateral should be applicable only to the satisfaction and discharge of the obligations due to the reserve bank in its own right. It would be an unwise policy, in our opinion, to permit such collateral to be utilized in the liquidation or satisfaction of debts payable to the Federal reserve bank as a collection agent.

5. The status of the capital stock holdings of a member bank in its Federal reserve bank, upon the insolvency or liquidation of such member, is fixed by the Federal Reserve Act and, as we construe the same, the proceeds of such holdings could only be applied in or toward the satisfaction of debts due to the Federal reserve bank in its own right, as contradistinguished from debts which might be payable to the reserve bank as a collection agent.

6. In our opinion, any deviation from these policies, in furtherance of which Regulation J was promulgated, would entail grave dangers to Federal reserve banks and would result in the preferring of a limited number of creditors of an insolvent bank, contrary to the letter and spirit of the law as it exists in the various States and as administered in the Courts of the United States.

7. In view of the conflicting interpretations which have been placed upon Regulation J by the Federal reserve banks, resulting in conflicting judicial decisions in relation thereto, we deem it of the utmost importance that Regulation J be so clarified by amendment as to result in uniformity in its interpretation and application. Such amendment, we believe, should be made

at the earliest possible time. To accomplish this purpose we recommend that subject to the approval of General Counsel to the Federal Reserve Board, paragraph 6 of Section V of Regulation J be amended to read substantially as follows:

> "(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. The owner or holder of any such check so charged back shall, in such event, have no right of recourse upon, interest in or rights of payment from any fund, reserve, collateral or other property in the possession of the Federal reserve bank."

We further recommend that subject to the approval of General Counsel to the Federal Reserve Board, paragraph 4 of Section V of Regulation J be amended to read substantially 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. Such remittance or payment may be made in cash, by bank draft acceptable to the collecting Federal reserve bank, by other funds or transfers acceptable to the collecting Federal reserve bank, or by authorizing the collecting Federal reserve bank to charge their reserve accounts or clearing accounts."

REPORT OF MINORITY COMMITTEE

We, the undersigned, representing the Federal Reserve Banks of Chicago, Minneapolis, Philadelphia and Richmond, are unable to concur in the recommendation of the majority of the Conference of Counsel and in lieu of the amendment recommended by the majority we recommend that paragraph 4 of Section V of Regulation J be amended 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. Such remittance or payment may be made in cash, by bank draft acceptable to the collecting Federal reserve bank, by other funds or transfers acceptable to the collecting Federal reserve bank, or by authorizing the collecting Federal reserve bank to charge their reserve accounts or clearing accounts."

The object of this amendment is merely to clarify the meaning of the existing paragraph.

We recommend that paragraph 6 of Section V of Regulation J be amended so as to have it read as follows:

> "(6) The amount of any check for which payment in actually and finally collected funds is not received may be charged back to the forwarding bank regardless of whether or not the check itself can be returned, but the Federal reserve bank may charge the amount of any check not returned unpaid to the reserve account or clearing account, as the case may be, of the bank from which such payment was not received, and may hold any other property of such bank in its possession as security for payment of such check. The right so to do shall, however, be subordinate and without prejudice to all other rights of the Federal reserve bank upon such reserve account and clearing account and to such other property in its possession."

Our reasons for recommending the amendment last mentioned are as follows:

The Federal Reserve Board in promulgating Regulation J has stated that it desires to afford to the public and to the various banks of the country a direct, expeditious, and economical system of check collection

and settlement of balances and for that purpose has arranged to have each Federal reserve bank exercise the function of a clearing house and collect checks for such of its member and non-member clearing banks as desire to avail themselves of the privilege and the Board further required in its Regulation that each Federal reserve bank shall exercise the function of a clearing house and collect checks under the general terms and conditions thereinafter set forth and that each member bank and non-member clearing bank shall cooperate fully in the system of check clearance and collection for which provision is made in the Regulations. When the Federal reserve banks were made clearing houses for their member banks we think it was not contemplated that the banks on which checks were drawn should be at liberty to convert the checks and place the owners of checks presented through the clearing system in the position of creditors of an insolvent bank. This amendment is suggested from the point of view that the Federal Reserve Board should make provision for holding each member of the clearing house as far as possible to its obligation to the other members of the clearing house.

Whenever a check is cancelled by the drawee bank and charged to the account of the drawer, the drawer is by the great weight of authority released from liability to the holder and the holder is required to look to the drawee bank. The holder seldom knows or has opportunity to investigate the condition of the bank upon which a check held by him is drawn. Hence, when he is forced to release the drawer, his original debtor, and to assume the position of a creditor of the drawee bank and sustains any loss because such bank fails to remit or pay for a check which has been cancelled so that he can neither obtain the return of the check nor collect the amount of it, the holder feels that he has a just cause of dissatisfac-

tion with the System which has placed him in this position.

Since the check collection system was, as we have pointed out above, established primarily for the safety, convenience, and benefit of the business public, it is highly desirable to avoid losses to the public from such a situation whenever it is possible to do so and such losses can be avoided in most cases if the Federal reserve bank has the right to resort to the reserve balance of a failed member bank and to the proceeds of existing collateral to protect the holders of checks deposited for collection after the prior demands of the Federal reserve banks are satisfied.

We consider that the primary purpose of the reserve balance is to enable the member banks to meet withdrawals and the principal way in which withdrawals are made is by checks drawn on the member bank, most of which are presented through the Federal reserve banks. Hence, the reserve deposit of a member bank in the hands of a Federal reserve bank may appropriately and consistently within the spirit of the Federal Reserve Act be made applicable to the payment of checks presented through the Federal reserve banks rather than held as a protection for the general creditors of the member bank.

We are informed that commercial banks in the past, while limiting their liability for failure to collect checks deposited with them, have, nevertheless, used any funds or property in their possession belonging to the drawee bank for the benefit of endorsers. Practically all judicial decisions that have come to our attention are in accord in sustaining the right of the forwarding bank to do this and we believe that Federal reserve banks should adopt the position so sanctioned by the prior usage of commercial banks in collecting checks and afford to the depositors complete protection against the default of the drawee bank when it is practicable to

do so.

We do not think that this plan, which we recommended, gives any undue preference to persons collecting checks through Federal reserve banks, for such persons only obtain payment on checks on which the drawers are released and which are, therefore, deemed paid so far as the drawers, who are the depositors of the failed bank, are concerned.

Federal reserve banks are frequently under compulsion to forward items direct to a member bank known to be in an extended condition. To send a messenger to collect in cash in such a case would often result in the suspension of the drawee bank, owing to a mere temporary shortage of available funds. Yet any other method of collection in such a case might constitute negligence and create liability on the part of the Federal reserve bank to depositors of checks. The policy we suggest has the advantage of reducing such liability, which we believe is unavoidable in many cases, to a minimum.

For the Federal Reserve Bank of Chicago.

For the Federal Reserve Bank of Minneapolis.

For the Federal Reserve Bank of Philadelphia.

For the Federal Reserve Bank of Richmond.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6283

April 5, 1929.

SUBJECT: Expenses of Hon. Newton D. Baker in appeal of case of Raichle v. Federal Reserve Bank of New York.

Dear Sir:

Referring to Board's telegram of April 2nd (Trans 1014), you are advised that all Federal reserve banks have agreed to participate on a pro rata basis in the fee and expenses of Hon. Newton D. Baker, who will represent the Federal Reserve Bank of New York in the appeal which has been made by Mr. Frank G. Raichle from the decision of the United States District Court for the southern district of New York, granting the defendant's motion to dismiss the bill of complaint in the case of Frank G. Raichle v. the Federal Reserve Bank of New York.

When Mr. Baker's services in the appeal have been completed and his bill has been approved by the Board and the directors of the Federal Reserve Bank of New York, it will be paid by the New York Bank and the other Federal reserve banks will be advised of the amounts which they should remit to New York to cover their shares of the expense.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

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

X-6284

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Cost of preparing Federal Reserve Notes during March, 1929.

Mar. 1 to 16, 1929, Federal Reserve Notes, Series 1914.

572,000 sheets, $10, New York $35.50 M, $20,306.00

Mar. 1 to 30, 1929, Federal Reserve Notes, Series 1928.

	$5	$10	Total sheets	Amount
Boston	152,000	68,000	220,000	$19,690.00
New York	-	156,000	156,000	13,962.00
Philadelphia	82,000	174,000	256,000	22,912.00
Cleveland	38,000	208,000	246,000	22,017.00
Richmond	40,000	98,000	138,000	12,351.00
Atlanta	68,000	-	68,000	6,086.00
Chicago	136,000	-	136,000	12,172.00
St. Louis	132,000	-	132,000	11,814.00
Minneapolis	100,000	-	100,000	8,950.00
Kansas City	120,000	138,000	258,000	23,091.00
Dallas	120,000	-	120,000	10,740.00
San Francisco	56,000	-	56,000	5,012.00
	1,044,000	842,000	1,886,000	$168,797.00

Credit appropriations, 1929, as follows: @ $89.50 per M, $168,797.00

Comp. of Emp.	Bur. Eng. & Ptg.	$99,401.00
Plate Printing,	" " "	43,069.88
Mtls. & Misc. Exp.,	" " "	46,632.12

Bureau of Engraving and Printing

Per C. R. Long
Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6285

April 9, 1929.

SUBJECT: Improper methods in obtaining confessions of violations of banking laws.

Dear Sir:

There are enclosed for your information copies of two letters addressed to the Comptroller of the Currency and the Governor of the Federal Reserve Board, respectively, by the Attorney General of the United States with reference to the action of a private detective agency investigating apparent violations of the national banking laws which obtained a confession "by promise of immunity and with considerable coercion."

You are requested to call this matter to the attention of all of your examiners and to warn them not to use such methods, since they are likely to interfere with the due administration of justice and perhaps to prevent a subsequent successful investigation by the authorized agencies of the Department of Justice.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO AGENTS OF ALL F. R. BANKS.

COPY X-6285-a

DEPARTMENT OF JUSTICE WHR:DCK

ORL-WHR WASHINGTON, D. C.

29-36-37- March 29, 1929.

The Governor,

The Federal Reserve Board.

Sir:

This Department has received from the Comptroller of the Currency a copy of a report made to the United States District Attorney at Boston, Massachusetts, by Chief National Bank Examiner F. D. Williams, concerning apparent violations of the national banking laws by one Ralph L. Young, an employee of the Brockton National Bank of Brockton, Massachusetts.

The copy of the report of Chief Examiner Williams is accompanied by a copy of a report dated the 21st instant addressed to the Federal Reserve Bank at Boston, "Attention: Mr. Williams, Chief National Bank Examiner" and signed by G. O. Breach as Criminal Manager of the William J. Burns International Detective Agency. The latter report contains certain statements which have attracted the earnest attention of this Department and which are referred to in a letter of this date to the Comptroller of the Currency, a copy of which I am enclosing herewith for your attention and such action as you deem proper.

Respectfully,

For the Attorney General,

(S) O. R. LUHRING,
Assistant Attorney General.

Encl. 110643.

COPY X-6285-b

ORL- WHR:DCK

29-36-37- March 29, 1929.

The Comptroller of the Currency.

Sir:

I desire to acknowledge your letter of the 25th instant, enclosing two copies of a report made to the United States Attorney at Boston, Massachusetts, by Chief National Bank Examiner F. D. Williams concerning apparent violations of the national banking laws by Ralph L. Young, an employee of the Brockton National Bank of Brockton, Massachusetts.

A copy of the report of Chief Examiner Williams is accompanied by a copy of a report signed by G. O. Breach, Criminal Manager for the William J. Burns International Detective Agency, Inc., in which the writer states that an effort was made to obtain an admission from the accused without promising immunity or compromising himself in any way, but adds that this effort was unsuccessful and that "seeing that there was no possibility of obtaining an admission under these circumstances, I secured a full confession by promise of immunity and with considerable coercion."

This quotation is presented for your earnest consideration and for such action or suggestions as you deem proper, with a view to discouraging and suppressing such methods on the part of this and any other unofficial organization which are so likely to interfere with the due administration of justice and perhaps to prevent a subsequent successful investigation by the authorized agencies of this Department.

Respectfully,

For the Attorney General,

O. R. LUHRING,
Assistant Attorney General.

Copy to:
The Governor, Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6286

Dear Sir:

Confirming telegram dated April 6, 1929, advising you of the special assessment levied by the Federal Reserve Board in connection with the preparation of the new issue of Federal reserve notes, there is enclosed herewith a copy of the statement of the Bureau of Engraving and Printing in the amount of $750,000 covering a part of the cost of Federal reserve notes of the small size (Series of 1928) which are now in process of printing and which will be delivered during April, May and June.

There is also enclosed a copy of a letter dated April 5, 1929, from the Assistant Secretary of the Treasury, explaining the submission of the bill at this time. Payment of the bill was agreed to at the recent conference of Governors, and on April 6, 1929, the Federal Reserve Board

> "Voted to direct the Board's Fiscal Agent to levy the appropriate assessment upon each Federal reserve bank and to remit the aggregate amount of $750,000 to the Bureau of Engraving and Printing."

Very truly yours,

Enclosures.

Fiscal Agent.

(Sent to each Federal Reserve Agent).

X-6286a

COPY

TREASURY DEPARTMENT

WASHINGTON

April 5, 1929.

My dear Governor:

With reference to our recent talk, and to the bill presented by the Bureau of Engraving and Printing for $750,000 in part payment of the cost of producing Federal reserve notes this fiscal year, it may be pointed out that Federal reserve notes are produced on a repay basis, it being the usual procedure to reimburse the Bureau appropriations at the end of each month to cover the notes completed and delivered during that month. However, in the production of some 22,000,000 sheets of reduced-size Federal reserve notes this fiscal year, it has not been possible to complete and deliver the new currency on a basis prorated by months, with the result that although more than 50 per cent of the production costs for the year have been incurred, reimbursement in the usual manner has not been made because the currency has not reached completion. The account now submitted by the Bureau is less in amount than the expenditures actually made and charged to the Bureau appropriations on account of this production.

The total production of Federal reserve notes this fiscal year, all to be delivered before June 30 next, will approximate 22,000,000 sheets, and the cost will exceed $1,800,000.

Very truly yours,

(s) Henry Herick Bond
Assistant Secretary of the Treasury.

Hon. R. A. Young,
Governor, Federal Reserve Board.

X-6286b

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING.

For labor performed and materials purchased for Federal reserve notes Series 1928, now in process of printing, to be delivered during April, May and June, 1929.

Boston	$ 51,600.00	
New York	178,500.00	
Philadelphia	71,100.00	
Cleveland	71,100.00	
Richmond	24,800.00	
Atlanta	66,500.00	
Chicago	116,000.00	
St. Louis	19,800.00	
Minneapolis	16,300.00	
Kansas City	21,000.00	
Dallas	39,100.00	
San Francisco	74,200.00	$750,000.00

Credit appropriations, 1929, as follows:

Comp. of Emp.,	B.E. & P.	$374,700.00
Plate Printing,	B.E. & P.	161,800.00
Mtls.& Misc.Exp.	B.E. & P.	213,500.00

Bureau of Engraving and Printing

Per C. R. Long
Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6287

April 10, 1929.

SUBJECT: Currency Conference.

Dear Sir:

There is enclosed herewith copy of a letter from the Assistant Secretary of the Treasury, calling a conference for May 2, 1929, in accordance with the understanding had with the Governors last week, for the consideration of matters connected with the new reduced size currency.

It is requested that you advise this office in advance by whom your bank will be represented.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

TO GOVERNORS OF ALL F. R. BANKS.

COPY X-6287-a

TREASURY DEPARTMENT

WASHINGTON

April 6, 1929.

My dear Governor:

This will confirm the Department's agreement with the suggestion, made by the Governors of the Federal Reserve Banks at their recent meeting, that a conference on matters connected with the issue of the new reduced-size currency be arranged, to meet at the Treasury on May 2, 1929, with representatives from each of the Federal Reserve Banks, from the Federal Reserve Board, and from the Treasury.

Will you kindly convey this advice to the several Governors, and arrange for your own Board's representation.

Very truly yours,

(S) Henry Herrick Bond,

Assistant Secretary of the Treasury.

Hon. R. A. Young,

Governor, Federal Reserve Board.

RECORD OF PROCEEDINGS OF CONFERENCE OF COUNSEL OF ALL FEDERAL RESERVE BANKS HELD IN WASHINGTON, D. C., ON APRIL 1 and 2, 1929.

The conference convened on April 1, shortly after 9 a. m. in the Washington Hotel, Washington, D.C. Those present were:

Mr. A. H. Weed,	Federal	Reserve	Bank	of	Boston,
Mr. K. K. Carrick,	"	"	"	"	Boston,
Mr. W. S. Logan,	"	"	"	"	New York,
Mr. J. S. Sinclair,	"	"	"	"	Philadelphia,
Mr. S. B. Newell,	"	"	"	"	Cleveland,
Mr. P. L. Holden,	"	"	"	"	Cleveland,
Mr. M. G. Wallace,	"	"	"	"	Richmond,
Mr. J. S. Walden,	"	"	"	"	Richmond,
Mr. R. S. Parker,	"	"	"	"	Atlanta,
Mr. Carl Meyer,	"	"	"	"	Chicago,
Mr. J. G. McConkey,	"	"	"	"	St. Louis,
Mr. A. Ueland,	"	"	"	"	Minneapolis,
Mr. Sigurd Ueland,	"	"	"	"	Minneapolis,
Mr. H. O. Leedy,	"	"	"	"	Kansas City,
Mr. E. B. Stroud, Jr.,	"	"	"	"	Dallas,
Mr. A. C. Agnew,	"	"	"	"	San Francisco.

Mr. Newton D. Baker was present during part of the time on April 1st.

Mr. Walter Wyatt, Mr. B.M. Wingfield and Mr. George B. Vest, from the Federal Reserve Board.

After a brief introductory statement, Mr. Wyatt, who was at a previous conference elected permanent chairman of all such conferences, explained that it would be necessary for him to be absent for a few hours to attend the argument in the Court of Appeals of the District of Columbia, of the case of United States ex rel. Apfel, et al. v. Mellon, et al., to be argued on behalf of the Federal Reserve Board by Honorable Newton D. Baker. Mr. Wyatt asked Mr. Weed to act as temporary chairman during his absence. Mr. Weed took the chair and Mr. Wyatt left the meeting.

The conference then proceeded to the consideration of the business before it: The question whether reserve balances, collateral accounts and the proceeds of cancelled Federal reserve bank stock should be utilized by Federal reserve banks to pay checks handled by them for collection which have been marked paid by the drawee banks and charged to the accounts of the drawers, but for which no remittance or remittances not finally collectible have been made, on account of the insolvency of the drawee banks. In considering these questions the view that the reserve balances, collateral accounts and proceeds of Federal reserve bank stock should be so used was designated for convenience as Policy A and the contrary view as Policy B. In order to open up the discussion the temporary chairman called

upon Messrs. Ueland and Mr. Wallace to explain their views with regard to the questions before the conference. Messrs. Ueland and Mr. Wallace, who favored Policy A, then presented their views in the matter, other members of the conference interpolating comments or asking questions from time to time. This was followed by a statement of the views of Mr. Stroud, who favored Policy B, on the questions at issue, with a continuation of interrogations and expressions from other members of the conference.

After some further discussion Mr. Weed, the temporary chairman, asked for an expression of the views of counsel to each Federal reserve bank on the questions which were under consideration. It was found that counsel for eight of the Federal reserve banks favored Policy B. Counsel for four of the Federal reserve banks - Philadelphia, Richmond, Chicago and Minneapolis - favored Policy A.

At this point Mr. Wyatt returned to the conference and assumed the chair. Honorable Newton D. Baker also came in at this time.

A resolution was then submitted by Mr. Agnew with regard to the desirability of a uniform policy among Federal reserve banks on the questions under consideration. The resolution as originally submitted was as follows:

> "RESOLVED, That it be the sense of this conference that uniformity among all of the Federal reserve banks in the treatment of reserve balances, collateral accounts and the cash surrander value of capital stock in relation to outstanding cash items, is desirable and that whether the policy outlined by Messrs. Ueland and Wallace on the one hand or the policy outlined by Mr. Stroud on the other hand be adopted, the action of all of the Federal reserve banks in relation to the matter under discussion should be of one accord."

Mr. Logan moved as an amendment that the part of the proposed resolution following the word "desirable" be stricken out. This motion was carried and the resolution in the following form was then unanimously adopted:

> "RESOLVED, That it be the sense of this conference that uniformity among all of the Federal reserve banks in the treatment of reserve balances, collateral accounts and the cash surrender value of capital stock in relation to outstanding cash items, is desirable."

Mr. Parker then read the following draft of a resolution embodying what he considered to be the views of the majority of the conference:

> "BE IT RESOLVED that the following represents the consensus of opinion of a majority of Counsel to the various

Federal Reserve Banks, assembled in conference pursuant to the call of the General Counsel to the Federal Reserve Board:

"1. We construe Regulation J of the Federal Reserve Board as providing that the Federal Reserve Banks shall take for collection checks sent to them for such purpose by other banks, merely as agents of the banks from which the same are received. We regard the policy of the Board in this regard as being economically sound, legally proper and equitable in its application.

"2. We believe that it would be unwise to take any step or to formulate any policy which would tend to change this relationship and, specifically, that it would be unwise to attempt to superimpose upon a pure agency status any indicia of ownership with respect to the subject matter of the agency.

"3. We believe that it is incompatible with such agency status for Federal Reserve Banks to set-off amounts due to them, as agents for collection, against indebtedness due by them to insolvent member banks or to non-member clearing banks; hence, we are of the opinion that after a bank has been closed the Reserve Bank of its District should not thereafter attempt to charge unremitted cash letters against the reserve account of the closed bank. For the same reason we believe that after insolvency a remittance draft, drawn by the closed bank, should not be charged against its reserve account.

"4. When a Federal Reserve Bank takes from one of its members collateral for the payment of indebtedness due to it by such member, such collateral should be applicable only to the satisfaction and discharge of the obligations due to the Reserve Bank itself. It would be an unwise policy, in our opinion, to permit such collateral to be utilized in the liquidation or satisfaction of debts payable to the Federal Reserve Bank as a collection agent.

"5. The status of the capital stock holdings of a member bank in its Federal Reserve Bank, upon the insolvency or liquidation of such member, is fixed by the Federal Reserve Act and, as we construe the same, the proceeds of such holdings could only be applied in or toward the satisfaction of debts due to the Federal Reserve Bank itself, as contradistinguished from debts which might be payable to the Reserve Bank as a collection agent.

"6. In our opinion, any deviation from the

policies, in furtherance of which Regulation J (as we construe it) was promulgated, would entail grave dangers to Federal Reserve Banks and would result in the preferring of a limited number of creditors of an insolvent bank, contrary to the letter and spirit of the law as it exists in the various States and as administered in the Courts of the United States."

Mr. Stroud moved that the chairman of the conference appoint two committees, one representing Policy B, the majority view, and one representing Policy A, the minority view, to draft proposed amendments to the Federal Reserve Board's Regulation J and to the check collection circulars which would have the effect of incorporating into the Regulation and the circulars the views of the majority and of the minority, respectively; these committees to report back to the conference at 5:00 p. m. The chairman then appointed as the committee that represented the majority view, Mr. Stroud, Chairman, Mr. Parker, Mr. Agnew and Mr. Newell; and as the committee representing the minority view, Judge Ueland, Chairman, Mr. Wallace, Mr. Meyer and Mr. Sinclair.

The conference then recessed, to meet again at 5:00 p. m.

- - -

The conference re-convened at 5 p.m. Mr. Stroud stated that his committee had not yet formulated a report. Judge Ueland stated that his committee had prepared a resolution but that it was not yet typewritten.

The Secretary to the Governors' Conference attended this session of the Conference of Counsel and reported that the Governors would be glad to confer with the Conference of Counsel and suggested 2:30 p.m. on Tuesday as the time for such joint conference.

On motion made and duly adopted it was decided to meet with the Governors on Tuesday at 2:30 p. m. The Conference then adjourned to meet at 9 a.m. on Tuesday.

Tuesday Session.

The conference again assembled on Tuesday, April 2, at 9:00 a. m.

Mr. Stroud then presented to the conference the following report of the committee representing Policy B, the majority view:

"WHEREAS there now exists a lack of uniformity among the twelve Federal reserve banks in their construction of Regulation J, as promulgated by the Federal Reserve Board, which lack of uniformity has given rise to litigation in the past and holds promise of increased litigation in the future with conflicting decisions in various judicial districts; and

"WHEREAS, we deem it of the utmost importance that all of the Federal reserve banks follow a uniform policy in the respect stated:

"BE IT RESOLVED that the following represents the consensus of opinion of the Conference of Counsel to the various Federal reserve banks, assembled pursuant to the call of the General Counsel to the Federal Reserve Board:

"1. We construe Regulation J of the Federal Reserve Board as intended to provide that the Federal reserve banks shall take for collection checks sent to them for such purpose by other banks, merely as agents of the banks from which the same are received. We regard this policy as being economically sound, legally proper and fair in its operation.

"2. We believe that it would be extremely unwise to take any step or to formulate any policy which would tend to change this relationship and, specifically, that it would be unwise to attempt to superimpose upon a pure agency status any indicia of ownership with respect to the subject matter of the agency.

"3. We believe that it is incompatible with such agency status for Federal reserve banks to set-off amounts due to them, as agents for collection, against indebtedness due by them to insolvent member or non-member clearing banks; hence, we are of the opinion that after a bank has been closed the reserve bank of its district being notified of its suspension, should not thereafter attempt to charge unpaid cash items against the reserve account of the closed bank. For the same reason we believe that after notice of suspension a remittance draft, drawn by the closed bank, should not be charged against its reserve account.

"4. When a Federal reserve bank takes from one of its members collateral for the payment of indebtedness due to

it by such member, such collateral should be applicable only to the satisfaction and discharge of the obligations due to the reserve bank in its own right. It would be an unwise policy, in our opinion, to permit such collateral to be utilized in the liquidation or satisfaction of debts payable to the Federal reserve bank as a collection agent.

"5. The status of the capital stock holdings of a member bank in its Federal reserve bank, upon the insolvency or liquidation of such member, is fixed by the Federal Reserve Act and, as we construe the same, the proceeds of such holdings could only be applied in or toward the satisfaction of debts due to the Federal reserve bank in its own right, as contradistinguished from debts which might be payable to the reserve bank as a collection agent.

"6. In our opinion, any deviation from these policies, in furtherance of which Regulation J was promulgated, would entail grave dangers to Federal reserve banks and would result in the preferring of a limited number of creditors of an insolvent bank, contrary to the letter and spirit of the law as it exists in the various States and as administered in the Courts of the United States.

"7. In view of the conflicting interpretations which have been placed upon Regulation J by the Federal reserve banks, resulting in conflicting judicial decisions in relation thereto, we deem it of the utmost importance that Regulation J be so clarified by amendment as to result in uniformity in its interpretation and application. Such amendment, we believe, should be made at the earliest possible time. To accomplish this purpose we recommend that paragraph 6 of Section V of Regulation J be amended to read as follows:

> '(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. The owner or holder of any such check so charged back shall, in such event, have no right of recourse upon, interest in or rights of payment from any fund, reserve, collateral or other property in the possession of the Federal reserve bank.'

We further recommend the elimination from paragraph 4 of Section V of Regulation J the following:

> 'or at the option of such Federal reserve bank to authorize such Federal reserve bank to charge their reserve accounts or clearing accounts.'"

The report of the committee representing the majority view was then made the subject of general discussion. Certain amendments to the

language of the report of the committee representing the majority view were then offered and adopted. The report as thus amended, is as follows:

"WHEREAS there now exists a lack of uniformity among the twelve Federal reserve banks in their construction of Regulation J, as promulgated by the Federal Reserve Board, which lack of uniformity has given rise to litigation in the past and holds promise of increased litigation in the future with conflicting decisions in various judicial districts; and

"WHEREAS, we deem it of the utmost importance that all of the Federal reserve banks follow a uniform policy in the respect stated:

"BE IT RESOLVED that the following represents the consensus of opinion of the Conference of Counsel to the various Federal reserve banks, assembled pursuant to the call of the General Counsel to the Federal Reserve Board:

"1. We construe Regulation J of the Federal Reserve Board as intended to provide that the Federal reserve banks shall take for collection checks sent to them for such purpose by other banks, merely as agents of the banks from which the same are received. We regard this policy as being economically sound, legally proper and fair in its operation.

"2. We believe that it would be extremely unwise to take any step or to formulate any policy which would tend to change this relationship and, specifically, that it would be unwise to attempt to superimpose upon a pure agency status any indicia of ownership with respect to the subject matter of the agency.

"3. We believe that it is incompatible with such agency status for Federal reserve banks to set-off amounts due to them, as agents for collection , against indebtedness due by them to insolvent member or non-member clearing banks; hence, we are of the opinion that after a bank has been closed the reserve bank of its district being notified of its suspension, should not thereafter attempt to charge unpaid cash items against the reserve account of the closed bank. For the same reason we believe that after notice of suspension a remittance draft, drawn by the closed bank, should not be charged against its reserve account.

"4. When a Federal reserve bank takes from one of its members collateral for the payment of indebtedness due to it by such member, such collateral should be applicable only to the satisfaction and discharge of the obligations due to the reserve bank in its own right. It would be an unwise policy, in our opinion, to permit such collateral to be

utilized in the liquidation or satisfaction of debts payable to the Federal reserve bank as a collection agent.

"5. The status of the capital stock holdings of a member bank in its Federal reserve bank, upon the insolvency or liquidation of such member, is fixed by the Federal Reserve Act and, as we construe the same, the proceeds of such holdings could only be applied in or toward the satisfaction of debts due to the Federal reserve bank in its own right, as contradistinguished from debts which might be payable to the reserve bank as a collection agent.

"6. In our opinion, any deviation from these policies, in furtherance of which Regulation J was promulgated, would entail grave dangers to Federal reserve banks and would result in the preferring of a limited number of creditors of an insolvent bank, contrary to the letter and spirit of the law as it exists in the various States and as administered in the Courts of the United States.

"7. In view of the conflicting interpretations which have been placed upon Regulation J by the Federal reserve banks, resulting in conflicting judicial decisions in relation thereto, we deem it of the utmost importance that Regulation J be so clarified by amendment as to result in uniformity in its interpretation and application. Such amendment, we believe, should be made at the earliest possible time. To accomplish this purpose we recommend that subject to the approval of General Counsel to the Federal Reserve Board, paragraph 6 of Section V of Regulation J be amended to read substantially as follows:

> '(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. The owner or holder of any such check so charged back shall, in such event, have no right of recourse upon, interest in or rights of payment from any fund, reserve, collateral or other property in the possession of the Federal reserve bank.'

We further recommend that subject to the approval of General Counsel to the Federal Reserve Board, paragraph 4 of Section V of Regulation J be amended to read substantially 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. Such remittance or payment may be made in cash, by bank draft acceptable to the collecting Federal reserve bank, by other funds or transfers acceptable to the collecting

Federal reserve bank, or by authorizing the collecting Federal reserve bank to charge their reserve accounts or clearing accounts.'"

Mr. Agnew then moved the adoption by the conference of the amended report of the committee representing the majority view. Mr. Weed moved as a substitute that the report be returned to the committee with instructions that a reservation clause be drafted by the committee to cover the right of Federal reserve banks in special or exceptional cases to charge unremitted for cash letters to collateral taken for this specific purpose. Mr. Weed's substitute motion was put to a vote and was lost by a vote of three to five, counsel for the Federal reserve banks of Philadelphia, Richmond, Chicago and Minneapolis not voting on this motion. Counsel for the Federal reserve banks of Boston, New York and Dallas voted in the affirmative on the motion.

Mr. Agnew's motion that the conference adopt the report of the majority committee was then voted upon. The motion was adopted by a vote of eight to four, counsel for the Federal reserve banks of Boston, New York, Cleveland, Atlanta, St. Louis, Kansas City, Dallas and San Francisco voting in the affirmative, and counsel for the Federal reserve banks of Philadelphia, Richmond, Chicago and Minneapolis voting in the negative.

In connection with the vote on the adoption of the report of the majority committee, Messrs. Weed, Logan and Stroud stated that they voted for this report with the understanding that the report of the committee is not intended to carry with it any implication that a Federal reserve bank may not make special arrangements to insure the payment of checks in special cases.

The following report of the committee representing Policy A, the minority view, was read to the conference:

"We, the undersigned, representing the Federal Reserve Banks of Chicago, Minneapolis, Philadelphia and Richmond, are unable to concur in the recommendation of the majority of the Conference of Counsel and in lieu of the amendment recommended by the majority we recommend that paragraph 4 of Section V of Regulation J be amended 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. Such remittance or payment may be made in cash, by bank draft acceptable to the collecting Federal reserve bank, by other funds or transfers acceptable to the collecting Federal reserve bank, or by authorizing the collecting Federal reserve bank to charge their reserve accounts or clearing accounts.'

"The object of this amendment is merely to clarify the meaning of the existing paragraph.

"We recommend that paragraph 6 of Section V of Regulation J be amended so as to have it read as follows:

'(6) The amount of any check for which payment in actually and finally collected funds is not received may be charged back to the forwarding bank regardless of whether or not the check itself can be returned, but the Federal reserve bank may charge the amount of any check not returned unpaid to the reserve account or clearing account, as the case may be, of the bank from which such payment was not received, and may hold any other property of such bank in its possession as security for payment of such check. The right so to do shall, however, be subordinate and without prejudice to all other rights of the Federal reserve bank upon such reserve account and clearing account and to such other property in its possession.'

"Our reasons for recommending the amendment last mentioned are as follows:

"The Federal Reserve Board in promulgating Regulation J has stated that it desires to afford to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances and for that purpose has arranged to have each Federal reserve bank exercise the function of a clearing house and collect checks for such of its member and non-member clearing banks as desire to avail themselves of the privilege and the Board further required in its Regulation that each Federal reserve bank shall exercise the function of a clearing house and collect checks under the general terms and conditions thereinafter set forth and that each member bank and non-member clearing bank shall cooperate fully in the system of check clearance and collection for which provision is made in the Regulations. When the Federal reserve banks were made clearing houses for their member banks we think it was not contemplated that the banks on which checks were drawn should be at liberty to convert the checks and place the owners of checks presented through the clearing system in the position of creditors of an insolvent bank. This amendment is suggested from the point of view that the Federal Reserve Board should make provision for holding each member of the clearing house as far as possible to its obligation to the other members of the clearing house.

"Whenever a check is cancelled by the drawee bank and charged to the account of the drawer, the drawer is by the great weight of authority released from liability to the holder and the holder is required to look to the drawee bank. The holder seldom knows or has opportunity to investigate the condition of the bank upon which a check held by him is drawn. Hence, when he is forced to release the drawer, his original debtor, and to assume the position of a creditor of the drawee bank and sustains any loss because such bank fails to remit or pay for a check which has been cancelled so that he can neither obtain the return of the check nor collect the amount of it, the holder feels that he has a just cause of dis-

satisfaction with the System which has placed him in this position.

"Since the check collection system was, as we have pointed out above, established primarily for the safety, convenience, and benefit of the business public, it is highly desirable to avoid losses to the public from such a situation whenever it is possible to do so and such losses can be avoided in most cases if the Federal reserve bank has the right to resort to the reserve balance of a failed member bank and to the proceeds of existing collateral to protect the holders of checks deposited for collection after the prior demands of the Federal reserve banks are satisfied.

"We consider that the primary purpose of the reserve balance is to enable the member banks to meet withdrawals and the principal way in which withdrawals are made is by checks drawn on the member bank, most of which are presented through the Federal reserve banks. Hence, the reserve deposit of a member bank in the hands of a Federal reserve bank may appropriately and consistently within the spirit of the Federal Reserve Act be made applicable to the payment of checks presented through the Federal reserve banks rather than held as a protection for the general creditors of the member bank.

"We are informed that commercial banks in the past, while limiting their liability for failure to collect checks deposited with them, have, nevertheless, used any funds or property in their possession belonging to the drawee bank for the benefit of endorsers. Practically all judicial decisions that have come to our attention are in accord in sustaining the right of the forwarding bank to do this and we believe that Federal reserve banks should adopt the position so sanctioned by the prior usage of commercial banks in collecting checks and afford to the depositors complete protection against the default of the drawee bank when it is practicable to do so.

"We do not think that this plan, which we recommended, gives any undue preference to persons collecting checks through Federal reserve banks, for such persons only obtain payment on checks on which the drawers are released and which are, therefore, deemed paid so far as the drawers, who are the depositors of the failed bank, are concerned.

"Federal reserve banks are frequently under compulsion to forward items direct to a member bank known to be in an extended condition. To send a messenger to collect in cash in such a case would often result in the suspension of the drawee bank, owing to a mere temporary shortage of available funds. Yet any other method of collection in such a case might constitute negligence and create liability on the part of the Federal reserve bank to depositors of checks. The policy we suggest has the advantage of

reducing such liability, which we believe is unavoidable in many cases, to a minimum."

Counsel for the Federal reserve banks of Philadelphia, Richmond, Chicago and Minneapolis stated that they favored the adoption of the above report representing the minority view.

On motion of Mr. Agnew, the conference then adopted the following resolution prepared by a committee consisting of Messrs. Parker, McConkey, and Wallace, in respect to the memory of the late Mr. Charles L. Powell, who was until his recent death, counsel for the Federal Reserve Bank of Chicago:

"The Counsel representing the various Federal Reserve Banks have learned with the deepest regret of the death of Mr. Charles L. Powell, late of the Chicago Bar and for many years counsel to the Federal Reserve Bank of that City.

"He passed from the scene of his varied and useful earthly activities on the eve of a Conference of his colleagues, the counsel of the several Reserve Banks. In that Conference, now preparing to adjourn, his genial presence and his sound conservative advice have been sorely missed, and it is desired that a tribute be paid to his life and character.

"He was a lawyer of splendid attainments and of unusual ability, profoundly learned in the law and possessed of a fund of wholesome common sense.

"As an advocate he was persuasive and forceful, and, being a man who respected the law and loved his profession, his viewpoints were never molded by considerations of mere expediency. Having a logical and judicial mind, he was peculiarly fitted to serve as an adviser and counsellor.

"He was the soul of honor and integrity - honest in thought as well as in his acts. His personality attracted at first acquaintance and his sterling qualities ripened such attractions into real affection and friendships.

"Within the restricted bounds of a resolution of sympathy and esteem it is impossible to do justice to the character, attainments and real worth of the friend, whose loss we so deeply feel. It is fitting, however, that others should know something of the high opinion in which he was held by those with whom he came in contact,

"THEREFORE, to the end that his memory may be honored and that the sympathy of this body may be expressed to the bereaved family, BE IT RESOLVED by the Counsel to the twelve Federal Reserve Banks, in conference assembled, that the above and foregoing be adopted as expressing in some measure our admiration, esteem and affection for Mr. Powell; that a copy of this resolution be spread upon the records of this Conference and a copy be furnished by the Secretary to the members of his family."

The Conference then adjourned at 12:30 p. m.

Meeting with Governors.

At 2:30 p. m. the Conference of Counsel met with the Governors' Conference to discuss the subjects which had been under consideration by the Counsel. The Chairman of the Governors' Conference first called upon Mr. Wyatt, the Chairman of the Conference of Counsel, to make a statement as to the matters under discussion and the recommendations of the Counsel. Mr. Wyatt stated the problem and the action taken by the Conference of Counsel. He read the resolution of the Conference of Counsel expressing the desirability of a uniform policy and then read the report of the committee representing the majority view as adopted by the Conference, together with the statement of reservation of Messrs. Weed, Logan and Stroud. He also read the report of the committee representing the minority view. The Chairman of the Governors' Conference then called upon various members of the Conference of Counsel to express their views upon the questions under consideration. Questions were addressed by the Governors to the Counsel and the subject generally discussed between the Governors and the Counsel.

No action was taken by the Governors while the Counsel were present and at 5:15 the joint conference between the Governors and the Counsel was concluded.

(Signed) George B. Vest,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6291

April 18, 1929.

SUBJECT: Holidays during May, 1929.

Dear Sir:

The Federal reserve banks and branches listed below will be closed on account of holidays on the dates specified, and therefore will not participate in either the Gold Settlement Fund or the Federal reserve note clearing:

Friday	May 10	Charlotte	Confederate Memorial Day
Monday	May 20	Charlotte	Mecklenburg Independence Day
Monday	May 20	Havana Agency	Cuban Independence Day

On Thursday, May 30th, Memorial Day, there will be neither Gold Settlement Fund nor Federal reserve note clearing and the books of the Board will be closed. The offices of the Board and all Federal reserve banks and branches, with the exception of the following, will be closed on that day: Charlotte, Atlanta, New Orleans, Birmingham, Little Rock and Havana Agency.

Credits of May 10th and 20th for Charlotte Branch may be included in the Gold Fund Clearing with those of the following business days.

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-6292

April 18, 1929.

SUBJECT: Daylight Saving Schedule, 1929.

Dear Sir:

Beginning Monday, April 29th, and ending Saturday, September 28th, the following Federal Reserve Banks and Branches will operate under daylight saving schedule:

Boston	Philadelphia	Chicago
New York	Pittsburgh	
Buffalo		

The Federal Reserve Branch Banks listed below will observe special banking hours:

Helena Branch from May 1st to August 31st, 9:30 a.m. to 2:00 p.m., except Saturday, when the hours will be 9:30 a.m. to 1:00 p.m., mountain time.

Salt Lake City Branch from April 29th to September 30th, 9:00 a.m. to 2:00 p.m., except Saturday, when banking hours will be 9:00 a.m. to 12:00 noon, mountain time.

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-6293

April 18, 1929.

SUBJECT: Classification of personnel at Federal Reserve Banks.

Dear Sir:

With reference to the Board's letter X-6267 of March 14, 1929, on the above subject, I beg to advise that the Committee on Personnel at Federal Reserve Banks met in Chicago on April 8, and submitted a report to the Federal Reserve Board, under date of April 10, recommending that a plan of job analysis and classification of employees similar in scope and purpose to that outlined by the Board and explained in its letter of October 9, 1928., be adopted by each Federal reserve bank. The Committee's report, a copy of which is enclosed herewith, has been approved by the Federal Reserve Board.

If your directors concur in the Committee's report it will be appreciated if you will prepare an analysis of each position or job, except appraised positions, in your bank on "form A", a supply of which has been furnished you by the Chairman of the committee and forward it to the Board at your convenience. The appraised positions, i.e., positions for which it is not practicable to establish salary ranges, should be kept at a minimum. The Board hopes that the personnel reports to be submitted for each bank and branch will be prepared as promptly as convenient, in order that they may be reviewed by the Board and, if practicable, the plan placed in actual operation before the end of the calendar year.

Your report on form A should be accompanied by a list of employees in your bank, showing the classification symbol of each employee as used in the second column of form A, the title of the job held, the salary paid to the employee on the date of the report, and except in the case of appraised positions, the maximum and minimum salary provided for the position or job. Experience in the past has shown that in adopting a plan of the kind under consideration it will be found that some employees are receiving more than the maximum provided for their grade.

While it is not expected that such employees will be reduced in salary at the time the plan is adopted it is to be expected that in course of time the salaries of such employees will be brought within the salary ranges approved for the positions occupied.

While the Board realizes that some of the positions in the Federal reserve banks, such as that of teller for instance, are not comparable with similarly designated positions in commercial banks, it expects that in preparing the salary ranges for the different positions in the bank you will take into consideration the salaries paid by local member banks for corresponding positions, and that your salary ranges will be in substantial accord with salaries paid for similar work by the local banks. Following this principle it is apparent that in many cases the salary ranges for positions in a branch may be substantially different from those at the head office or at another branch in the same district.

As stated in previous correspondence after the classification plan submitted by your bank, including salary ranges, has been approved by the Federal Reserve Board, you will be authorized to promote employees within a given grade and from one grade to another without securing the Board's approval, with the understanding, of course, that all employees will be engaged upon the work called for by the classification plan, and that they will not be paid salaries in excess of the maximum salary provided in the plan without the Board's approval. After this new plan is in operation it will still be necessary for you to submit reports to the Board for approval, annually or perhaps oftener, showing actual salaries paid to employees and changes during the report period. You will be advised of the details to be covered in these reports at a later date.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

TO GOVERNORS AND CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

COPY

X-6293-a

April 10, 1929.

363

REPORT OF COMMITTEE ON CLASSIFICATION OF PERSONNEL AT FEDERAL RESERVE BANKS

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Pursuant to the Board's letter of March 14, 1929, (X-6267), the Committee on Classification of Personnel at Federal Reserve Banks held a meeting at the Federal Reserve Bank of Chicago on Monday, April 8, 1929. The meeting was called to order at 10:00 A.M., with Mr. M. J. Fleming acting as temporary Chairman.

Upon motions, Mr. M. J. Fleming was elected Chairman of the meeting and Mr. J. S. Walden, Jr., was elected Secretary. The full committee consisting of the following representatives of the various reserve banks, was present:

Boston	W. W. Paddock
New York	L. R. Rounds
Philadelphia	W. H. Hutt
Cleveland	M. J. Fleming
Richmond	J. S. Walden, Jr.
Atlanta	Creed Taylor
Chicago	J. H. Dillard
St. Louis	O. M. Attebery
Minneapolis	B. V. Moore
Kansas City	C. A. Worthington
Dallas	R. B. Coleman
San Francisco	C. E. Earhart

Mr. E. L. Smead of the Federal Reserve Board, and Mr. S. F. Gilmore of the Federal Reserve Bank of St. Louis were also present at the meeting.

The Chairman called upon Mr. Smead to outline the position of the Federal Reserve Board with respect to the approval by the Board of salaries proposed by the various Federal Reserve Banks for their employes and the purposes which the Board had in mind when it asked that the Committee be appointed. He stated that in order that the Board might be in a position to more adequately and intelligently discharge its responsibility of passing upon the salaries of employes at the Federal Reserve Banks, and also to facilitate the work of the banks in making their proposals for salary adjustments, it would seem desirable to analyze each job in the banks and wherever practicable, provide a salary range for each job.

Mr. Fleming, Chairman of the Sub-Committee, reviewed briefly the work of the Sub-Committee and stated what had been accomplished by the Sub-Committee, leading to the necessity for calling a meeting of the full Committee.

It was suggested that the members of the Committee representing those banks which have a definite plan of job analysis and classification of employes in operation at the present time, give a brief outline of the plans under which they are operating for the benefit of representatives of banks which are not operating under any such plan. Mr. Rounds outlined the plan in operation at the Federal Reserve Bank of New York, Mr. Fleming the plan proposed by the Cleveland reserve bank, and Mr. Dillard the plan of the Chicago reserve bank.

Each member of the Committee was then called upon to give a brief account of the system employed in his bank of adjusting the salaries of employes. The system in effect at his bank was outlined by each member of the Committee, and each member was called upon to give an expression of his views and opinion of the proposal for a job analysis and classification of employes according to jobs. While a few of the members, particularly those representing the smaller banks, felt that adequate supervision was being given to the consideration of salaries in their banks, it was agreed by each member that a plan of job analysis and classification of employes offered no administrative difficulties, and all members expressed themselves as being favorable to the adoption of a plan. It was felt that experience might prove that each bank, regardless of its size, might be materially benefitted in its work of salary administration by using such a plan, and therefore each bank should heartily co-operate in its adoption, looking to probable benefits to be derived, as explained by representatives of those banks which are now operating under a job analysis plan.

Upon motions duly seconded and carried, it was voted unanimously-

(1) That a plan of job analysis and classification of employes similar in scope and purpose to that outlined by the Board and explained in the letter dated October 9, 1928, addressed to each Federal Reserve Bank by the Chairman of the Sub-Committee, should be adopted by each Federal Reserve Bank.

(2) That it is impracticable to devise a uniform plan for use by all Reserve Banks and Branches, and therefore each bank should analyze the jobs and classify the personnel as they exist in the individual bank or branches and submit its own plan to the Federal Reserve Board for approval.

(3) That in addition to the duties of each job, the qualifications required for each job should be included in the plan.

(4) That a minimum and maximum salary for each job (other than appraised jobs) under each group classification should be established.

(5) That all jobs as far as possible should be classified under the general scheme of group and grade classifications and appraised jobs, that is, jobs considered to come under the appraised group, should be kept to a minimum.

(6) That each bank in submitting its analysis of jobs, as the jobs exist in the individual bank or branch should use the form adopted by the sub-committee as revised, in requesting information from each bank. This form is designated as "Form A", and inasmuch as it was printed at the printing plant of the Federal Reserve Bank of Cleveland, and the type is still standing, Mr. Fleming agreed to the suggestion that the Cleveland bank furnish each other bank with an appropriate supply of the form for the purpose of submitting its plan.

(7) That any plan adopted by any bank should, for the present time at least, provide a maximum salary for each job based on the duties of the particular job, and no provision should be made to pay salaries above the maximum in recognition of the length of service of any particular employee. It was felt that inasmuch as the reserve banks are comparatively young institutions and the necessity for the recognition of length of service has not been pressing up to this time, this feature of any plan might be considered and taken up with the Board at a later time.

Respectfully submitted:

(S) M. J. Fleming
Chairman.

(S) J. S. Walden, Jr.
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6295

April 23, 1929.

SUBJECT: Canadian Currency.

Dear Sir:

Under date of September 14, 1928, the Department of Commerce wrote the Federal Reserve Board calling attention to the spirited complaints by Canadians against the attitude of Americans in certain sections of the United States when tendered Canadian currency in payment of hotel bills and for supplies purchased, and asking whether machinery could not be set up to put Canadian bank notes at or near par in this country. With the letter from the Department of Commerce was enclosed a memorandum from the Chief of the Finance and Investment Division commenting on the charges made on currency by banks and merchants in various sections of the country. A copy of the letter and memorandum is enclosed.

Following the receipt of this letter, the Board laid the matter before the Governors at their Conference in Washington in October, 1928, and in accordance with the agreement reached at the Conference, as you were advised on December 10, 1928, appointed a committee consisting of the Managing Directors of the Buffalo, Detroit and Seattle Branches and Deputy Governor Moore of the Federal Reserve Bank of Minneapolis to study the problem. At the same time the Board stated that the matter would be made the subject of special communications to the Governors of those Federal reserve banks having representatives on the committee.

The Board has continued to give this matter consideration since the Governors' Conference with especial reference to the service which the Federal reserve banks might render in this connection; but it has not yet requested the Committee to begin a study of the question. It is clear to the Board that the Federal reserve banks should not absorb any material expense in this undertaking, as it is not a matter over which they have any control or one that is necessarily involved in the functioning of the banks in accordance with the provisions of the Federal Reserve Act. The Board is inclined to believe, however, that a substantial service would be rendered to American business men if some means were provided whereby Canadian currency spent in this country could be redeemed at a minimum of expense and at a cost which would be known by the merchants in advance. The Board understands that expenditures in this country by Canadian tourists amount to about $75,000,000 a year.

One proposal for handling the situation which has been suggested to the Board seems to have considerable merit and the Board would like to have your advice as to whether this proposal, as outlined below, would work out satisfactorily in your district and whether you would

be willing to cooperate by accepting Canadian currency under the conditions specified.

The plan contemplates that the Federal reserve banks shall accept Canadian currency from member banks along with other currency shipments and that they shall pay member banks at par for such currency, less the expense of effecting its redemption, i.e., after deduction of shipping charges and loss of interest on the currency in transit and making allowance for the discount or premium on Canadian exchange. This plan also contemplates that the Federal reserve banks would notify member banks of their willingness to accept Canadian currency along with other currency and that the Federal reserve banks would assume shipping costs the same as they do on United States currency, but that credit would be given for the Canadian currency at par less a specified discount intended to cover solely the cost of redemption. If the Federal reserve banks could render a service of this kind, it is the opinion of the Department of Commerce and also of the Federal Reserve Board that they would not only help to remove the wide-spread irritation and resentment of Canadian tourists over the unreasonable discount now sometimes charged on their currency but would be rendering a real service to the business men in their districts.

It will be appreciated, therefore, if you will advise the Board whether you would be willing to undertake this service, and if so, how you would expect to dispose of the currency and what discount you would expect to have to charge member banks normally in order to cover your expenses in connection therewith. If this plan should be adopted, would it be better to determine the transportation expenses and then have a fluctuating rate dependent on the Canadian exchange rate, or to have a flat rate which would apply throughout the year and be so fixed as in the long run to approximately offset your expense?

Whether it will be necessary for the Board to request the committee to study this question will depend somewhat on the replies received to this letter, but no further action will be taken by the Board in this connection until after the replies from all Federal reserve banks are received and analyzed.

Very truly yours,

Edmund Platt,
Vice Governor.

LETTER TO ALL GOVERNORS.

COPY

X-6295-a

368

DEPARTMENT OF COMMERCE
Bureau of Foreign and Domestic Commerce
WASHINGTON

September 14, 1928.

In reply refer to 24

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

My dear Governor:

As the enclosed memorandum by our Finance Division shows, there is widespread irritation and resentment in Canada against the attitude of Americans when tendered Canadian currency by our Canadian visitors. In many cases Canadian banknotes are accepted in this country at a discount of five, ten and even twenty per cent; and in other cases they are rejected entirely as if they were "bad money". Quite apart from the embarrassment, inconvenience and pecuniary loss to which our Canadian visitors are thus put, it appears that their national pride is involved. Canadians are justly proud of their high national credit and of their excellent banking system. They point out that in Canada American money is nearly everywhere accepted at par, and they feel that our discount upon their currency is unfair and inexcusable. The whole situation is singularly unfortunate.

In 1927 Canadian tourists spent about $51,000,000 in the United States, according to the estimate in our "balance of international payments." The official Canadian estimate was considerably higher, and the traffic is increasing rapidly. I feel that our nation can well afford to encourage this traffic and that nothing should be overlooked to make the stay of our Canadian visitors pleasant. In that spirit I am asking your help in solving this extremely unpleasant exchange situation.

Several of the representatives of this Bureau (in Canada and in our district offices in this country) have suggested that the Reserve Banks might easily set up machinery that would put Canadian banknotes at par in this country and at the same time speedily withdraw them

from circulation here. I wonder if something of this kind cannot be arranged between the northern Reserve banks and their Canadian correspondents. As I understand it, the expenses of shipping currency between the member banks and their Reserve Bank (both to and from) is borne by the latter; so the member banks would be put to no expense -- and to but very little inconvenience -- in accepting Canadian bills at par, if the Reserve Bank would accept them at par. They would simply include the Canadian bills in the same packet with the Federal Reserve Notes they are now regularly shipping to the Reserve Bank.

Perhaps this is much less simple than it appears to an outsider like myself, but I should greatly appreciate hearing from you whether something of this kind cannot be accomplished. I rather think we can ignore Canadian coins, as they would involve very much smaller amounts and as the machinery for handling them would cost more.

Cordially yours,

Julius Klein,
Director.

Inclosure:

COPY X-6295-b

370

DEPARTMENT OF COMMERCE
Bureau of Foreign and Domestic Commerce

WASHINGTON

September 11, 1928.

In reply refer to 24

To: Secretary Whiting,

From: Finance and Investment Division,

Re: Heavy Exchange Charges on Canadian Currency.

On August 2, Commercial Attache Meekins, Ottawa, reported to the effect that he had received several spirited complaints by Canadians against the attitude of Americans when tendered Canadian currency by visitors from Canada. The Commercial Attache mentioned that a great deal of irritation and friction results and that in many instances the expenditures of Canadian tourists in this country are curtailed. He urged action to correct this situation.

In order to get information upon which to base action, a circular letter was sent to several of the District and Cooperative Offices of this Bureau located nearest to the Canadian frontier, and to our foreign offices at Montreal, Toronto, Vancouver and Winnipeg. A summary of the information thus obtained follows:

THE ATTITUDE OF CANADIANS

Ottawa:

An alderman at Ottawa complained that after spending about $150 of American currency in a department store at Philadelphia, he requested the store to exchange a relatively small sum in Canadian banknotes, at the current rate of exchange. The store refused. Friends of the alderman have complained against similar experiences at "Cleveland, Buffalo, Rochester, New York and other centers".

What seems to rankle is that American currency (even coins) is freely accepted at par throughout Canada. Canadians are justly proud of their excellent banking system and of their high national credit. Their national pride is involved. It is not wholly a question of personal inconvenience and pecuniary loss.

Winnipeg:

"It is quite true that there is widespread irritation in Canada on account of the refusal by merchants and others in the United States to accept Canadian currency at par or at a reasonable rate." Canadian motorists complain that in the smaller American cities they have difficulty in exchanging Canadian banknotes, even at the banks, which exact a discount of 5 to 10 per cent. "It is short-sighted to take advantage of the extremities of visitors for the sake of a few dollars of immediate gain."

The effects of the irritation among Canadians over this difficulty are largely intangible. People who have taken a trip in the United States, and who have been charged ten per cent discount on their Canadian currency, come back and tell all their friends about it. The narration of these incidents provokes irritation against the United States generally. (Trade Commissioner Richards).

Montreal:

The fact that Canadians in the United States are unable to use their currency freely is without doubt a source of irritation.... The heavy exchange charged even by first-class hotels is annoying to most Canadians....Often the manner of our people in rejecting Canadian money makes the Canadian feel that he is trying to pass bad money off on them...Canadians are proud of their currency since there is no question as to its soundness....Any losses in exchange would be more than made up in profits from sales to Canadians. (Assistant Trade Commissioner France).

Vancouver:

The fact that Canadian currency is not acceptable to American merchants probably hurts the pride of some of the Canadian tourists.....but the complaints come mostly from the less intelligent class. (Assistant Trade Commissioner Probert).

THE PRACTICES IN CERTAIN AMERICAN CITIES

Columbus, Ohio:

"An investigation shows that business houses and hotels accept Canadian currency at eighty cents on the dollar." (Columbus Chamber of Commerce).

Keokuk, Iowa:

"Very little Canadian money is seen here...I congratulate

you upon having the foresight to take this matter up; for we on this side of the world's largest unprotected boundary should do everything possible to retain the friendships, business and personal, of our Canadian friends." (Foreign Trade Secretary Holmes, Keokuk Chamber of Commerce).

Chicago:

"The report that there is widespread resentment in Canada on this account is no doubt correct. It is unfortunate that such a situation exists, and I believe it would be very much worthwhile trying to solve the problem.

The discount charged by small banks ranges as high as 10 per cent on account of the "bother" of handling the currency. I believe it is safe to say that the larger stores and hotels accept Canadian currency at a discount of not less than 5 per cent; the small shops and hotels very often refuse to accept it at all, and so far as I know, none of the railway companies accept it. The larger banks charge from 1 to 2 per cent for bills and from 3 to 5 per cent for silver." (District Office Manager Roberts).

St. Louis:

One of the banks here buys Canadian bills at 90 cents and, when an amount has been accumulated, sends them by messenger to the American Express office and receives 96 cents. In the case of good customers, however, the 96 cents is paid outright by the bank.

One department store accepts Canadian money at par, although such transactions are few. Another department store refuses it and advises customers tendering it to have it converted at a bank. A third store accepts it at the prevailing exchange rate. The railroads uniformly reject Canadian money. The three or four principal hotels accept Canadian bills dollar for dollar and take any exchange loss at the bank. (District Office Manager Gaukel).

Rochester, N. Y.:

It seems to be the general practice of department stores, railroads and hotels to accept Canadian currency at par. Some of the banks do likewise, while others charge a discount up to 1 per cent. All those whom I interviewed expressed the hope that every Rochester concern would accept Canadian currency. I believe that best results would be obtained if the Federal Reserve Board could be induced to set up machinery for the free exchange of Canadian currency between the northern Reserve Banks and their Canadian correspondents. (Rochester Chamber of Commerce).

Boston:

The local shops, hotels, railways, etc., either reject Canadian currency entirely or accept it at the rate quoted by their banks, according to the policy of the individual organization. The majority of the railroads prefer not to accept it. The maximum discount charged by the banks is about 1/2 per cent.

Possibly some hotels and local shops could be influenced by the Chamber of Commerce to stand the loss in exchange; since the charge by the banks would be of no material consequence when compared with their profits and would probably be more than offset by increased good-will from Canadians.

American tourists who travel through Canada with American currency have exactly the same trouble. The charges made in that country often times run as high as 1 per cent. (District Office Manager Sweetzer).

Des Moines, Iowa:

The banks take all amounts from the merchants subject to the Canadian exchange quotations (usually a discount of about 2 per cent); they accept coins and small amounts of currency at their face value. Some of the smaller merchants object to Canadian quarters, in the belief they contain less silver. (District Office Manager Martin).

Detroit:

Most of us here ordinarily have about as much Canadian currency, both paper and silver, in our pockets as we have American; and it is accepted by everybody without hesitation. Most of the time we do not realize whether we have received American or Canadian money in change. Large Canadian bills, however, are accepted by the banks only at a discount ranging from 20 to 50 cents for $100.

A banker here with whom I discussed the subject stated that he thought it would be an excellent thing to reach an agreement between our northern banks and the banks in Canada that Canadian money would be accepted both here and in Canada at par and that Canadian banks would give our banks 100 American dollars for 100 Canadian dollars. (District Office Manager Butler).

New York:

We believe that, if the Federal Reserve Board will arrange for the free exchange of Canadian currency between the

Reserve banks and their Canadian correspondents, much of the cause of the present criticism will cease. Most of the large banks here are buying Canadian currency at 99¼. Guttag Brothers make a specialty of exchange in small amounts and are quoting 99-3/4. (District Office Manager Hodgson).

Bridgeport, Ct.:

Our hotels accept Canadian money at 2 per cent discount. I believe the railroads do not accept it at their ticket offices and that a good many of the trades people feel too unfamiliar with it to accept it. (Manufacturers' Association).

Minneapolis and St. Paul:

Canadian silver is not welcomed by the Twin City banks, and we are informed that at one time the discount was as much as 10 per cent. There is now a uniform practice on their part to charge 2 per cent on silver and 1/4 per cent on currency. (District Office Manager Zwickel).

Portland, Oregon:

Local merchants generally accept Canadian currency at par, if a reasonable purchase is made. Exchange discounts are charged for large Canadian bills. The local Chamber of Commerce has had some discussion of the matter.

A system of par currency would be very quickly felt by merchants, hotelkeepers and others. We are very grateful for the opportunity of assisting, in any way we can, the freer travel in this area by Canadian tourists.

One of the banks, in discounting Canadian money, issues to the Canadian patron a small leaflet explaining that the charge should not be considered as a discount (since Canadian dollars are sometimes at a premium) but rather as a service charge to cover actual expenses in handling and shipping Canadian money. This tactfulness doubtless removes much of the "sting". (Portland District Office).

Dayton, Ohio:

We find that in no case is Canadian money rejected entirely. In almost every case, Canadian bills and coins are accepted at the same discount allowed by the banks, which averages around 1 per cent for paper money and 2 per cent for silver. It was the opinion of representatives of one of the leading banks that steps should be taken to induce the Federal Reserve Board to handle the situation, with the belief that this would create a better feeling among the Canadians visiting the northern part of the United States. (Chamber of Commerce).

(Signed) Grosvenor M. Jones, Chief,
Finance and Investment Division.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 23, 1929.

SUBJECT: Action of Governors' Conference re proposed amendments to Regulation "J".

Dear Sir:

The Board is advised by the Secretary of the Conference of Governors that, after considering the report of the recent Conference of Counsel with regard to the policy to be pursued by Federal reserve banks in asserting rights on behalf of depositors of unremitted for cash letters against receivers of insolvent member banks, the Conference of Governors adopted the following resolution:

> "Resolved, that we approve in substance the majority report of the Conference of Counsel, with the understanding that, to assist the Counsel of the Federal Reserve Board in framing the exact language of any amendments that may be found necessary to make the substance of the report effective, each Federal Reserve bank shall be at liberty to call his attention to any local arrangement that might be affected by any such amendments."

In order that this matter may be disposed of as soon as possible, you are requested to advise the Board at your earliest convenience whether or not there are any local arrangements in your district which might be affected by the proposed amendments to Regulation J and which you desire to have taken into consideration before those amendments are adopted by the Board.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

To Governors of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6297

April 24, 1929.

SUBJECT: Expense, Main Line, Leased Wire System, March, 1929.

Dear Sir:

Enclosed herewith you will find two mimeograph statements X-6297-a and X-6297-b, covering in detail operations of the main line, Leased Wire System, during the month of March, 1929.

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 MARCH, 1929.

X-6297-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	29,777	790	30,567	3.09
New York	168,700	-	168,700	17.05
Philadelphia	35,245	711	35,956	3.63
Cleveland	92,642	2,185	94,827	9.59
Richmond	57,898	2,211	60,109	6.08
Atlanta	65,580	6,317	71,897	7.27
Chicago	118,187	776	118,963	12.02
St. Louis	84,436	2,456	86,892	8.78
Minneapolis	34,470	2,590	37,060	3.75
Kansas City	81,454	2,113	83,567	8.45
Dallas	79,250	9,193	88,443	8.94
San Francisco	110,061	2,216	112,277	11.35
Total	957,700	31,558	989,258	100.00

F. R. Board business 240,512 1,229,770

Treasury Department business - Incoming and Outgoing 173,097

Total words transmitted over main lines 1,402,867

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6297-b).

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

6297

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, MARCH, 1929.

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	$ 637.68	$ 260.00	$ 377.68
New York	1,204.12	-	-	1,204.12	3,518.60	1,204.12	2,314.48
Philadelphia	225.00	-	-	225.00	749.12	225.00	524.12
Cleveland	296.66	-	-	296.66	1,979.08	296.66	1,682.42
Richmond	190.00	-	230.00(&)	420.00	1,254.73	420.00	834.73
Atlanta	270.00	-	-	270.00	1,500.31	270.00	1,230.31
Chicago	3,970.26 (#)	-	-	3,970.26	2,480.56	3,970.26	1,489.70 (*)
St. Louis	205.00	1.00	-	206.00	1,811.92	206.00	1,605.92
Minneapolis	183.66	-	-	183.66	773.89	183.66	590.23
Kansas City	287.50	-	-	287.50	1,743.82	287.50	1,456.32
Dallas	251.00	-	-	251.00	1,844.94	251.00	1,593.94
San Francisco	380.00	-	-	380.00	2,342.29	380.00	1,962.29
Federal Reserve Board	-	-	15,587.51	15,587.51	-	-	-
Total	$7,723.20	$ 1.00	$15,817.51	$23,541.71	$20,636.94	$7,954.20	$14,172.44
				2,904.77(a)			1,489.70(b)
				$20,636.94			$12,682.74

(&) Main Line Rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2,904.77 from Treasury Department covering business for the month of March, 1929.
(b) Amount reimbursable to Chicago.

878

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Saturday, April 27, 1929.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of March and April, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal Reserve Banks.

Volume of industrial production and of trade increased in March and wholesale prices advanced somewhat. There was a growth of commercial loans of member banks in leading cities in March and the first half of April, while investments and loans on securities of these banks showed a reduction for the period.

Production--Output of manufactures reached a new high level in March. Automobile production was exceptionally large, and steel ingot output was reported to be above rated capacity. Output of refined copper, lumber, cotton and silk textiles, and sugar was also large for the season. There was some seasonal recession from February in the production of wool textiles and leather, and a further decline in production by meat-packing plants. The volume of factory employment and payrolls continued to increase during the month and was substantially above the level of March, 1928.

Production of minerals as a group declined sharply, reflecting reduction in output of coal by more than the usual seasonal amount. Output of nonferrous metals continued large and petroleum production increased.

During the first part of April industrial activity continued at a high rate, although preliminary reports indicated a slight slowing down in certain branches of the steel industry, and a smaller output of coal and petroleum.

The value of building contracts awarded increased seasonally during March

and the first two weeks in April, reflecting in part the award of a few large contracts, chiefly commercial and industrial. The total volume of building, however, continued smaller in March than a year ago. Contracts for residential building and public works and utilities were substantially below the level of March, 1928, while industrial and commercial building was in larger volume.

Distribution--Railroad shipments of commodities declined somewhat in March but were larger than in the same period of the preceding year. The decline from February reflected smaller shipments of coal and coke, grain products, and livestock, all of which were also below March a year ago. Loadings of ore and miscellaneous freight increased substantially over February and continued above 1928.

Sales by wholesale firms in all lines of trade reporting to the Federal reserve system were seasonally larger than in February. In comparison with the same month a year ago, however, sales in most lines of trade were smaller, except in the case of dry goods, men's clothing and hardware. Department store sales showed a larger increase in March than is usual at this season, and were larger than in the same month in the preceding year, partly on account of the fact that Easter came in March this year.

Prices--Wholesale prices of commodities during March averaged slightly higher than in February, according to the index of the United States Bureau of Labor Statistics. There were marked increases in prices of copper and lead, and smaller advances in prices of iron and steel and cotton goods, as well as of certain agricultural products, particularly cotton, livestock, meats, and hides. Prices of grain and flour were lower during the month and the price of leather declined, reflecting an earlier decline in prices of hides. Silk and rayon textiles and raw wool were also somewhat lower in price.

In the middle of April prices of livestock and raw silk were higher than at the end of March, while cotton and wool had declined in price. Among the non-

agricultural products there were marked declines in the prices of copper, lead, tin and zinc; a further decline in rubber and increases in pig iron and finished steel.

Bank Credit--Between March 20 and April 17 there was a considerable decline in the volume of member bank loans to brokers and in the bank's holdings of investments. Loans chiefly for commercial and agricultural purposes showed a rapid increase, and at the end of the period were near the high level of last autumn.

During the same period the volume of reserve bank credit in use declined further as a consequence of additions to the country's stock of monetary gold. A continued rapid reduction in holdings of acceptances carried the total to the lowest point since the autumn of 1924. Security holdings also decreased somewhat, while discounts for member banks increased.

Open-market rates on bankers' acceptances and commercial paper increased further. Rates on collateral loans increased sharply in the latter part of March, but declined in April.

X-6303

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

STATEMENT FOR THE PRESS

Washington, D. C.
For release at 2:00 p. m. May 4, 1929.

The Federal Reserve Board announces that the Federal Reserve Bank of Kansas City has established a rediscount rate of 5% on all classes of paper of all maturities, effective May 6, 1929.

X-6304

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING.

April 26, 1929, Federal Reserve Notes, series 1914

30,000 sheets $50, Chicago, serial numbers
3,868,001 to 3,988,000 $35.50 M, $1,065.00

Credit appropriations, 1929, as follows:

Comp. of Emp.,	B.E. & P.	$544.50
Plate Printing,	B.E. & P.	243.00
Mtls.& Misc.Exp.,	B.E. & P.	277.50

Bureau of Engraving and Printing,

(Signed) C. R. Long
Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6305

May 7, 1929.

Dear Sir:

Confirming telegram dated April 30, 1929, advising you of the additional special assessment levied by the Federal Reserve Board in connection with the new issue of Federal Reserve notes, there is enclosed a copy of the statement of the Bureau of Engraving and Printing in the amount of $750,000 covering a part of the cost of Federal Reserve notes of the small size (series of 1928) which are now in process of printing and which will be delivered during May and June.

Very truly yours,

W. W. IRLAY
Fiscal Agent.

Enclosure.

SENT TO ALL FEDERAL RESERVE AGENTS.

X-6305-a

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING.

For labor performed and material purchased for Federal Reserve Notes, Series 1928, 12-subject, now in process of printing, to be delivered during May and June, 1929.

Boston	$ 51,600.00
New York	178,500.00
Philadelphia	71,100.00
Cleveland	71,100.00
Richmond	24,800.00
Atlanta	66,500.00
Chicago	116,000.00
St. Louis	19,800.00
Minneapolis	16,300.00
Kansas City	21,000.00
Dallas	39,100.00
San Francisco	74,200.00
Total,	$750,000.00

Credit appropriations, 1929, as follows:

Comp. of Emp.,	B.E. & P.	$416,361.45
Plate Printing,	B.E. & P.	179,764.25
Mtls. & Misc. Exp.,	B.E. & P.	153,874.30

Bureau of Engraving and Printing

Per C. R. Long
Assistant Director.

X-6307

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

STATEMENT FOR THE PRESS

Washington, D. C.
For release at 4:00 p.m. May 13, 1929.

The Federal Reserve Board announces that the Federal Reserve Bank of Minneapolis has established a rediscount rate of 5% on all classes of paper of all maturities, effective May 14, 1929.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6309

May 16, 1929.

SUBJECT: Redemption of large size Federal Reserve notes of others.

Dear Sir:

In accordance with the action taken at the last Conference of Governors, a recent meeting held in Washington of officers of the Federal reserve banks in charge of currency operations considered the suggestion that during the period of issue of the new size currency, each Federal reserve bank cancel and send direct to Washington for redemption, old size notes of other Federal reserve banks, regardless of their condition.

The Currency Conference voted to recommend to the Federal Reserve Board "that the cancellation of Federal reserve notes of other Federal reserve banks that are fit for further circulation, on a definite date prior to the date of issue of the new size, be left to the express wish of each issuing bank."

While this recommendation has been approved by the Federal Reserve Board, attention is called to the fact that it has now been determined that the new size will not be paid out prior to July 10th. This means that the stocks of old size notes of the Federal reserve banks must support the currency demand for an additional ten day period, and as stocks of some of the banks are comparatively low in certain denominations, those banks may face the possibility of a shortage if any great quantity of their notes, which are fit for further circulation, are not returned to them for reissue.

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-6310

May 17, 1929.

SUBJECT: Holidays during June, 1929.

Dear Sir:

The Federal reserve banks and branches listed below will be closed on Monday, June 3rd, in observance of the birthday of Jefferson Davis, and therefore will not participate in either the Gold Fund Clearing or the Federal Reserve Note Clearing of that date:

Richmond	Memphis
Atlanta	Dallas
*New Orleans	El Paso
Birmingham	Houston
*Nashville	San Antonio
Jacksonville	

* Decoration Day

Please include credits of June 3rd in the Gold Fund Clearing with your credits for June 4th for the offices affected, and make no shipments of Federal Reserve notes, fit or unfit, for account of the head offices mentioned, on June 3rd.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-6311

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

STATEMENT FOR THE PRESS

Washington, D. C.
For release at 6:00 p.m. May 17, 1929.

The Federal Reserve Board announces that the Federal Reserve Bank of San Francisco has established a rediscount rate of 5% on all classes of paper of all maturities, effective May 20, 1929.

X-6312

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, May 22, 1929. May 21, 1929.

The Federal Advisory Council at a regular meeting with the Federal Reserve Board on Tuesday, May 21st, delivered the following memorandum of its views on the credit situation, which it authorized the Federal Reserve Board to release:

"The Federal Advisory Council has reviewed carefully the credit situation. It continues to agree with the view of the Federal Reserve Board expressed in its statement of February 5, 1929, that 'an excessive amount of the country's credit has been absorbed in speculative security loans.' The policy pursued by the Federal Reserve Board has had a beneficial effect due largely to the loyal cooperation of the banks of the country. The efforts in this direction should be continued. The Council notes, however, that while the total amount of Federal Reserve credit being used has been reduced, 'the amount of the country's credit absorbed in speculative security loans' has not been substantially lowered.

Therefore, the Council recommends to the Federal Reserve Board that it now grant permission to raise the rediscount rates to six per cent to those Federal reserve banks requesting it, thus bringing the rediscount rates into closer relation with generally prevailing commercial money rates. The Council believes that improvement in financial conditions and a consequent reduction of the rate structure will thereby be brought about more quickly, thus best safeguarding commerce, industry, and agriculture."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6316

May 23, 1929.

SUBJECT: Expense, Main Line, Leased Wire System, April, 1929.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-6316-a and X-6316-b, covering in detail operations of the main line, Leased Wire System, during the month of April, 1929.

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 APRIL, 1929.

X-6316-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	29,991	927	30,918	3.21
New York	165,394	-	165,394	17.17
Philadelphia	36,667	677	37,344	3.88
Cleveland	92,387	1,694	94,081	9.76
Richmond	59,593	1,384	60,977	6.33
Atlanta	63,884	5,884	69,768	7.24
Chicago	113,491	1,096	114,587	11.89
St. Louis	82,212	383	82,595	8.57
Minneapolis	31,641	1,993	33,634	3.49
Kansas City	80,242	1,269	81,511	8.46
Dallas	74,727	8,911	83,638	8.68
San Francisco	106,739	2,303	109,042	11.32
Total	936,968	26,521	963,489	100.00

F. R. Board business	247,562	1,211,051
Treasury Department business - Incoming and Outgoing		88,203
Total words transmitted over main lines		1,299,254

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-6316-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.

392

REPORT OF EXPENSE MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM, APRIL, 1929.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expenses	Pro Rata Share of Total Expenses	Credits	Payable to Federal Reserve Board
Boston	$ 260.00	$ 5.00	$ -	$ 265.00	$ 703.67	$ 265.00	$ 438.67
New York	1,221.57	-	-	1,221.57	3,763.84	1,221.57	2,542.27
Philadelphia	225.00	-	-	225.00	850.54	225.00	625.54
Cleveland	296.66	-	-	296.66	2,139.49	296.66	1,842.83
Richmond	190.00	-	230.00(&)	420.00	1,387.60	420.00	967.60
Atlanta	270.00	-	-	270.00	1,587.08	270.00	1,317.08
Chicago	3,969.05 (#)	-	-	3,969.05	2,606.41	3,969.05	1,362.64 (*)
St. Louis	205.00	-	-	205.00	1,878.63	205.00	1,673.63
Minneapolis	183.66	-	-	183.66	765.04	183.66	581.38
Kansas City	287.50	-	-	287.50	1,854.52	287.50	1,567.02
Dallas	251.00	-	-	251.00	1,902.75	251.00	1,651.75
San Francisco	380.00	-	-	380.00	2,481.46	380.00	2,101.46
Federal Reserve Board	-	-	15,543.14	15,543.14	-	-	-
Total	$7,739.44	$ 5.00	$15,773.14	$23,517.58	$21,921.03	$7,974.44	$15,309.23
				1,596.55(a)			1,362.64(b)
				$21,921.03			$13,946.59

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $1,596.55 from Treasury Department covering business for the month of April, 1929.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Monday, May 27, 1929.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of April and May, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Industrial activity continued at a high level in April, and the volume of factory employment and payrolls increased further. Loans and investments of member banks in leading cities continued to decline between the middle of April and the middle of May, and were at that time at approximately the same level as a year ago.

Production--Industrial activity increased in April to the highest level on record. The iron and steel and automobile industries continued exceptionally active during April. Activity in copper refining, lumber, cement, silk and wool textiles, and the meat-packing industry increased, and production of cotton textiles showed a less than seasonal reduction. Factory employment and payrolls increased, contrary to the seasonal trend.

Output of mines was also larger in April. Copper and anthracite coal production increased and the seasonal decline in output of bituminous coal was smaller than usual. Petroleum production declined slightly.

Preliminary reports for the first half of May indicate a continued high rate of operation in the iron and steel industry. Output of lumber and bituminous coal was somewhat larger during the first part of May than at the end of April.

Building contracts awarded during the month of April increased sharply and for the first time in five months approximated the total for the corresponding month in the preceding year. The increase was not continued, however, in the

first part of May when awards averaged 20 per cent below the same period in May, 1928. During April most classes of building showed seasonal increases over March, the largest being in contracts for residential building and public works and utilities.

Distribution--Shipments of commodities by rail increased during April and were the largest for this month in any recent year. The increase from March reflected larger loadings of miscellaneous freight, lumber, livestock and ore. During the first half of May shipments of freight continued to increase.

Sales at wholesale declined seasonally in April, except in the case of grocery and hardware firms. In comparison with April, 1928 all lines of trade reporting to the Federal reserve system showed increases. Department store sales were also smaller in April than in March, but continued above the level of a year ago.

Prices--Wholesale commodity prices averaged slightly lower in April than in March, according to the index of the United States Bureau of Labor Statistics, reflecting primarily declines in prices of farm products and their manufactures. Prices of mineral and forest products and their manufactures, on the average, showed little change. There were increases in the prices of iron and steel, and sharp declines in copper, lead and tin. Seasonal declines occurred in prices of coal and coke, while gasoline prices advanced.

Prices of farm products and their manufactures averaged lower in April than in March. Prices of grain, especially wheat, moved downward more sharply and wool and cotton continued to decline. Livestock and meat prices continued the upward movement of the previous month, but at a slower rate; hides averaged slightly higher in price, and leather somewhat lower. Among imported raw materials, rubber, sugar, and coffee showed marked price recessions. Early in May cattle, hides and wheat prices declined sharply and the price of rubber increased.

Bank Credit--During the four weeks ending May 15 loans and investments of member banks in leading cities showed a decrease of nearly $200,000,000, largely in loans on securities together with some further decline in investments. All other loans, chiefly for commercial and agricultural purposes, remained unchanged at a relatively high level.

There was a further reduction in the average volume of reserve bank credit outstanding between the weeks ending April 24 and May 22, owing largely to additions to the country's monetary stock of gold. The decline was in discounts for member banks; holdings of acceptances and of United States securities showed practically no change.

Open-market rates for commercial paper remained unchanged as did rates on prime bankers' acceptances, except for a temporary decline at the end of April and the first week in May. Rates on collateral loans advanced in the first three weeks in May.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6320

June 3, 1929.

SUBJECT: Preservation of member bank records.

Dear Sir:

There is enclosed herewith a copy of a letter received by the Board from the Department of Justice, stating that special accountants of the Department assigned to investigate alleged violations of the Federal criminal statutes at member banks of the Federal Reserve System not infrequently find difficulty in locating the records to support the charges and suggesting that this condition would be remedied if such banks were to preserve all bank records for the period of the statute of limitations, that is, three years. There is also enclosed a copy of the Board's reply to this letter.

As stated in the Board's letter to the Attorney General, under the provisions of the Federal Reserve Act it is not within the jurisdiction of the Board or of the Federal reserve banks to direct or to request the member banks of the Federal Reserve System to preserve their records for any stated period for the purpose mentioned. The Board suggests, however, that you call to the attention of the member banks of your district the communication received by the Federal Reserve Board from the Department of Justice with reference to this matter.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

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

COPY X-6320-a

DEPARTMENT OF JUSTICE

WASHINGTON, D. C. WHR:DCK

ORL - WHR April 29, 1929.

The Governor,

The Federal Reserve Board.

Sir:

It has been brought to my attention that the Special Accountants of this Department assigned to investigate alleged violations of the Federal criminal statutes at member banks not infrequently find difficulty in locating the necessary records to support the criminal charges, and it has been suggested that this condition would be remedied if such banks were to preserve all bank records, subsidiary and otherwise, for the period named in the Statute of Limitations, that is, the term of three years.

The question whether the proposed practice is desirable, and, if so, what steps, if any, may properly be taken by your Board to bring it about, is submitted for your consideration.

Respectfully,

For the Attorney General,

(S) O. R. LUHRING,
Assistant Attorney General.

COPY X-6320-b

June 3, 1929.

The Honorable.
The Attorney General,
Washington, D. C.

S I R :

The Federal Reserve Board has given consideration to your letter of April 29 (ORL - WHR), in which you state that investigators of your Department often find difficulty in locating records at member banks of the Federal Reserve System to support charges of alleged violations of the Federal criminal statutes, and suggest that this condition would be remedied if such banks were to preserve all bank records for three years.

It is not within the jurisdiction of the Federal Reserve Board or of the Federal reserve banks under the provisions of the Federal Reserve Act to direct or to request the member banks of the Federal Reserve System to preserve their records for any stated period for the purpose mentioned. The Board, however, in order to cooperate with your Department in this matter, will address a letter to the Federal reserve agent at each of the Federal reserve banks of the System, suggesting that your communication to the Board on this subject be called to the attention of the member banks of his particular Federal reserve district.

Very truly yours,

R. A. Young,
Governor.

GBV:vdb

COURT OF APPEALS OF THE DISTRICT OF COLUMBIA

Charles L. Apfel, Stephen B. Gibbons, Bertrand A. Unger, Joseph Sheldon, Henry Green, Henry M. Susswein, Edmund J. Horwath, and Milo Ogden Frank, Appellants,

vs. No. 4837

Andrew W. Mellon, J. W. McIntosh, Roy A. Young, Edmund Platt, Adolph C. Miller, Charles S. Hamlin, Edward H. Cunningham, and George R. James, as Members of the Federal Reserve Board, Appellees.

Appeal from the Supreme Court of the District of Columbia.

Before Martin, Chief Justice, and Robb and Van Orsdel, Associate Justices.

This is an appeal from a final order of the lower court dismissing the appellants' petition for a writ of mandamus upon the allegations of the petition and answer.

The case arises under the Act of Congress of December 24, 1919, (41 Stat. 378), commonly known as the "Edge Act", first enacted as Section 25(a) of the Federal Reserve Act. See Title XII, Sections 611 to 631, U.S.C.A.

The Act provides that corporations may be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, and may be formed by any number of natural persons not less than five; that such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed, and shall execute an organization certificate which shall set out the name assumed by the corporation,

the place or places where its operations are to be carried on, the place in the United States where its home office is to be located, the amount of its capital stock and the number of shares into which it shall be divided, the names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed, and the fact that the certificate is made to enable the subscribers and their successors to avail themselves of the advantages of the Act. It provides also that no corporation shall be organized under the Act with a capital stock of less than $2,000,000, one quarter of which shall be paid in before the corporation may be organized to begin business; that the persons signing the organization certificate shall duly acknowledge the execution thereof, and forward it to the Federal Reserve Board, and that after the articles of association and an organization certificate are duly made and filed, and "after the Federal Reserve Board has approved the same and issued the permit to begin business, the association shall become and be a body corporate", with certain specified powers including in general the right to engage in international or foreign banking or other financial operations. The Act provides "that except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this section". It also provides that such a corporation may establish and maintain branches or agencies in foreign countries at such places as may be approved by the Federal Reserve Board and under such rules and regulations as the Board may prescribe.

In the instant case the appellants, as relators below, filed their petition against the appellees as members of the Federal Reserve Board, alleging that the relators had duly executed and filed with the respondents, a certificate for the organization of a corporation under the foregoing Act for the purpose of engaging in international or foreign banking under the name "Foreign Financing Corporation", and that the certificate fully conformed with the requirements of the Act; but that the respondents nevertheless had wrongfully refused to approve of the same or to issue a permit to relators to begin business as a body corporate under the Act. The relators prayed for a writ of mandamus to compel the respondents acting as the Federal Reserve Board to approve the articles of incorporation and the organization certificate aforesaid, and to permit relators to begin business as a body corporate under the name "Foreign Financing Corporation", in accordance with the provisions of the Act.

The respondents filed their answer admitting that the articles of association and organization certificate filed with the Board by relators were in proper legal form, but stating that the Board had refused to approve the same on the following grounds:

> "That the Federal Reserve Board as a board, and the respondents as members thereof, deem it their duty carefully to inquire into the qualifications of the organizers of such proposed corporations and to refuse to approve the articles of association and organization certificates of such proposed corporations and to issue a permit for such proposed corporations to do business, unless after investigation, said Board is of the opinion that the financial responsibility, experience, training, and other qualifications of the organizers of such proposed corporations are such as may reasonably be calculated to hold promise of the financial soundness, reliable and competent management, and proper and successful operation of such proposed corporation."

"* * * that relators do not possess the qualifications reasonably necessary to assure the financial soundness, reliable and competent management, or the proper or successful operations of a corporation organized under Section 25 (a) of the Federal Reserve Act to engage in the highly technical activities of international or foreign banking or other international or foreign financial operations and that it would be detrimental to the public interest to approve such articles of association or organization certificate and to issue a preliminary permit for such proposed corporation to commence business; and that, therefore, the said Board refused to approve the articles of association and the organization certificate and refused to issue a permit to said proposed corporation to begin business. Respondents say that this determination by the Federal Reserve Board was unanimous; that it was adopted after impartial investigation and full and impartial consideration of all the facts; and that respondents believed then and now believe that it would be contrary to public policy and contrary to the duty of respondents as public officers to approve said articles of association and said organization certificate or to issue a preliminary permit to the relators to begin business as a body corporate."

The relators filed a demurrer to the answer of respondents. The lower court overruled the demurrer, and, relators electing to stand upon their demurrer, the court dismissed the petition, and the relators appealed.

It is contended by appellees that the statute imposes the duty upon the Federal Reserve Board of exercising its judgment and discretion with respect to the approval or disapproval of the articles of association and organization certificates made and filed under the Act, and that the Board's action in this instance is within the limits of that authority. On the other hand appellants contend that "Congress has not undertaken to delegate to the Board the discretion it has assumed to exercise".

We agree with the contention of the appellees. The statute provides that an association formed under the Act shall not become a body

corporate until after the articles of association and organization certificate have been duly made and filed, and after the Federal Reserve Board has approved the same and issued a permit to it to begin business. The word "approved" naturally imports the exercise of judgment and discretion; and the power to approve ordinarily implies a power to disapprove.

> To "approve" or give "approval" is in its essential and most obvious meaning to confirm, ratify, sanction, or consent to some act or thing done by another. The word "approve" does not, ex vi termini, necessarily import the exercise of discretion, but from the connection in which the term is used it often involves the idea of discretion and adjudication, and is seldom construed as requiring a mere ministerial act.
>
> 4 C. J. 1464.

In the case of State ex rel. Dodd v. Hill, Banking Commissioner, 84 W. Va., 468, the Supreme Court of West Virginia deals with a statute which provided that "hereafter no charter shall be issued to any bank to do business in this state until the application therefor has been approved in writing by the commissioner of banking". Acting under this statute the commissioner of banking has refused to issue such a charter to the appellants, upon the ground that, for the protection of the public, he had carefully considered the proposed location of the bank, the territory contributory thereto, its possibilities and probabilities from a banking standpoint, and other questions connected therewith, and that in the exercise of his best judgment as an officer he had arrived at the conclusion that the application should not be approved. In denying a writ of mandamus to compel the commissioner to issue a charter the court held that the statutory provision aforesaid vested in the commissioner discretionary

power to approve or reject such an application, and that the commissioner's decision was not subject to judicial review unless it clearly appeared that he had "wilfully and arbitrarily disregarded his duty, or that his decision was due to caprice, passion, partiality or corruption".

In the People ex rel. Schweder v. Brady, Auditor of Public Accounts, 268 Ill. 192, the Supreme Court of Illinois held in relation to similar legislation that a statute authorizing the State Auditor to withhold the final certificate of organization of a bank when he is not satisfied as to the personal character and standing of the officers or directors or when he has reason to believe that the bank is organized for any purpose other than that contemplated by the Act, is not unconstitutional on the ground that it confers judicial or legislative power on the Auditor.

See First National Bank v. Union Trust Company, 244 U. S. 416.

In the instant case it is clear that Congress was providing a means for conferring special and important privileges upon such corporations as should be organized under the Edge Act. An abuse by any corporation of the powers thus granted to it might involve grave consequences to our public service. It is reasonable to believe that Congress intended that a careful investigation should be made by the Federal Reserve Board concerning the character and competency of the incorporators of such an enterprise, as one of the means of determining whether to grant or withhold their approval of the application for incorporation. Moreover it should be noted that the Act repeatedly provides for an "approval" by the Board as a prerequisite to proceedings authorized thereunder, and in all such instances the term plainly implies the exercise of consideration, judgment, and discretion by the Board. The Act provides inter alia that any such corporation may at any time within the two years next previous to the date of the expiration of its corporate

existence, by a vote of the shareholders owning two-thirds of its stock 406 apply to the Federal Reserve Board for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the Board such corporation shall have its corporate existence for such extended period. The Board, accordingly, may exercise its judgment and discretion with respect to what is practically a renewal of the corporate charter. This fact is significantly consistent with the view that the Board possesses a similar power over the granting of the first charter.

An examination of congressional legislation with regard to banking since 1864 shows that Congress has consistently used various forms of the word "approve" in the sense of conferring discretion upon the Comptroller of the Currency, the Secretary of the Treasury, or the Federal Reserve Board. Such a consistent use of the term in statutes in pari materia is persuasive. Marks v. United States, 161 U. S. 297.

The statutes relating to the organization of national banks are analogous to those now in question. It is therefore proper to note that the Comptroller of the Currency has prescribed the following as one of the regulations governing the investigations to be made by the examiners relating to applications for national bank charters:

> "In making this investigation the examiner is instructed to give full consideration to all factors entering into the proposition. Among other matters to be considered are: First; the general character and experience of the organizers and of the proposed officers of the new bank; second, the adequacy of existing banking facilities and the need of further banking capital; third, the outlook for the growth and development of the town or city in which the bank is to be located; fourth, the methods and banking practices of the existing bank or banks, the interest rates which they charge to customers, and the character of the service which as quasi-public institutions they are rendering to their community; fifth, the reasonable prospects for success of the new bank if efficiently managed." Instructions No. 4 of the Comptroller of

the Currency, Regulations Promulgated June 31, 1927, Digest of Rulings of the Federal Reserve Board with Appendices (1928) pages 394-395.

See McCormick v. Market Bank, 165 U. S. 538, 551-2.

In the present case mandamus will not lie to control the exercise of the Board's discretion.

"It is a frequently asserted and universally recognized rule that mandamus only lies to enforce a ministerial act or duty; in this sense a ministerial duty may be briefly defined to be some duty imposed expressly by law, not by contract or arising necessarily as an incident to the office, involving no discretion in its exercise, but mandatory and imperative. The distinction between merely ministerial and judicial and other official acts is that where the law prescribes and defines the duty to be performed with such precision and certainly as to leave nothing to the exercise of discretion or judgment, the act is ministerial; but where the act to be done involves the exercise of discretion or judgment, it is not to be deemed merely ministerial."

18 R.L.C. 116.

The judgment of the lower court is affirmed with costs.

(Signed) George E. Martin,
Chief Justice, Court of Appeals of
the District of Columbia.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6324

June 10, 1929.

SUBJECT: Code word to cover new issue of Treasury Certificates of Indebtedness, Series TM-1930, in telegraphic transactions.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve Banks, the code word "NOWHEWN" has been designated to cover the new issue of Treasury Certificates of Indebtedness, Series TM-1930, dated June 15, 1929, due March 15, 1930.

This word should be inserted in the Federal Reserve Telegraphic Code Book, following the supplemental code word "NOWHEST" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

MEMORANDUM RECOMMENDING A REGULATION PROVIDING THAT NATIONAL BANKS MUST HAVE A MINIMUM CAPITAL OF $50,000 AS A CONDITION PRECEDENT TO THE GRANTING OF TRUST POWERS

By Mr. Platt.

Subsection k of Section 11 of the Federal Reserve Act - the subsection relating to the granting of trust powers to National banks - was as originally enacted very short - only four lines. It authorized the Federal Reserve Board "to grant by special permit to National banks applying therefor when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe."

I need not go into the difficulties of the administration of this broad power, or into the litigation which followed. It is sufficient to say that there was controversy over the meaning of the words "when not in contravention of State or local law." The Board at first issued permits for the exercise of trust powers to banks with a capital smaller than that required by State laws in some States, and, as our records show, a few such national banks are still exercising, or are authorized to exercise, the powers then granted.

As a result of the opposition of the State authorities and as a result of the litigation and the Board's own difficulties with regulations and administration, the Act of September 26, 1918 greatly enlarged subsection k of Section 11 and both clarified and limited the Board's powers. The amendment provided among other things "that no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies and corporations exercising such powers," and in addition provided that "in passing upon applications for permission to exercise the powers enumerated

in this subsection the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper."

The Board was prohibited from granting trust powers to banks with a smaller capital than the State laws prescribed for State banks or trust companies competing, and the paragraph distinctly authorized the Board to require a larger capitalization than State laws required if thought advisable.

This at once raises the question whether the limitations of State laws are in all cases adequate, and also raises the question whether there is good reason for the high capitalization required for trust powers in some states, by comparison with others.

Twelve states require a minimum capitalization of at least $100,000, three of them requiring $125,000. Fourteen other states require at least $50,000, one of them $60,000. It should be added that in a few states where the minimum requirement is much lower it is generally impossible for banks with the minimum requirement of capital to exercise trust powers because of a high requirement of deposit of securities with the State Treasurer. For instance, Illinois allows banks with a capital of $25,000 to exercise trust powers in cities of less than 5,000 but its minimum requirement for deposit of securities is $50,000. We have given trust powers to one $25,000 bank in Illinois, but it is naturally not exercising them.

The following states require $100,000 or more as a minimum:

California	$125,000	New York	$100,000
Kansas	100,000	North Dakota	100,000
Maryland	100,000	Ohio	125,000
Michigan (for all powers)	150,000	Pennsylvania	125,000
Montana	100,000	West Virginia	100,000
New Jersey	100,000		

The following require $50,000, or between $50,000 and $100,000:

Arkansas	$60,000	Massachusetts	$50,000
Colorado	50,000	Missouri	50,000
Connecticut	50,000	Minnesota	50,000
Florida	50,000	Texas	50,000
Georgia (trust Cos.)	50,000	Washington	50,000
Idaho	50,000	Wisconsin	50,000
Louisiana	50,000	Virginia	50,000

It will be noted that the states with comparitively high requirements are by no means all eastern states: California, Montana, North Dakota and Kansas are among the states requiring $100,000 or more. Furthermore some eastern states have low requirements, and one of them, Rhode Island, none at all. In spite of the absence of any capital requirement for trust companies Rhode Island has no National bank with a capital less than $200,000 exercising trust powers and according to the Bankers' Directory has only four state trust companies with a capital smaller than $200,000, the smallest of which has a capital of $75,000. We have granted one permit to a national bank with a capital between $50,000 and $100,000 but it is not yet administering trusts. There is obviously no reason, so far as the public convenience is concerned for small trust companies in Rhode Island.

New Hampshire and Vermont each allow $25,000 institutions to administer trusts but in New Hampshire the National banks at present actively in trust business have a capital larger than $50,000, with one exception. In Vermont two national banks of $50,000 capital and one of $25,000 are exercising trust powers. The 16 others are all capitalized above $50,000. There is obviously little demand for small trust companies in either of these states and the same is true of Maine, which has no National banks of $25,000 with trust powers and only 3 with a capitalization of $50,000.

In view of the high requirements of such western states as Montana, and North Dakota - $100,000 - states which are sparsely settled by comparison

with the New England states, it can hardly be maintained that the states generally believe that public convenience requires that every community should have an institution authorized to administer trusts, and the fact that a majority of the states require a capital of $50,000 or greater indicates that they believe small banks are not as a rule so managed or officered as to be able to administer trusts safely and successfully.

I have dealt with minimum requirements only and have not included the surplus requirements of State laws, because they seem as a rule unimportant - not adding greatly to the minimum capital requirements. In a few states they nevertheless do much towards keeping the small banks from trust business. Seventeen states require banks exercising trust powers to deposit security with State authorities. The effect of these requirements might be given further consideration, but it seems unnecessary to devote more space to them in the present memorandum.

State banking superintendents, as in California, have frequently expressed the opinion that small banks cannot "maintain proper trust standards." There is of course difference of opinion as to what constitute "proper trust standards" and a disposition in some states to insist that the bank should be large enough, or that there should be sufficient trust business in the community to justify "the employment of a staff of experts in trust business." Without subscribing fully to this view it is evident that the clerical force in the average small bank rarely contains men who could qualify by any stretch of imagination as "experts" either in trust business or in banking. It is the view of the directors of the Federal Reserve Bank of New York that a group of men may be well enough qualified to conduct a local bank, but may not be qualified to conduct trust business. The test they apply is the question whether they

would be willing to entrust the management of an estate or a trust fund in which they were interested to the group. Certainly something more in ability, in character and in financial standing should be required for conducting fiduciary business than for local banking.

That the small banks are much more liable to failure than large banks has been amply demonstrated. Of the 5,004 bank failures from 1921 - 1928 inclusive, 4434, or 90.7 per cent were banks with a capital of less than $100,000. A bank may fail without loss to the trusts administered by it, and so far it does not appear that there have been any losses of trust funds due to National bank failures, but this may be attributed in part to good luck and part to the fact that the banks having trust powers which have so far failed (61 in all) have been comparatively few in number, and had not yet accumulated much trust business. More than 75 per cent of them were in fact not administering any trusts at the time of failure. Lack of actual loss is furthermore a negative argument and gives little indication as to whether the trusts have been properly managed. I have been informed that not much is yet known as to the securities in which the trust funds of failed banks were invested, beyond the fact that there have been no complaints to the receivers. About all that is known is that uninvested funds were not lost. Such uninvested funds might easily be lost if they were not properly segregated from the general funds of the bank, and small banks, where trust business and commercial business must be handled by the same persons are less likely to be careful about segregation than banks large enough to afford a staff engaged solely in the trust business. This is one of the chief concerns of our Reserve Board trust department, and banks are constantly admonished and required to maintain proper segregation. An Iowa national bank that failed in February was found to have an uninvested

unsecured fund in its banking department only two weeks before it closed.

To sum up: a majority of the states evidently regard a capitalization higher than the minimum capitalization required for commerical banking necessary for trust corporations "as a guarantee that trusts will be faithfully administered," and the states which maintain this position are as a rule the states with the best banking standards. Should not the Federal Reserve Board seek to raise the standard for trust powers in states where it is now low, instead of granting trust powers solely with reference to the question whether similar powers would be granted by the state banking authorities? By following the latter course the Board undoubtedly runs the risk of furnishing an argument towards the lowering of state standards. The advocates of a lowering of the standard in a state where it is now high can point to the fact that in an adjoining State the Federal Reserve Board endorses a lower standard by granting trust powers to banks with a small capitalization.

It would appear that bankers generally, as well as many of the State superintendents of banking, are of the opinion that small banks ought not to be permitted, or ought not to attempt, to administer trusts. By comparison with the large number of small banks in existence, only a few have applied for trust powers and although nearly all that have applied have been given permission to act, a large majority of them remain inactive. Of 76 $25,000 banks with trust power 56 were inactive at last reports.

Section 11-k, as amended in 1918 authorized the Board to consider "the needs of the community to be served." Without going so far as to say, as the Superintendent of Banking in California says, that public officials charged with the duty of passing upon applications for trust powers "should satisfy themselves that there is sufficient business in the community to

justify the employment of a staff of experts in trust business," the memorandum submitted by Governor Young on November 8, 1928 goes much too far in the other direction by saying that "outside of a few isolated and cross-road communities in the United States, the need exists in every community." Evidently a majority of the states disagree with this view, as I have indicated above, and it seems clear that the public will be better served if trust business can continue to be administered by the larger, well equipped institutions instead of being scattered among many small institutions. There is probably some saving of expense in the administration of an estate if the administrator or executor is a resident of the county of the decedent, but there is nothing to be gained by having the administrator or executor a small town bank when there is a larger, better equipped bank only a few miles away. In the administration of trust funds generally, apart from court trusts, and estates in process of settlement, the location of the trustee bank is generally unimportant to the beneficiaries. Certainly the difficulties of supervision will be greatly increased if the small banks generally are permitted to administer trusts.

In the California case submitted, and in every case where the Board finds a superintendent of banks administering the law so as to enforce a standard higher than the minimum legal requirements, I believe the Board should adopt the same higher standards. To do otherwise is obviously to force the state banking authorities to lower their standards in order to meet the competition of the lower National bank or Federal Reserve standards.

Finally I believe we should adopt the policy of the majority of the states and should provide by regulation that no national bank with a capital less than $50,000 be granted permission to administer trusts, and further that no national bank with a capital less than $100,000 be granted full trust powers unless an exceptional showing is made as to the bank's condition and management, and as to the need of an institution exercising trust powers in the community.

COPY

X-6326

IN THE SUPREME COURT OF THE STATE OF IDAHO

416

(No. 5147)

G. F. HANSBROUGH,

Respondent,

vs.

D. W. STANDROD & COMPANY, a defunct banking corporation of the State of Idaho, D. W. STANDROD, D. L. EVANS, GEORGE F. GAGON and W. F. SORGATZ, As trustees and directors in office of D. W. STANDROD & COMPANY, a defunct banking corporation of the State of Idaho, K. L. SCOTT AND E. P. DUNLAP, deputies of the Commissioner of Finance of the State of Idaho,

Defendants.

and

E. W. PORTER, Commissioner of Finance of the State of Idaho, UNITED STATES FIDELITY & GUARANTY COMPANY, a corporation, and FEDERAL RESERVE BANK OF SAN FRANCISCO, a corporation,

Appellants.

Pocatello, April Term, 1929

Filed, May 31, 1929

Clay Koelsch, Clerk

Appeal from the District Court of the Sixth Judicial District, for Bingham County. Hon. Ralph W. Adair, Judge.

Action to enforce attorney's lien. Judgment for plaintiff.

REVERSED.

John W. Jones and Guy Stevens, for appellants E. W. Porter, Commissioner of Finance, and United States Fidelity & Guaranty Co.,

Merrill & Merrill, for appellant Federal Reserve Bank of San Francisco

Thomas & Anderson and G. F. Hansbrough, for respondent,

BRINCK, District Judge. 417

The respondent is a practicing attorney at law who, in November, 1921, was employed by D. W. Standrod & Company, a banking institution, to bring a suit against a firm known as Swauger Brothers and others. After the suit was commenced a settlement was made between the plaintiff and defendants therein, whereby the bank received certain notes of the defendants and, as collateral security for their payment, received 81,999 shares of the capital stock of Swauger Land & Livestock Company, a corporation. Upon learning of the settlement, respondent obtained an agreement from the Standrod bank that his fees should be credited upon notes he had given to the bank and which were then held by the appellant Federal Reserve Bank of San Francisco. In February, 1923, respondent and the law firm of Thomas & Anderson were employed by the Standrod bank to bring suit upon the Swauger notes which had been obtained in the previous settlement. This suit, after it was commenced, was likewise settled before trial, this time with the consent of counsel, and in this settlement the Standrod Bank became the owner of the shares of stock that had previously been pledged to it, and received in addition notes of the Swaugers aggregating some $22,000. In this connection it was again agreed that the attorney's fees earned by respondent and his associates in the second suit should be credited upon notes they had given to the Standrod Bank, which notes were also in the hands of the Federal Reserve Bank as pledges. On November 28, 1923, the Standrod bank closed its doors, and was taken in charge by the appellant Commissioner of Finance of the State of Idaho; and the attorney's fees of respondent and his associates were never credited upon their notes to the Standrod bank, these notes having been at all times herein involved in the possession of the Federal Reserve Bank as collateral securing notes to it

of the Standrod bank.

418

After the Standrod Bank closed, respondent filed with the Commissioner of Finance a claim for his attorney's fees and for a preference as a trust fund, which preference was disallowed. He appealed from said ruling to the District Court which denied the preference, but allowed him an attorney's lien upon the massed assets of the bank. On appeal to this court the judgment of the District Court allowing a lien upon the massed assets was reversed, but, the record and briefs indicating that the Swauger notes and certificates of stock were then in the hands of the Commissioner, the District Court was directed to enter a judgment declaring an attorney's lien on that specific property and ordering its sale. Hansbrough v. D. W. Standrod & Co., 43 Idaho 119, 249 Pac. 897 (decided September 24, 1926.)

It now appears, however, that in October, 1923, the Standrod bank had transferred the Swauger notes and the stock owned by it in the Swauger Company to the Federal Reserve Bank as collateral to secure its own notes to that bank, for which it had been given credit, and that the notes and stock were never in the hands of the Commissioner of Finance as assets of the Standrod Bank. It is shown that the Federal Reserve Bank accepted these securities without knowledge of the lien of plaintiff and his associates, and that it was first advised thereof after it had in September, 1924, received from J. W. Swauger an offer to purchase the Swauger notes and stock for $15,000, and had notified the Commissioner of Finance that the offer would be accepted in the absence of objection within a specified time. The offer was accepted and the sale of the collateral made.

After the decision in the former case, the respondent, in his

own right and as assignee of his associates, brought this suit against the appellants Federal Reserve Bank and the Commissioner of Finance and his surety, to recover the amount of the attorney's fees of himself and his assignors as damages for the alleged conversion of the Swauger notes and stock upon which respondent and his assignors had an attorney's lien. The trial court found that the appellants had, by a sale of the property to Swauger, converted it; that the liens of respondent and his assignors had not been affected by the pledge of the property to the Federal Reserve Bank; that they were not guilty of laches and had not waived their liens upon the property; and awarded the respondent judgment against the appellants for $7,000 and interest, from which judgment this appeal is taken.

It is urged that in no event could an action for conversion be maintained, since plaintiff had a more lien without right of possession. The complaint may be treated, however, as stating a cause of action on the case for the destruction of the property subject to the lien.

The principal questions presented are as to whether the proceeds of the compromised litigation can be subjected to a lien in the hands of a third person who took without knowledge of the claim of lien; and whether, if such claim can ever be asserted, the respondent and his assignors were guilty of laches which would preclude them from now asserting it. C. S. sec. 6576, which governs attorney's liens, is as follows:

> "The measure and mode of compensation of attorneys and counselors at law is left to the agreement, express or implied, of the parties, which is not restrained by law. From the commencement of an action, or the service of an answer containing a counterclaim, the attorney who appears for a party has a lien upon his client's cause of action or counterclaim, which attaches to a verdict, report, decision or judgment in his client's favor and the proceeds thereof in whosesoever hands they may come; and cannot be affected by any settlement between the parties before or after judgment."

As to whether, under a statutory lien where possession is not delivered, property may be followed into the hands of an innocent purchaser, the authorities are not in harmony. It was said in Beall v. White, 94 U.S. 382 (386), 24 L.Ed. 173, that statutory liens have, without possession, the same operation and efficacy that existed in common-law liens where the possession was delivered. This doctrine is rejected in Finney v. Harding, 136 Ill. 573, 27 N. E. 289. A statutory landlord's lien is in some states allowed to be enforced as against an innocent purchaser unless he is expressly protected by the statute. Richardson Bros. v. Peterson, 58 Iowa 724, 13 N. W. 63; Newman v. Bank of Greenville, 66 Misc. 323, 5 So. 753. In other states a bone fide purchaser is protected as against such a lien (Finney v. Harding, supra; Thornton v. Carver, 80 Ga. 397, 6 S. E. 915), and a like conclusion was reached as to a different kind of statutory lien in Lanterman v. Luby, 96 N. J. Law 255, 114 Atl. 325. The latter view is favored both by weight of authority and upon reason by authors of some of the texts. 1 Jones on Liens (3rd ed.) Sec. 1048; 2 Underhill on Landlord and Tenant, Sec. 834; 37 C. J. p. 331. Counsel express their inability to find decisions directly upon the point under the attorney's lien statutes, and we have found none. C. S. Sec. 6576 is identical with the statute existing in New York. The Court of appeals of that state said in Fischer Hansen v. Brooklyn Heights R. Co., 173 N. Y. 492, 66 N.E. 395, that the lien given by the statute "clings to any property or money into which the subject can be traced, until it reaches the hands of a bona fide purchaser;" and this language is quoted with approved in Conkling v. Austin, 111 Mo. app. 292, 86 S. W. 911, which decision in turn is approved by the Supreme Court of Missouri in Wait v. Atchison, T. and S.F. Ry. Co., 204 Mo. 491, 103 S.W. 60. In Pettibone v.

Thomson, 72 Misc. Rep. 486, 130 N. Y. S. 284 (289), and Sargent vs. New York Central & N. R.R.Co. 209 N. Y. 360, 103 N. E. 164 (166), the courts of New York appear to treat as of consequence the matter of notice to a third person in possession of property upon which an attorney's lien is claimed. Because we deem the question of laches determinative of this case in any event, we do not decide the first question raised by appellants.

Assuming, but not deciding, that respondent and his assignors, if diligent in asserting their claim, could have followed the property here involved into the hands of an innocent purchaser, we think they have lost that right as against these appellants. Instead of proceeding to attach themselves to or to sequester the property which was the fruits of the litigation, or to otherwise enforce their lien, they left the property undisturbed in the hands of the Standrod bank, notwithstanding it was the kind of property that banks freely deal in, hypothecate, and transfer in the ordinary course of business.

In Iowa, which of all the states has perhaps most rigidly enforced a statutory landlord's lien as against innocent purchasers, an exception was created to the lien, making it subject to the course of business of the tenant, so as not to interfere with sales of property contemplated by the character of the business prosecured by the tenant, to which the landlord is presumed to have assented upon the leasing of the premises. Richardson Bros. v. Peterson, supra.

By failing to assert and enforce their lien when their rights accrued, respondent and his assignors made it possible for the Standrod bank, upon the strength of its apparent unincumbered ownership of the property, to obtain a credit from the Federal Reserve Bank, which had no

knowledge or notice of their secret lien.

The right to enforce an attorney's lien may be lost by laches, Lee v. Vacuum Oil Co., 126 N. Y. 579, 27 N. E. 1018 Fillmore v. Wells, 10 Colo. 228, 15 Pac. 343; Colorado State Bank v. Davidson, 7 Colo. App. 91, 42 Pac. 687. Laches is delay that works disadvantage to another. 4 Pomeroy's Equity Jurisprudence (4th ed.) Sec. 1442. With reference to the lien in this case, it was said in Hansbrough v. D. W. Standrod & Co. Supra;

> "The lien could have been discharged only by payment, express agreement backed by a consideration, or laches . . . . . it is urged that respondent's failure to assert his lien for more than two years constituted laches. But, so long as no one was being injured, he was entitled to the full period of limitations, which had not expired when he appealed from the Commissioner's decision."

It now appears that to enforce the lien would injure the Federal Reserve Bank to which the Standrod Bank still owes some $300,000. We think it clear that whatever the right respondent and his assignors might have had when the property first came into the hands of their client, they, by their delay in enforcing it, lost the privilege of asserting it as against the subsequent innocent pledgee, the Federal Reserve Bank.

The decision in Hansbrough v. D. W. Standrod & Co. declaring a lien upon the property, is not an adjudication of the rights of the Federal Reserve Bank, which was not a party to that action. As to the Commissioner of Finance, it is shown in this case that he never had possession of the property, and could not have converted it. It is true that nearly two years before that decision was rendered, the Federal Reserve Bank, desiring to hold some of the stock in its own name so as to have access to the corporate books of the Swauger Land & Livestock Company, with the consent of the Commissioner had the certificates rewritten, a portion

of the stock being reissued in the name of that bank and a portion in the name of the Commissioner, who indorsed the certificate so made out to him over to the Federal Reserve Bank. This was a mere change in form, without any intention of releasing the lien, and the Commissioner did not thereby have or become entitled to possession of the certificates of stock, which were at all times subject to the pledge agreement under which the Federal Reserve Bank had received it from the Standrod bank.

It is unnecessary to consider the other errors assigned, The Judgment of the trial court is reversed, with costs to appellants.

GIVENS, T. BAILEY LEE, WM. E. LEE AND VARIAN, JJ., Concur.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5329

June 18, 1929.

Dear Mr.

Enclosed you will find for your information copy of statement of the Bureau of Engraving and Printing covering the cost of preparing Federal reserve notes of the small size during the months of April and May and to June 15, telegraphic advice of the balance due from your bank having been sent to you on June 15. It is understood that there will be a small amount of additional notes delivered prior to June 30.

Very truly yours,

W. M. IMLAY
Fiscal Agent.

Enclosure.

(SENT TO ALL FEDERAL RESERVE AGENTS).

X-6329a
June 15, 1929.

Federal Reserve Notes, Series 1928, delivered April 1 to June 15, 1929.

	$5	$10	$20	$50	Total Sheets	Amount
Boston	530,000	474,000	248,000	6,000	1,258,000	$ 112,591.00
New York	2,454,000	1,386,000	520,000	60,000	4,420,000	395,590.00
Philadelphia	970,000	460,000	268,000	54,000	1,752,000	156,804.00
Cleveland	542,000	550,000	566,000	38,000	1,696,000	151,792.00
Richmond	214,000	190,000	194,000	-	598,000	53,521.00
Atlanta	666,000	640,000	314,000	-	1,620,000	144,990.00
Chicago	1,402,000	906,000	498,000	48,000	2,854,000	255,433.00
St. Louis	146,000	224,000	100,000	-	470,000	42,065.00
Minneapolis	80,000	187,000	134,000	-	401,000	35,889.50
Kansas City	334,000	34,000	122,000	-	490,000	43,855.00
Dallas	502,000	334,000	126,000	-	962,000	86,099.00
San Francisco	810,000	536,000	476,000	8,000	1,830,000	163,785.00
	8,650,000	5,921,000	3566,000	214,000	18351,000	1,642,414.50

	Amount Billed on account Apr. 3 and 30, 1929	Amount Due
Boston	$103,200.00	$9,391.00
New York	357,000.00	38,590.00
Philadelphia	142,200.00	14,604.00
Cleveland	142,200.00	9,592.00
Richmond	49,600.00	3,921.00
Atlanta	133,000.00	11,990.00
Chicago	232,000.00	23,433.00
St. Louis	39,600.00	2,465.00
Minneapolis	32,600.00	3,289.50
Kansas City	42,000.00	1,855.00
Dallas	78,200.00	7,899.00
San Francisco	148,400.00	15,385.00
	$1,500,000.00	$142,414.50

X-6329 b

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING.

Federal Reserve Notes, series 1928, delivered April 1 to June 15, 1929, as per attached statement,

18,351,000 sheets, ...	$89.50 per M, ...	$1,642,414.50
Apr. 3, Billed on account,	$750,000	
Apr. 30, Billed on account,	750,000	1,500,000.00
	Total, . .	$ 142,414.50

Credit appropriations, 1929, as follows:

Comp. of Emp., B. E. & P.	$75,105.75
Plate Printing, B. E. & P.	32,429.13
Mtls. & Misc.Exp., B. E. & P.	34,879.62

Bureau of Engraving and Printing

A. P. Ruth,
Acting Assistant Director.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6330

June 19, 1929.

SUBJECT: Holidays during July, 1929.

Dear Sir:

On Thursday, July 4th, there will be neither Gold Settlement Fund nor Federal Reserve note clearing, and the books of the Federal Reserve Board will be closed.

The following branches will also be closed on the dates indicated:

Saturday	July 13	Nashville Memphis	Birthday of General Forrest
Wednesday	July 24	Salt Lake	Pioneer Day

On the dates indicated, the branches affected will not participate in either the Gold Fund clearing or the Federal Reserve note clearing.

Please include credits for the branches affected on the holidays mentioned, with credits of the following business day, in the Gold Fund clearing.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

ADDRESS OF CHARLES S. HAMLIN

Maine Bankers' Association, Poland Springs, Maine, June 22, 1929.

Mr. Hamlin said in part:-

Let me state at the outset that what I have to say this evening represents merely my personal views, and that I am not in any sense speaking for the Federal Reserve Board.

Banking developments during the past year have attracted more general attention, and caused more discussion, than at any time since the foundation of the Federal Reserve System, excepting only the years 1920 and 1921. We hear, on the one hand, statements as to unbridled security speculation and inflation, and on the other a denial thereof, coupled with censure of the Federal Reserve System for an alleged desire to break down the stock market. On the one hand we hear, as I have said, the charge of inflation which must be controlled, and on the other the claim that natural courses should be allowed to take care of the situation.

The Federal Reserve System, meanwhile, has confined itself to a critical supervision and regulation of the use made by member banks of Federal Reserve credit, with a result which most reasonable men will admit has been successful, and which has cleared up to a measurable degree a situation fraught with danger if allowed to continue unchecked. I shall not attempt here to characterize present or past conditions as disclosing expansion or inflation, but will content myself with stating a few facts which, in my opinion, justify the firming policy, including direct action, so-called, of the Federal Reserve System in connection with member bank credit developments.

I wish, however, first to state that, speaking generally, there

is no undue expansion or inflation in commodities. I want also to point out that in considering expansion or inflation, it is not accurate to take one year as a test. In dealing with this matter I will take a period covering the years beginning with 1922 through 1927 or 1928, and later consider present conditions in this year.

Leaving aside the question of commodity speculation, which, as I have said, can hardly be said to exist today, I want to call attention to the startling growth of security loans, (including speculative loans), compared with commercial loans, during the period of 1922 to 1928.

During this period, security loans of reporting member banks, including in this category so-called speculative loans, increased from 3.6 billions to 7.5 billions, - an increase of 3.9 billions or of over 100%; on the other hand, commercial loans increased from an average of 7.4 billions to 8.7 billions, - an increase of 1.3 billions or only 18%.

During the same period, the percentage of security loans to total loans and investments increased from 25% to 34%, while the percentage of commercial loans to total loans and investments decreased from 51% to 39%.

Member bank reserves during this period increased from an average of 1.7 billions to 2.4 billions in January, 1928, - an increase of 700 millions, or 40%.

Federal Reserve credit for the whole System was, in December, 1928, over 1.8 billions, taking daily averages, while the corresponding figures for the earlier years were:

1922	------	1.3 billions
1923	------	1.2 "
1924	------	1.2 "
1925	------	1.5 "
1926	------	1.4 "
1927	------	1.5 "
1928	------	1.8 "

Prices of 410 stocks combined were 58.7 in 1922, and in January, 1929, had increased to 183.6.

Whether or not the above figures can be characterized as expansion, undue expansion, or inflation, it must be evident that they were made possible by an increase in the volume of credit used for certain purposes in excess of the amount of things available in these lines, resulting in competitive bidding for a limited supply, thus increasing prices in some cases, at least, to an abnormal extent.

It must be evident that such a condition of member bank credit, whether caused by speculative loans, whether in commodities, real estate, or securities, was one demanding careful attention by the Federal Reserve banks, and one which required control, whether by way of rate increase or by other action.

How far Federal Reserve credit was responsible for this expansion is an interesting question which I shall not attempt to solve in this connection, except to express my opinion that the expansion was largely generated through gold imports and therefore that Federal Reserve credit, on the whole, was not responsible for it. There were, however, three periods when the purchase of Government securities by Federal Reserve banks placed money in the market, a material portion of which went into the member banks reserves, and was expanded upon in the ratio of almost 15 to 1. These periods were from February to June, 1922, from April to December, 1924, and from February to December, 1927. If we assume, therefore, that the Federal Reserve System is responsible for the increase in Federal Reserve credit during these three periods, we still should not forget that agriculture and business received material benefit from this expansion, and that at the same time it rendered service to Europe in adopting sound monetary

policies along the lines of currency stabilization.

During the latter part of 1927 the Federal Reserve System began a firming policy, and ceased to offset gold exports by buying Government securities; during 1928 the System made three increases of discount rates; it also from time to time sold Government securities, thus further tightening the pressure upon credit.

Early in this year the total amount of Federal Reserve credit outstanding was, as I have before stated, about 1.8 billions of dollars as compared with about 1.5 billions the year before, and many feared that instead of the customary liquidation after the first of the year there would be further expansion, and that member bank credit developments needed careful supervision and control.

I think it will be generally agreed that, apart from speculative loan activities, agriculture and business would be entitled to a lower rate, rather than to an increase over the present rate of 5%, and that the problem is how most speedily to adjust matters so that in the near future agriculture and business would be getting the benefit of this lower rate.

Representations were made that the speediest way to obtain lower rates for agriculture and business would be to adopt a policy of affirmative rate increases beginning at 6% and increasing until the speculative use of Federal Reserve credit had subsided, and then reversing the process, gradually reducing rates until they could safely be put below the present rate of 5%.

Many of those who advocated this view perhaps unconsciously felt that it was the duty of the Federal Reserve System to correct the situation on the stock exchange by a series of quick incisive increases of discount rates. This feeling was expressed by the English paper, the Manchester

Guardian Commercial, of March 28, 1929, as follows;

> "There appeared at least some slender hope that the Federal Reserve authorities were meditating action drastic enough to precipitate the crisis in Wall Street which, in the opinion of most monetary students, must come sooner or later."

On the other hand, it was claimed that the Board had no duty to make such a direct attack on speculative activity on the stock exchange in this drastic manner, and it was further pointed out that these violent speculative activities in a material degree were dependent upon other factors than Federal Reserve credit. It was finally decided that the real problem was the prevention of the diversion of Federal Reserve funds into the speculative markets, retaining discount rates at the existing rate of 5%.

To this end the Board called upon the Federal Reserve banks and the member banks to cooperate in stopping the growth of speculative credit, thus incidentally setting forces in motion which would probably bring about some reasonable liquidation of existing credits, but no drastic reduction of existing speculative credits was asked for or expected.

It was pointed out that many member banks have been frequent or continuous borrowers from the Federal Reserve banks, and that they were in effect securing, through rediscounts, capital loans taken out of the common fund built up by our member banks, and intended only for use for seasonal or emergency requirements; that capital thus acquired used in competition with the other member banks who were unfrequent borrowers, amounted to what in trade would be called "unfair competition." The Board pointed out, however, that there were many occasions where banks were in a difficult position because of crop failures, sudden loss of deposits, or general economic depression, where the above rule against capital borrowing

could not be strictly applied, at least for considerable periods, but the general principle was laid down. It should be remembered that while attention was called to the growth of speculative loans which, in part, depended upon Federal Reserve credit, the rule would be the same whether the expansion was based on commodity or other forms of speculative loans.

The banks, speaking generally, cooperated with the efforts of the Federal Reserve Board and the Federal Reserve banks, and it is interesting to see the progress since the first of this year which has been made under the firming policy and so-called "direct action." Taking the January, 1929, average and comparing it with June 12, 1929, we find that security loans for reporting member banks have decreased from 7.5 billions to 7.2 billions, a reduction of 297 millions; commercial loans, on the other hand, for the same period, increased from 8.7 billions to 9.1 billions, the increase being 361 millions.

Member bank reserves, for the same period, decreased from 2,387 millions, the average of January, 1929, to 2,331 millions for the week ending June 15th, a decrease of 56 millions.

The percentage of security loans to total loans and investments decreased during this period from 33.6% to 32.6%, while the percentage of commercial loans increased from 39.4% to 41.4%. Taking the figures as to Federal Reserve credit for the entire System, we find that comparing the average for January and May, 1928, with the same periods in 1929, that Federal Reserve credit had increased in May, 1928, by 84 millions, while taking the same dates in 1929 we find that Federal Reserve credit decreased 310 millions.

While the above decline in Federal Reserve credit was brought about chiefly by the seasonal return flow of currency and gold imports, it is never-

theless true that in the absence of direct pressure, some part of the funds released through the inflow of gold, would have found its way into member banks reserve balances, and would have formed the basis of further expansion, and that, as shown above, the direct pressure reduced the member bank reserve balances by about 50 million dollars between January 29, 1929 and the week ending on June 15, 1929.

The Federal Reserve System, therefore, has taken an effective control of the situation without increasing discount rates, and in the control thus exercised through the medium of direct pressure, the System has established a new technique, which shows that diversion of Federal Reserve credit into speculative channels may be curbed without serious injury to agriculture and business.

While it is true that although the Federal Reserve rate has not been increased during this period, customers' rates charged by member banks have increased about 1%, it is also true in my opinion that this increase in customers' rates was brought about by the competition of the high rates offered for funds in the speculative market. It is also true that the firming policy of the Board, including direct pressure, has brought pressure upon speculative loans with three times the force, thus tending to relieve agriculture and business.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6335

June 24, 1929.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD JULY 1, TO DECEMBER 31, 1929.

Dear Sir:

There is enclosed herewith copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks of an amount equal to ninety-five thousandths of one per cent (.00095) of the total paid-in capital stock and surplus of such banks at close of business June 30, 1929, to defray the estimated general expenses of the Board from July 1 to December 31, 1929.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books July 1, 1929, and one-half September 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. W. IRLAY
Fiscal Agent.

(Enclosure)

Sent to Federal Reserve Agents, All Districts.

X-6335-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-five thousandths of one per cent (.00095) 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-five thousandths of one per cent (.00095) of the total paid-in capital and surplus of such banks as of June 30, 1929, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board, receipts for payments made. Such assessments will be collected in two installments of one-half each; the first installment to be paid on July 1, 1929, and the second half on September 1, 1929.

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

STATEMENT FOR THE PRESS

For release in Morning Papers,
Thursday, June 27, 1929.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of May and June, as will appear in the forthcoming issue of the Federal Reserve Bulletin and the monthly reports of the Federal reserve banks.

Production and distribution of commodities continued at a high rate in May. Wholesale commodity prices declined further during the month, but more recently showed some advance. Total loans and investments of member banks in leading cities have increased since the latter part of May.

Production--Industrial production continued large in May and was accompanied by a further increase in the volume of factory employment and payrolls. Output of the iron and steel industry increased further, and shipments of iron ore during May were the largest for that month of any recent year; production of pig iron, steel ingots, and coke was at record levels; and semi-finished and finished steel was produced in large volume. During the first half of June steel operations remained close to capacity, although some decline from the high rate of May was reported. Output of automobiles, which has been in unusually large volume since the beginning of the year, showed a slight reduction in May. Copper production at mines, smelters, and refineries decreased during May but continued large. Combined stocks of refined and blister copper at the end of May were the largest since 1927. Zinc, lead, petroleum, and bituminous coal were produced in larger volume than in April, while the output of anthracite coal declined. Output in the textile industries continued large in May although there was a decline in activity in silk mills. Meat production, while larger

than in April, increased less than is usual at this season.

Value of building contracts awarded declined in May, and was below last year's level, the decrease in comparison with 1928 being chiefly in residential building. During the first two weeks in June contracts averaged 15 per cent less than in the same period in 1928.

The June 1st crop summary of the Department of Agriculture indicated an increase of 43 million bushels, or more than 7 per cent, in the crop of winter wheat. The condition of spring wheat, barley, and hay was reported to be better than a year ago.

Distribution--The volume of freight shipments increased seasonally in May and continued substantially above the total of a year ago. Department store sales increased in May and were 2 per cent larger than in the same month in the preceding year.

Prices--Wholesale prices continued in May the downward movement of the previous month, according to the index of the United States Bureau of Labor statistics. The decline of the general level was chiefly the result of price declines in agricultural products and their manufactures, although prices of other products also declined slightly. Prices of cotton and grains continued sharply downward in May and there were marked declines in the prices of hogs, wool, and lambs. Prices of mineral and forest products and their manufactures averaged lower in May than in April, particularly those of copper, lead, and tin; petroleum and gasoline, and iron and steel advanced in price; while in lumber there was a slight decline.

Since the latter part of May prices of cattle and hides have advanced sharply and there have been increases in the prices of grains, hogs, and cotton.

Bank Credit--Total loans and investments of member banks in leading cities, which were at a low point for the year in the latter part of May, increased con-

siderably during the subsequent 3 weeks and on June 19 were about $250,000,000 larger than a year ago. The recent increase reflected a large growth in the volume of loans on securities, which had declined during the preceding 2 months, and a further growth in loans chiefly for commercial and agricultural purposes. Investments declined during most of the period and on June 19 were at a level about $450,000,000 below that of the middle of last year.

Volume of reserve bank credit outstanding, after increasing in the latter part of May, declined in June and, following the Treasury financial operations around the middle of the month, showed a small increase for the 4 weeks ending June 19. Discounts for member banks increased, while holdings of acceptances and U. S. securities showed a decline. There were some further additions to the country's stock of monetary gold.

Open market rates on collateral loans declined in June, while rates on prime commercial paper and 90-day bankers' acceptances remained unchanged.

FEDERAL RESERVE BOARD

WASHINGTON

X-6337

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 25, 1929.

SUBJECT: Classification of Certain Items in Computing Reserves of Member Banks.

Dear Sir:

The Federal Reserve Board has been requested by the Federal Reserve Bank of San Francisco to pass upon the question whether cash items for which credit has been given by a member bank to its depositor and which have been forwarded to out-of-town banks for collection, but which have not been charged to the account of such out-of-town correspondent banks, may be classified in computing reserves as amounts due from banks and accordingly deducted from amounts due to banks. Attention has been called to the fact that the Federal Reserve Board's Regulation D permits the classification as amounts due from banks of items placed in the mail and charged to the account of correspondent banks, whereas the instructions accompanying the Board's form of condition report of State member banks, Form 105(a), provide that amounts "due from banks and trust companies" should include "uncollected items payable on presentation which have been forwarded to banks for credit or collection and remittance" and no requirement is made that the items be charged to the account of correspondent banks. The question presented, therefore, is whether in order to be classified as amounts due from banks it is sufficient that such items be merely placed in the mail or whether they must also be charged to the account of correspondent banks.

Under the technical requirements of Regulation D as written, items which have not been charged to the account of correspondent banks may not be classified as due from bank balances. There seems to be no practical reason, however, for the requirement in the Regulation that items be charged to the account of correspondent banks. The Regulation provides that items with a Federal reserve bank in process of collection may be classified as amounts due from banks and there is no requirement that such items be charged to the account of any other bank. (They could not properly be charged to the account of Federal reserve banks because of the deferred credit arrangement and also because credits due from Federal reserve banks are not to be included as amounts due from other

banks in computing reserves.) It seems nevertheless somewhat inconsistent to require that items be charged to the account of correspondent banks where sent direct to them, whereas no such charge is required when the items are routed through a Federal reserve bank.

There are two courses open to the Federal Reserve Board: It may stand upon the technical requirement of the Regulation and hold that these items which have been forwarded to out-of-town banks for collection but which have not been charged to their account, may not be classified as amounts due from banks; or, governed by the practical situation, it may in effect waive this requirement of Regulation D as to these items and permit their classification as amounts due from banks even though not charged to the account of the correspondent banks. The Federal Reserve Board is disposed to adopt the latter course, and also, when the matter of revising the Board's Regulations is next taken up, to eliminate the words "and charged to the account of correspondent banks" now appearing in Section III(b) (2) of Regulation D. Before taking any action in this matter, however, the Board wishes to have the benefit of your views on the questions presented.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

For immediate release

January 3, 1929
St. 6033

STATEMENT FOR THE PRESS

Gross earnings of the twelve Federal reserve banks for 1928 amounted to $64,050,000 or about $21,000,000 more than for 1927 while current expenses, $26,900,000, were about one-half million less than for 1927. After providing the necessary reserves for depreciation, losses, etc., the Federal reserve banks had net earnings of $32,125,000. From this amount the banks paid $8,460,000 in dividends to member banks and $2,584,658.50 to the United States Treasury as a franchise tax and transferred $21,080,000 to their surplus accounts. The Federal Reserve Banks of Richmond, Atlanta, St. Louis, Minneapolis, Kansas City and Dallas were the only ones to pay a franchise tax. All net earnings of the six other reserve banks remaining after the payment of dividends were transferred to their surplus accounts as required by law, the surplus accounts of none of these banks at the end of the year being in excess of their subscribed capital. The total subscribed capital of the twelve Federal reserve banks on January 1, 1929, amounted to $293,870,000, and total surplus to $254,398,000.

Full details as to the disposition of the gross earnings of each Federal reserve bank will appear in the forthcoming annual report of the Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 4, 1929
St. 6035

SUBJECT: Forms for use during 1929.

Dear Sir:

There are being forwarded to you today under separate cover a supply of the following forms for use during 1929:

Form 38,	copies
Form E,	copies
Form 95,	copies
Form 96,	copies
Form 97,	copies

Reports on form 171, "Aggregate of Daily Holdings of Bills and Securities", may be discontinued as of December, 1928.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO THE GOVERNOR OF EACH FEDERAL RESERVE BANK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 7, 1929,
St. 6038.

SUBJECT: Corrections in Weekly Statements.

Dear Sir:

For your information, and in order that correct comparative figures may be published in the consolidated weekly condition statement of the Federal reserve banks for 1929, if issued at your bank, there are shown below all corrections made in the weekly Federal reserve bank press statements issued during 1928, which were received too late to be shown in the comparative column of the following week's statement:

		CHANGED	
		From	To
January 11 -	Discounts secured by U.S. Government obligations	297,370	297,247
	Other bills discounted	141,771	141,894
	Uncollected items	670,056	670,095
	Total resources	5,181,732	5,181,771
	Other deposits	22,126	22,165
	Total deposits	2,517,443	2,517,482
	Total liabilities	5,181,732	5,181,771
January 18 -	Discounts secured by U.S. Government obligations	284,781	283,781
	Other bills discounted	127,278	128,278
September 26-	Reserves other than gold	138,082	138,060
	Total reserves	2,771,084	2,771,062
	Non reserve cash	56,174	56,196

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

January 9, 1929,
St. 6039.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of December and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you. It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board as soon as practicable whether or not any corrections or additions are necessary therein.

According to our records, the number of bank suspensions and the number of suspended banks reopened during the year 1928, in each state in your district, was as follows:

	Banks Suspended					
State	National	State Mem.	Nonmember	Private	Total	Banks Reopened

It will be appreciated if you will kindly have the above figures checked against your records and advise us whether or not they are in agreement therewith. In notifying us of differences, kindly give the names and locations, etc., of the banks which should be added or eliminated. The names of the banks included in the above statement may be ascertained by referring to the lists of banks suspensions furnished to you for checking purposes each month, as the above figures are based on the monthly statements after taking into consideration the corrections therein which are regularly shown on the last page of the statements.

Very truly yours,

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

January 9, 1929
St. 6042

SUBJECT: Average Demand and Time Deposits of member banks.

Dear Sir:

It has been increasingly evident for some time past that condition figures of member banks for a given day, while valuable for certain purposes, do not measure changes in condition as satisfactorily as do average daily figures, and this is particularly true of net demand deposits, for which average daily figures may be readily compiled from reports now being rendered by member banks for reserve computation purposes. Will you kindly, therefore, furnish the Board with average daily figures of net demand and time deposits beginning with January 1929, on forms St. 6043 and St. 6044, copies of which are attached. At the same time the reports which have been submitted since April 1923 on form St. 3501 may be discontinued.

In order that we may have available figures of reserve deposits actually maintained by member banks and of borrowings at the Federal reserve banks, for comparison with average daily figures of required reserves, which we can readily calculate from the average daily deposit figures, the forms also provide for reporting average daily figures for these items. You will also note that one of the forms, St. 6043, calls for average daily figures by weeks for central reserve city banks and reserve city banks, separately for each of the above four items, viz., net demand deposits, time deposits, member bank reserve deposits, and borrowings at Federal reserve bank. The other form, St. 6044, calls for daily averages for the same items for each calendar month, separately for central reserve city banks, reserve city banks, and country banks, also for average deposits of country banks located in centers having a population under 15,000, classified by States in which the reporting banks are located. This classification will enable us, as heretofore, to follow changes in deposit liabilities of the banks in the rural communities.

The reports should be forwarded to Washington as early as practicable after the close of each weekly and monthly period, in order that the figures may be promptly furnished to the Board and published in

the Federal Reserve Bulletin. It is expected that this may, as at present, necessitate the use of deposit figures reported for the previous reserve computation period in the case of a few of the smaller member banks whose reports, for one reason or another, are not received promptly. Code words have been provided on the forms for each of the items, but it will not be necessary to telegraph figures to the Board unless you are specifically requested to do so. The first weekly report should cover the seven-day period ending January 4, 1929, and the first monthly report the calendar month of January 1929.

A supply of forms St. 6043 and St. 6044 is being sent you under separate cover.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

Federal Reserve Board
Form St. 6043
Jan. 1929

WEEKLY REPORT OF DEPOSITS, RESERVES AND BORROWINGS OF MEMBER BANKS

(Averages of daily figures. In thousands of dollars)

Federal Reserve District _____ Seven day week ending Friday, _____ 19__

	Daily average			
	Net demand deposits	Time deposits	Reserves with F. R. Bank	Borrowings from F. R. Bank
Central reserve city banks.	DENT	DIKE	DEAR	DOAK
Reserve city banks	DOOM	DEEP	DADE	DRUM

Federal Reserve Board
Form St. 6044
Jan. 1929

MONTHLY REPORT OF DEPOSITS, RESERVES AND BORROWINGS OF MEMBER BANKS

(Averages of daily figures. In thousands of dollars)

Federal Reserve District _____

Month _____ 19__

	Daily average			
	Net demand deposits	Time deposits	Reserves with F. R. Bank	Borrowings from F. R. Bank
Central reserve city banks...	EGIS	EABS	EATS	EGRE
Reserve city banks	EDEN	EDAM	ECHO	ERTH
Country banks	EMIT	EMMA	ENDS	ENUF
Total, all member banks....	ERIN	ERGO	ETTA	EREY
Country banks located in centers having a population under *15,000, by states				
_____				
_____				
_____				
_____				
_____				
_____				
_____				
Total	ETON	EPES		

*Same cities as included heretofore in the monthly deposit report form St.3501, in the "under 5,000" and "5,000-14999" population groups.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 9, 1929,
St. 6048.

SUBJECT: Data for 1928 Annual Report of the Federal Reserve Board.

Dear Sir:

Will you kindly furnish us with the following data for use in the Board's forthcoming annual report:

1. Classification of U. S. securities held by your bank (1) under repurchase agreement and (2) in investment account, as at close of business December 31, 1928, giving the kind of securities, interest rate, maturity date, and par value. The total only need be shown for securities bought through the Open Market Investment Committee and held in Special Investment Account.

2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1928.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT NEW YORK*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 15, 1929
St. 6055

SUBJECT: Revision of Weekly Member Bank Condition Statement, Form St. 51

Dear Sir:

With reference to the Board's letter St. 6023 of December 27, on the above subject, you are advised that the form enclosed therewith has been revised so as to call for loans on securities made "to brokers and dealers in securities outside of New York City," and it is requested that this change be made effective as of January 30, 1929. Code word PILE should be used in telegraphing the new item to the Board. With this change the weekly report will show the same classification of security loans as the quarterly condition report, except that the weekly figures will include security loans made to other banks.

As in the case of loans made to brokers and dealers in securities in New York City, the new item will not be published for the present, but only the total amount of "loans on securities" will be shown in the Board's weekly statement.

A copy of the revised form St. 51-a is enclosed herewith.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure

TO ALL FEDERAL RESERVE AGENTS*

Form St. 51-a
Rev. Jan. 1929

WEEKLY CONDITION REPORT OF MEMBER BANKS IN SELECTED CITIES

TO BE SUBMITTED TO THE FEDERAL RESERVE BANK AS AT CLOSE OF BUSINESS EACH WEDNESDAY

_____ Wednesday _____ 19____
(Name of bank) (Location) (Date)

IMPORTANT: - The quarterly condition report and accompanying instructions should be used as a guide in the preparation of this report

(In thousands of dollars)

1. LOANS AND DISCOUNTS

The total of the items shown under this head should represent the gross amount of the bank's loans and discounts as reported against item 1 and in Schedule E of the quarterly condition report.

(a) Secured by U. S. Government and other securities:

(1) To brokers and dealers in securities in New York City _____

Item 5(a) in Schedule E of the quarterly condition report.

(2) To brokers and dealers in securities outside New York City . . . . . _____

Item 5(b) in Schedule E of the quarterly condition report.

(3) To others . . . . . _____

Item 5(c) in Schedule E of the quarterly condition report, plus that part of item 4 in Schedule E which represents loans on securities made to banks and trust companies.

(b) All other loans . . . . . _____

Includes all loans and discounts required to be reported against item 1 and in Schedule E of the quarterly condition report, except loans reported against a-1, a-2, and a-3 above.

2. U. S. GOVERNMENT SECURITIES OWNED . . . . . _____

Total of Schedule F in the quarterly condition report.

3. OTHER BONDS, STOCKS AND SECURITIES OWNED . . . . . _____

Total of Schedule G in the quarterly condition report.

4. CASH IN VAULT . . . . . _____

Total of items 1, 2 and 3 in Schedule I of the quarterly condition report.

5. NET DEMAND DEPOSITS ON WHICH RESERVE IS COMPUTED . . . . . _____

Amount reported to the Federal reserve bank for reserve computation purposes

6. TIME DEPOSITS . . . . . _____

Total of Schedule L in the quarterly condition report

7. DUE FROM BANKS IN UNITED STATES . . . . . _____

Total of items 5(a), 5(b) and 6 in Schedule I of the quarterly condition report.

8. DUE TO BANKS IN UNITED STATES . . . . . _____

Item 2 in Schedule J of the quarterly condition report

(Signed)_____,Cashier.

NOTE: This report should reach the Federal Reserve Bank on Thursday morning of each week.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 15, 1929,
St. 6057.

SUBJECT: Branches and Agencies of
Federal reserve banks.

Dear Sir:

There were forwarded to you with Board's letter St. 4578 of July 2, 1925, copies of a pamphlet relating to Branches and Agencies of Federal reserve banks, showing their powers and functions and volume of work handled, revised as of June, 1925.

In order that the outline may be brought up to date, it will be appreciated if you will kindly advise the Board at the earliest date practicable what changes, if any, should be made in the data regarding powers and functions and territory assigned to branches, as shown on pages 1-8 and 23-26 of the outline, to correctly reflect the situation as of January 1, 1929.

It is also requested that you furnish the Board with a statement showing the number, capital, surplus, and total resources of national banks and of other member banks in the branch territories on January 1, 1929, in order that we may prepare a table similar to that appearing on pages 19-22 of the outline.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Typewritten letters sent to those banks having branches, who have cited changes, that should be made in the outline, since the Board's issue, revised as of June 1925.

LETTER TO FEDERAL RESERVE AGENTS EXCEPT THOSE AT BOSTON, PHILADELPHIA, CHICAGO, KANSAS CITY AND DALLAS.*

FEDERAL RESERVE BOARD

January 18, 1929.
St. 6063.

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

SUBJECT: Debits to Individual Accounts.

Dear Sir:

In compiling monthly figures of debits to individual accounts from weekly reports received in 1929, it is proposed, as in recent years, to prorate the figures for each city for those weeks which do not fall entirely within a given month, on the basis of actual business days. By reference to data available at the Board's offices we find that the report weeks in 1929 which begin in one month and end in another, i.e., the report weeks for which the figures must be prorated between two months, contain the following days observed as holidays in the states specified:

January	1, 1929	All states and the District of Columbia
March	2	Texas
	4	District of Columbia
	29	Connecticut, Delaware, Florida, Louisiana, Maryland, Minnesota, New Jersey, Pennsylvania, Tennessee
April	1	Michigan
	26	Alabama, Florida, Georgia, Mississippi, New Hampshire
	27	Wyoming
May	30	All states and the District of Columbia except the states of Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina, South Carolina
June	3	Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, South Carolina, Tennessee, Texas, Virginia
September	2	All states and the District of Columbia
October	31	Nevada
November	1	Louisiana
	5	New Jersey, New York, Pennsylvania, Virginia
	28	All states and the District of Columbia
December	28	South Carolina
January	1, 1930	All states and the District of Columbia

In case the above list is not correct for any of the states in your district or there are any additional holidays observed locally by cities for which debit figures are published by the Board, it will be appreciated if you will furnish the Board with a corrected list at your early convenience.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 21, 1929,
St. 6064.

SUBJECT: Revision of Form for Computing Member Bank Reserve Requirements.

Dear Sir:

There is enclosed herewith a copy of Form St. 6059, recently approved by the Board, indicating the manner in which reserves required to be carried by member banks should be computed. It is suggested that the form furnished by you to member banks, illustrating the method of computing required reserves, be revised in accordance with the form enclosed herewith.

In the past it has been found that some of the member banks have apparently classified their deposit liabilities in one way when making out their quarterly condition reports, and in another for the purpose of determining deposit liabilities on which reserves are carried with the Federal reserve bank. To overcome this difficulty the enclosed form St. 6059 states specifically just how the items in the call report should be used in determining the amount of net demand and time deposits subject to reserve. It is suggested that the deposit figures furnished the Federal reserve bank by member banks for reserve computation purposes be checked against the quarterly call reports, to insure that both reports are being prepared on the same basis.

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS

F. R. Board
Form St. 6059
January 1929.

COMPUTATION OF RESERVE TO BE CARRIED WITH THE FEDERAL RESERVE BANK

BY MEMBER BANKS

DEMAND DEPOSITS SUBJECT TO RESERVE

1. DEPOSITS, except bank and U. S. Government, due in 30 days or less or subject to less than 30 days' notice (Total of Schedule K in the quarterly condition report)..... $_____

2. DUE TO BANKS:
   (a) Due to Federal reserve bank (deferred credits) $_____
   (b) Demand balances due to other banks and trust companies in United States ..... _____
   (c) Demand balances due to banks in foreign countries ..... _____
   (d) Certified and cashier's or treasurer's checks, including dividend checks, outstanding ..... _____
   (e) Letters of credit and travelers' checks sold for cash and outstanding ..... _____
   (f) Total due to banks (Total of Schedule J in the quarterly condition report) ..... _____

   LESS:

3. DUE FROM BANKS:
   (a) Items with Federal reserve bank in process of collection ..... _____
   (b) Due from banks (other than Federal reserve bank) and trust companies in United States (Do not include any amounts not subject to withdrawal without notice) ..... _____
   (c) Exchanges for clearing house and other checks on local banks ..... _____
   (d) Balances payable in dollars due from foreign branches of other American banks ..... _____
   (e) Total due from banks (Total of items 4 to 8 in Schedule I of the quarterly condition report) ..... _____

4. NET BALANCE DUE TO BANKS (excess of item 2-f over item 3-e; if "Total due to banks" (item 2-f) is less than "Total due from banks" (item 3-e), no amount should be reported against this item)..... _____

5. NET DEMAND DEPOSITS SUBJECT TO RESERVE (Item 1 plus item 4) .... _____

TIME DEPOSITS

6. DEPOSITS payable after 30 days or subject to 30 days or more notice, as defined in Federal Reserve Board Regulation D; and Postal Savings (Total of Schedule L in the quarterly condition report) ..... _____

RESERVE REQUIRED

ON NET DEMAND DEPOSITS (item 5 above): Banks in central reserve cities, 13 per cent; in reserve cities, 10 per cent; elsewhere, 7 per cent ..... _____
ON TIME DEPOSITS (item 6 above): 3 per cent ..... _____
TOTAL RESERVE TO BE MAINTAINED WITH FEDERAL RESERVE BANK ... _____

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 22, 1929,
St. 6065.

SUBJECT: Schedule of Federal Reserve
Bank Personnel.

Dear Sir:

It will be appreciated if you will kindly furnish the Board with a statement relating to the personnel of your bank (including branches, if any) as at close of business on December 31, 1928, and as of January 1, 1929, made out in accordance with the form attached hereto. The figures for December 1928, which should not take account of changes in either the number or salaries of officers or employees that are put into effect as of January 1, will be published in the Board's 1928 annual report and should be comparable with corresponding figures for your bank derived from the statement submitted last year and published on page of the Board's 1927 annual report. The figures for January 1, 1929, should represent annual salaries after all changes effective as of January 1 have been made.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL CHAIRMEN*

St. 6065a

FEDERAL RESERVE BANK OF _____

(Including branches)

	Number		Annual Salaries	
	Jan. 1 1929	Dec. 31 1928	Jan. 1 1929	Dec. 31 1928
Officers:				
Chairman and Federal Reserve Agent				
Governor				
Other officers				
Employees by departments:				
Banking department				
Federal Reserve Agent's department				
Auditing Department				
Fiscal Agency Department				
Total				
Employees whose salaries are reimbursed to bank:				
Fiscal Agency department				
Other employees*				
Grand Total				
Temporary employees (not to be included above)				

*Subdivide by functions and units on separate sheets.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 5, 1929
St. 6082

SUBJECT: Functional Expense Reports.

Dear Sir:

From time to time the Board's attention has been called to a lack of uniformity in the allocation of certain expenses in functional expense reports due mainly to the fact that the Manual of Instructions governing the preparation of the reports does not make it clear where certain of the minor operations are to be charged. For example, the Board's attention was recently called to the fact that, although most of the Federal reserve banks were performing the work of pasting unfit currency shipped to Washington for redemption in and charging the cost thereof to the Currency-Receiving and Sorting unit, some of the banks were charging the cost of this work to the Currency-All Other unit. We have had some correspondence with the banks on this subject and those which have heretofore been charging the expense to the Currency-All Other unit have now agreed to charge it to the Currency-Receiving and Sorting unit.

With a view to eliminating, so far as practicable, any doubtful points that may still exist it will be appreciated if you will bring to the Board's attention as of May and November 1, of each year, any questions which arise at your bank during the six months preceding regarding the allocation of expenses which do not seem to be adequately covered by the Manual. Such questions will be reviewed by the Board and all Federal reserve banks advised of the decision arrived at in each instance.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 12, 1929,
St. 6093.

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on December 31, 1928. If no call was issued as of December 31, 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 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

February 12, 1929.
St. 6093a.

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on December 31, 1928. If no call was issued as of December 31, 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 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

February 14, 1929,
St. 6097.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of January, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before February 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. 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

February 20, 1929,
St. 6103.

SUBJECT: Condition of Member Banks as of December 31, 1928.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of December 31, 1928. The Board's Member Bank Call Report (No. 42) 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

March 13,1929
St. 6115

SUBJECT: Functional Expenses
Second Half, 1928

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense exhibit for the half year ending December 31, 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

March 14, 1929
St. 6122

SUBJECT: Bank Suspensions

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of February, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before March 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

LETTER TO ALL F. R. AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 20, 1929
St. 6132

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 the request that the blank forms be held pending receipt of a call for condition reports. It is suggested that in your letter transmitting the blanks you call the banks' attention to the instructions previously furnished governing the preparation of the condition reports, so that if any bank has mislaid its copy of the instructions another copy may be promptly furnished for its use. 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. The procedure followed at the time of the last call, outlined in the Board's letter St. 5930 of October 1, 1928, should again be observed in examining the reports and forwarding them to the Board.

In the Board's letter St. 6023 of December 27, subject "Revision of Weekly Member Bank Condition Statement, Form St. 51" it was requested that whenever a call for condition reports was issued, the weekly reports, form St. 51-a, be compared with the call reports (of both National and State bank members) in order to make sure that the figures are being submitted on the same basis. After this comparison has been made, at the time of the next call, it is suggested that the Board be advised of any material differences that are found, together with an explanation of the differences and of the action taken to reconcile the two reports. The Board also requested in its letter St. 6064 of January 21, 1929, that the quarterly call reports be compared with the semi-weekly, weekly or semi-monthly reports of deposits submitted to the Federal reserve banks for reserve computation purposes, in order to make sure that the latter are being prepared correctly. It will be appreciated if the Board is advised of outstanding differences between the two reports and of any action taken with reference thereto.

Very truly yours,

J. C. Noell,
Assistant Secretary.

LETTER TO ALL F. R. AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 21, 1929,
St. 6139.

SUBJECT: Member Bank Call Report Showing Condition of All Member Banks on December 31, 1928.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 42, showing the condition of all member banks on December 31, 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,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 25, 1929
St. 6143

SUBJECT: Debits to individual accounts, 1927-1928

Dear Sir:

For your use and information, there are attached hereto copies of statements St. 6108 and 6113 showing monthly figures of debits to individual accounts for each reporting center during 1927 and 1928, also a copy of statement St. 4379 showing weekly figures for the 141 cities included in the national summary. These statements show detailed information similar to that published in the Board's annual reports prior to 1927.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

LETTER TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

April 12, 1929
St. 6148

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

SUBJECT: Designation and Termination of Reserve Cities

Dear Sir:

As you were advised at the recent Governors' conference, the Board has under consideration a request from member banks in Albany, N.Y., to terminate the designation of that city as a reserve city, and in connection therewith the Board had two statements prepared, copies of which are enclosed, showing

1. Deposits and required reserves on December 31, 1928 of member banks in reserve cities in which no Federal reserve bank or branch is located, and the excess of such reserves over those that would be required of country banks.

2. Deposits and required reserves on December 31, 1928 of member banks in 33 non-reserve cities, and additional reserves that would be required if they were designated as reserve cities.

You were also advised at the conference that a member of the Board has introduced a resolution which, if adopted, would require that all cities in which the ratio of amounts due to banks to total deposits of member banks is 10 per cent or more, be classified as reserve cities. The Board has this resolution under consideration and is endeavoring to work out some formula whereby either the ratio of bank deposits to total deposits or the aggregate amount of bank deposits, or a combination of the two, might be used as the basis of determining whether or not a given city should be designated as a reserve city.

The Board would like to have you give consideration to this question in the light of conditions existing in your district, and advise it whether or not in your opinion some formula along the line mentioned can be worked out for use as guide in designating reserve cities, also how any formula that you may develop would work out for each city in your district that would be affected. It is also requested that you advise the Board whether in youropinion some modification of the formula might be used in designating central reserve cities.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure

LETTER TO ALL GOVERNORS*

DEPOSITS AND REQUIRED RESERVES ON DECEMBER 31, 1928 OF MEMBER BANKS IN RESERVE CITIES IN WHICH NO FEDERAL RESERVE BANK OR BRANCH IS LOCATED, AND THE EXCESS OF SUCH RESERVES OVER RESERVES THAT WOULD BE REQUIRED OF COUNTRY BANKS

(Amounts in thousands of dollars)

	Population in 1927*	Due to banks **		Net demand deposits	Time deposits	Total deposits	Required reserves	
		Amount	Ratio to total deposits				At present	Excess over country-bank-basis
Albany	120,000	13,342	13.1	63,861	24,544	101,997	7,122	1,916
Washington	540,000	13,897	10.0	76,278	44,006	138,365	8,948	2,289
Milwaukee	536,000	33,099	15.8	111,325	67,261	209,948	13,151	3,340
Indianapolis	374,000	23,602	20.9	64,393	24,968	113,145	7,188	1,931
Toledo	305,000	8,295	8.4	38,309	49,898	98,733	5,328	1,149
Columbus	291,000	14,127	13.2	63,502	28,179	107,387	7,195	1,905
Oakland	267,000	5,650	16.7	22,523	6,961	33,892	2,461	675
St. Paul	250,000	26,162	20.7	64,616	39,627	126,133	7,651	1,939
Fort Worth	164,000	24,370	27.6	52,310	15,608	88,272	5,699	1,569
Grand Rapids	162,000	6,301	7.4	33,749	43,944	85,210	4,693	1,013
Tulsa	150,000	26,871	24.1	75,520	17,790	111,384	8,086	2,266
Des Moines	149,000	10,830	20.4	34,464	10,579	53,077	3,763	1,034
Kansas City Kans.	118,000	3,774	28.0	7,616	3,290	13,467	861	229
Savannah	100,000	16,155	20.5	33,731	30,066	78,992	4,275	1,012
Wichita	96,000	10,190	26.2	24,790	6,975	38,941	2,688	744
Peoria	84,000	4,512	13.8	16,354	12,588	32,643	2,013	490
Sioux City	79,000	8,060	28.5	13,342	8,207	28,262	1,580	400
St. Joseph	79,000	9,621	32.8	15,817	7,847	29,345	1,817	475
Lincoln	70,000	7,276	31.0	13,761	3,485	23,460	1,481	413
Topeka	62,000	3,644	16.5	15,912	2,642	22,084	1,670	477
Cedar Rapids	54,000	10,461	34.1	13,501	11,354	30,646	1,691	405
Galveston	50,000	8,569	27.4	13,848	13,994	31,319	1,805	416
Waco	46,000	2,541	11.6	11,695	7,417	21,813	1,393	351
Pueblo	44,000	5,850	28.1	9,098	5,587	20,832	1,078	273
Dubuque	42,000	848	7.0	4,447	6,911	12,116	652	134
Ogden	38,000	4,793	40.5	7,279	1,541	11,831	774	218
Muskogee	33,000	1,949	14.8	6,209	4,754	13,184	764	186
TOTAL, 27 cities	4,303,000	304,789	18.2	908,250	500,023	1,676,478	105,827	27,249

*Census Bureau estimates, except that population marked (*) is taken from July 1928 Rand-McNally Bankers Directory.

**Does not include amounts due to Federal reserve banks, certified and officers' checks, and cash letters of credit and travelers' checks.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 29, 1929.

(St. 6148a)

C.

DEPOSITS AND REQUIRED RESERVES ON DECEMBER 31, 1928, OF MEMBER BANKS IN 33 NON-RESERVE CITIES, AND ADDITIONAL RESERVES THAT WOULD BE REQUIRED IF THEY WERE DESIGNATED AS RESERVE CITIES

(1) Cities with $5,000,000 or more of bank deposits
(2) Other cities with population of 125,000 or more

(Amounts in thousands of dollars)

	Population in 1927*	Due to banks**		Net demand deposits	Time deposits	Total deposits	Required reserves	
		Amount	Ratio to total deposits				At present	Additional on reserve-city basis
(1) CITIES WITH $5,000,000 OR MORE OF BANK DEPOSITS								
Newark	467,000	9,353	2.9	201,770	101,515	322,790	17,169	6,053
Syracuse	197,000	5,675	3.6	107,924	42,787	156,578	8,839	3,237
Duluth	115,000	7,261	13.9	24,452	21,158	52,086	2,346	734
Tampa	108,000	7,130	15.8	18,043	20,227	45,080	1,870	541
Shreveport	78,000	9,473	21.9	25,646	9,513	43,180	2,081	769
Winston Salem	77,000	7,468	15.6	22,227	17,712	47,933	2,087	667
Sacramento	75,000	8,349	22.0	20,819	10,743	37,919	1,780	624
Knoxville	102,000	5,116	14.5	14,926	14,212	35,248	1,471	448
Charleston	75,000	5,179	11.7	13,840	23,494	44,361	1,674	415
Chattanooga	73,000	6,718	15.4	18,725	17,940	43,519	1,849	562
E.St.Louis & Nat.Stk.Yds.	73,000	7,918	29.4	16,213	7,647	26,974	1,364	487
Joliet	42,000	5,083	17.0	15,223	11,172	29,843	1,401	456
TOTAL, 12 cities	1,482,000	84,723	9.6	499,808	298,120	885,511	43,931	14,993
(2) NON-RESERVE CITIES NOT INCLUDED ABOVE, WITH POPULATION OF 125,000 OR MORE								
Rochester	325,000	771	1.3	18,194	39,647	58,887	2,463	546
Jersey City	322,000	3,520	2.1	85,539	72,162	166,346	8,153	2,566
Providence	281,000	4,588	1.5	124,094	175,339	306,181	13,947	3,723
Akron	*208,000	1,517	1.9	29,498	45,699	79,193	3,436	885
Worcester	196,000	3,983	5.1	57,011	16,401	78,424	4,483	1,710
New Haven	185,000	859	1.6	28,113	24,302	54,521	2,697	843
Dayton	181,000	455	1.1	25,409	13,443	41,506	2,182	762
Norfolk	179,000	4,344	8.9	24,651	18,696	48,870	2,286	740
Youngstown	169,000	1,107	1.6	24,511	42,555	69,120	2,992	736
Hartford	168,000	2,448	3.1	70,442	3,869	78,159	5,047	2,113
Springfield	147,000	1,800	3.5	23,666	24,654	51,317	2,396	710
Scranton	144,000	4,396	4.9	36,135	47,920	89,948	3,967	1,085
Bridgeport	*144,000	1,020	3.0	16,459	14,455	34,165	1,586	494
Paterson	144,000	1,345	2.0	24,533	39,726	66,804	2,909	736
Flint	143,000	322	.6	15,722	41,117	57,780	2,334	472
Miami	140,000	1,243	5.1	12,781	9,982	24,211	1,194	384
Trenton	137,000	610	1.5	24,247	15,695	41,370	2,168	728
Camden	133,000	1,248	2.6	24,265	21,768	47,356	2,352	728
Fall River	133,000	1,050	5.6	15,872	2,273	18,812	1,179	476
Long Beach	*129,000	582	2.3	14,826	9,895	25,689	1,335	444
Wilmington	126,000	1,084	2.3	40,716	5,054	47,905	3,002	1,221
TOTAL, 21 cities	3,734,000	38,292	2.6	736,684	684,652	1,486,564	72,108	22,102

*Census Bureau estimates, except that population marked (*) is taken from July 1928 Bankers Directory.

**Does not include amounts due to F. R. banks, certified and officers' checks, and cash letters of credit and travelers' checks.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 29, 1929.

(St. 6148b)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 15, 1929,
St. 6164.

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of March, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before April 27, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

LETTER TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 23, 1929,
St. 6170.

SUBJECT: Quarterly report of Member Banks borrowing from Federal reserve bank.

Dear Sir:

During the past several years, you have been furnishing the Board with reports on Form St. 3677, covering member banks borrowing from the Federal reserve bank continuously in excess of capital and surplus during the report month. The Board would like to expand this report to include all substantially continuous borrowers, and accordingly it will be appreciated if, beginning with the first quarter of this year, you will furnish the Board with quarterly reports on Form St. 6170, a copy of which is attached, in lieu of reports on form St. 3677, which may be discontinued. The new form, you will note, calls for reporting the capital and surplus and average daily borrowings of member banks that were substantially constant borrowers during the quarter, i.e., banks borrowing four-fifths of the time (on 73 or more days of the quarter), also the number of days on which the member bank was in debt to the Federal reserve bank during the last four quarterly periods.

Fifty copies of the new form are being forwarded to you today under separate cover.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

COPY TO ALL GOVERNORS*

F. R. Board form St. 6170
April 1929

MEMBER BANKS BORROWING FROM THE FEDERAL RESERVE BANK OF _____
FOUR-FIFTHS OF THE TIME* DURING THE QUARTER ENDING _____

Location	Name of bank	Average borrowings during quarter	Capital and surplus at end of quarter	Number of days that bank was in debt to F. R. Bank during the last			
				3 months	6 months	9 months	12 months
		(In thousands)					

*On 73 or more days, including Sundays and Holidays.

FEDERAL RESERVE BOARD

WASHINGTON

May 6, 1929,
St. 6178.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on March 27, 1929. If no call was issued as of March 27, 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 addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 6, 1929.
St. 6178a.

SUBJECT: Reports of Condition of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if in accordance with your usual practice you will kindly furnish the Federal Reserve Board, as soon as available, with a copy of the abstract of reports of condition of state banks and trust companies in your state on March 27, 1929. If no call was issued as of March 27, 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 addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 15, 1929,
St. 6188.

SUBJECT: Condition of Member banks as of March 27, 1929.

Dear Sir:

For your information there is enclosed herewith a preliminary statement regarding the condition of all member banks combined as of March 27, 1929. The Board's Member Bank Call Report (No. 43) 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

May 15, 1929
St. 6189

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of April, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before May 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,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

LETTER TO EACH FEDERAL RESERVE AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 15, 1929
St. 6189

SUBJECT: Bank Suspensions.

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of April, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before May 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,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

LETTER TO EACH FEDERAL RESERVE AGENT

CONFIDENTIAL
Not for publication

St. 6189a

BANK SUSPENSIONS DURING APRIL 1929

Name of bank	Location		Date closed	Capital	Deposits*	Class of bank
DISTRICT NO. 4 - CLEVELAND						
Peoples National Bank	Adena	Ohio	4-13-29	$50,000	$687,000	National
Far. & Mer. State Bk	Chattanooga	Ohio	4-26-29	25,000	94,000	Nonmem.
Union Savings Bank	Youngstown	Ohio	4-13-29	50,000	628,000	"
DISTRICT NO. 5 - RICHMOND						
Commercial Bk & Trust	Gastonia	N.C.	4- 5-29	500,000	2,456,000	Nonmem.
Bank of Star	Star	N.C.	4-26-29	15,000	176,000	"
DISTRICT NO. 6 - ATLANTA						
Peoples Bank	Sardis	Ga.	4-19-29	25,000	38,000	St.Mem.
Brotherhood State Bank	Jacksonville	Fla.	4-11-29	25,000	202,000	Nonmem.
Bank of Girard	Girard	Ga.	4-16-29	15,000	85,000	"
Bank of Parrott	Parrott	Ga.	4- 2-29	15,000	-	"
Bank of Poulan	Poulan	Ga.	4-19-29	15,000	40,000	"
Bank of Weston	Weston	Ga.	4- 2-29	25,000	109,000	"
DISTRICT NO. 7 - CHICAGO						
Home State Bank	Princeville	Ill.	4-25-29	50,000	657,000	Nonmem.
State Bank of Lansing	Lansing	Ia.	4-26-29	33,000	290,000	"
First Tr. & Sav. Bank	Oxford Junction	Ia.	4-30-29	25,000	178,000	"
Farmers Exchange Bank	Barnum	Ia.	4-13-29	10,000	7,000	Nonmem. (Pvt.)
DISTRICT NO. 8 - ST. LOUIS						
Bank of Lake City	Lake City	Ark.	4-16-29	50,000	445,000	Nonmem.
Sesser State Bank	Sesser	Ill.	4-29-29	30,000	144,000	"
Farmers & Citizens Bk.	De Soto	Mo.	4-22-29	50,000	150,000	"
Chariton Bank	Worthington	Mo.	4-22-29	10,000	47,000	"
DISTRICT NO. 9 - MINNEAPOLIS						
First National Bank	Sanborn	N.D.	4-10-29	25,000	101,000	National
Markville State Bank	Markville	Minn.	4-18-29	10,000	69,000	Nonmem.
Green Lake State Bank	Spicer	Minn.	4-22-29	10,000	143,000	"
Bartlett State Bank	Bartlett	N.D.	4-18-29	10,000	69,000	"
Eckelson State Bank	Eckelson	N.D.	4- 9-29	10,000	77,000	"
Astoria State Bank	Astoria	S.D.	4- 4-29	20,000	269,000	"
Farmers State Bank	Big Stone City	S.D.	4- 5-29	25,000	133,000	"
DISTRICT NO. 10 - KANSAS CITY						
La Cygne State Bank	La Cygne	Kans.	4-22-29	13,000	160,000	Nonmem.
Farmers State Bank	Madison	Kans.	4-30-29	25,000	459,000	"
DISTRICT NO. 11 - DALLAS						
First National Bank	La Grange	Tex.	4-27-29	75,000	14,000	National
DISTRICT NO. 12 - SAN FRANCISCO						
Bank of Cottonwood	Cottonwood	Calif.	4-15-29	25,000	106,000	Nonmem.
American Security Bank	Vancouver	Wash.	4-18-29	50,000	339,000	"

TOTAL FOR ALL DISTRICTS - 31 banks - Capital $1,316,000 - Deposits $8,372,000

CONFIDENTIAL
Not for publication

St. 6189b

SUSPENDED BANKS REOPENED DURING APRIL 1929

F. R. District number	Name and location of bank			Date closed	Date reopened	Class of bank
4	Amherst Savings & Banking Co., Amherst, Ohio			12-20-28	4-1-29	Nonmem.
5	Peoples Bank	Stuarts Draft,	Va.	3-13-29	4-16-29	Nonmem.
8	Bernie State Bank	Bernie	Mo.	3-18-29	4- 8-29	Nonmem.
8	Farmersburg State Bank	Farmersburg	Ind.	3-11-29	4- 6-29	Nonmem.

CORRECTIONS TO BE MADE IN PREVIOUS LISTS SHOWING BANK SUSPENSIONS OR OF SUSPENDED BANKS REOPENED

March list of bank suspensions

To be added to the list:
Holt Banking Company - District No. 6 - Nonmember (private) - Capital $105,000 - deposits $211,000. Twelve banks located at the following points in Georgia: Alma, Avera, Bartow, Cobbtown, Davisboro, Harrison, Mansfield, Midville, Ludowici, Register, Rocky Ford, and Warthen.

*Latest available figures, taken from Form X-4401, if received, otherwise from Rand McNally Banker's Directory or condition reports.

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MAY 15, 1929

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 21, 1929,
St. 6199.

SUBJECT: Payment of Dividends on
June 30, 1929.

Dear Sir:

In submitting the usual semi-annual resolution of your board of directors with reference to the payment of the June 30 dividend, kindly furnish the Board with statements showing the following information as of May 31 for (1) suspended banks, and (2) member banks considered to be in a seriously overextended condition:

Name and location of bank.
Unpaid indebtedness to Federal reserve bank
Estimated loss to Federal reserve bank

Very truly yours,

E. M. McClelland,
Assistant Secretary.

LETTER TO ALL CHAIRMEN*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 7, 1929,
St. 6218.

SUBJECT: Allocation of certain expenses in Functional expense reports.

Dear Sir:

In accordance with the Board's letter of February 5, 1929, St. 6082, the following questions in connection with the Functional Expense Reports have been brought to our attention:

1. Should the cost of advertising for a particular article and telegraph and telephone charges in connection with the delivery of supplies purchased be charged to General Service - Purchasing and Stock Room Expense Unit or should they be charged to the expense unit for which the particular supplies are purchased.

2. Inasmuch as it is contemplated that all cafeteria expenses be shown as one item on form 96, should not help advertisements for the cafeteria and the cost of physical examinations for cafeteria employees be charged to Provision of Personnel - Cafeteria Expense Unit, rather than to the Hiring Employees and Employee's Records Expense Unit and the Welfare and Medical Expense Unit, respectively, as provided for by the Manual of Instructions.

3. Should U. S. securities received for transfer to and delivery by other Federal reserve banks, and securities delivered in accordance with instructions from other Federal reserve banks be included in operations of the Fiscal Agency Function, and if so how should the number of and amount of such securities handled be reported.

It will be appreciated if you will kindly advise us as to how the above transactions are handled in your Functional Expense Reports.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL GOVERNORS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 7, 1929
St. 6219

SUBJECT: Member Bank Call Report for
March 27, 1929

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 43, showing the condition of member banks on March 27, 1929. 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*

FEDERAL RESERVE BOARD

WASHINGTON

June 11, 1929
St. 6222

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Branch and Chain Banking.

Dear Sir:

In submitting your report covering changes in branches of member and non-member banks during the 12 months ending June 30, 1929, as requested in the Board's letter St. 5120 of October 10, 1926, modified by letter St. 5620 of December 23, 1927, it will be appreciated if you will call to the Board's attention any errors that may have been found in the memorandum on branches of member and nonmember banks submitted to you with the Board's letter St. 5998 of December 3, 1928.

Please accompany your report on branch banking with a report on chain banking in your district as of June 30, as was done last year. For your confidential information and use in preparing such report there is enclosed herewith a copy of the reports on this subject submitted by all Federal reserve agents last year, together with a memorandum and summary prepared at the Board's offices. It will be noted that there is a material difference in the scope of the reports submitted for the various districts, due no doubt largely to the fact that no comprehensive definition of what constitutes chain banking has been formulated. It is felt, however, that the use of the data enclosed herewith in the preparation of the new reports will tend to bring about better and more uniform reports.

In the preparation of the current report it is suggested that no attempt be made to include banks that have substantially identical ownership but which operate in different fields in the same community, such as the affiliations that exist between a local commercial bank and a local savings bank, nor in general any affiliation involving only two banks.

In forwarding your report on chain banking please make such general comments on the development of chain or group banking in your district as you think will be of interest to the Board, with special reference to the development in your district of investment trusts and other financial corporations organized for the purpose of specializing in bank stocks.

It will be appreciated if you will make a special effort to submit your reports on branch banking and chain banking in time for them to reach the Board as soon after June 30 as possible.

Very truly yours,

E. M. McClelland,
Assistant Secretary

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 12, 1929
St. 6224

SUBJECT: Reserve Requirements of Member Banks

Dear Sir:

At the last Conference of Governors it was understood that certain proposals which were under consideration by the Board for revision of the reserve requirements of member banks would be submitted to the Federal reserve banks for their consideration.

There is enclosed herewith a self-explanatory memorandum prepared by the Chief of the Board's Division of Bank Operations which sets forth the various proposals, none of which have been either approved or disapproved by the Board. It is requested that you advise the Board of your views on the several proposals, particularly as to the discontinuance of a lower reserve on time deposits than on net demand deposits, and the advisability of allowing vault cash to be counted as part of the legally required reserves, with corresponding adjustments in required reserve percentages. In the event none of the proposals outlined meet your approval, the Board will appreciate advice from you as to a formula which, in your opinion, would be satisfactory.

This letter is being addressed to each Governor and Federal Reserve Agent, and it is hoped that replies will be received by August 1st, as it is the present intention of the Board to request a full discussion of the subject of reserve requirements at the Fall Conference of Governors and Federal Reserve Agents.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure

TO GOVERNORS AND FEDERAL RESERVE AGENTS
OF ALL FEDERAL RESERVE BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 14, 1929
St. 6228

SUBJECT: Bank Suspensions

Dear Sir:

There is enclosed herewith a list of member and nonmember banks reported to the Board as having suspended operations during the month of May, and of banks previously suspended which resumed business during the same month. The statement also includes any corrections made in the lists previously sent to you.

It will be appreciated if you will kindly check the data pertaining to your district against your records and advise the Board on or before June 28, by telegraph if necessary, whether or not any corrections or additions are necessary therein, in order that correct summaries by districts may be published in the Federal Reserve Bulletin.

Very truly yours,

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

June 21, 1929
St. 6230

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. Kindly hold the blank forms at your bank until receipt of telegraphic notice from the Board, whereupon three copies should be mailed to each state bank and trust company member with the request that the forms be held pending receipt of a call for condition reports. It is suggested that in your letter transmitting the blanks you call the banks' attention to the instructions previously furnished governing the preparation of the condition reports, so that if any bank has mislaid its copy of the instructions another copy may be promptly furnished for its use. 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.

The reports should be examined and checked in the usual manner, in accordance with the procedure outlined on page 2 of the Board's letter St. 5930 of October 1, 1928, before being forwarded to the Board. In addition to the checking specifically outlined in that letter, it might be well, in some cases at least, to compare some of the items with the previous report, particularly in Schedules E, F, and G, as we found a number of discrepancies between the March 27 reports and those previously submitted. In this connection it is suggested that where a report is found to be complete except that the word "None" is not shown against some of the items in the body of the report or in the schedules, or the par value of stock or number of shares is omitted from Schedule A, it will be sufficient to merely call the bank's attention to the omissions for its guidance in preparing future reports, instead of asking the bank to submit a letter giving the information that was omitted. The memorandum items in Schedules E and L should be answered, however, in every case.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 21, 1929.
St. 6236.

SUBJECT: Earnings, Expenses and Dividends
Reports of State Bank Members.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 107 for the use of State bank members in submitting their reports of earnings, expenses and dividend payments for the six months ending June 30, 1929.

As instructions governing the preparation of reports on form 107, referred to in our letter St. 6020 of December 21, have not yet been completed, the banks should follow their usual practice in preparing reports for the six months ending June 30, 1929.

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 which 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,

E. M. McClelland,
Assistant Secretary.

TO ALL F. R. AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 27, 1929
St. 6248

Dear Sir:

At the last Governors' conference, consideration was given to topic III-D "Redemption Fund for Federal reserve notes. Is there any need for two separate funds?" and the conference voted that the Chairman appoint a committee to confer with the Treasury officials and express the opinion of the conference that an effort should be made to do away with the Federal reserve agents' redemption fund if agreeable to the Treasury. The secretary of the Governors' conference has since advised me that the Chairman appointed Mr. L.R.Rounds of the Federal Reserve Bank of New York and myself as the committee to confer with the Treasury officials.

For your information, I am enclosing a copy of a memorandum dated March 28, 1929 with reference to this subject which explains the history of the two separate redemption funds and the use made of them by the several Federal reserve banks which, it will be noted, is not uniform.

Information now available indicates that ten of the Federal reserve banks make cross entries between the agent's redemption fund and the bank's redemption fund in connection with all shipments of mutilated Federal reserve notes to the Treasury by them or by other Federal reserve banks for their account while two of the banks make no entries whatever in their redemption funds in connection with such shipments. These banks merely reduce on their own books the amount of Federal reserve notes outstanding. If the procedure followed by these two banks is adopted by the other ten the only Federal reserve notes which will be charged to the redemption fund by the Treasury will be those received from sources other than the Federal reserve banks and such redemptions can be accomplished through the bank's redemption fund as easily as through the agent's redemption fund. It would seem from the above that there is no occasion for the maintenance of the two separate redemption funds and the elimination of one would not only simplify somewhat the accounting procedure incident to the retirement of Federal reserve notes but would also make it

necessary to show only one redemption fund in published reports, thereby removing a source of confusion to many students of the System.

Since the suggestion for the discontinuance of one of the redemption funds was first made another very practical reason has developed which seems to make the change desirable. Under the procedure followed by a majority of the banks, transfers are made between the two funds upon receipt of notice from the Treasury that Federal reserve notes have been received for retirement. This necessitates maintaining a close watch on the amounts of the respective redemption funds in order that there may be at all times a sufficient balance to effect the redemptions. In view of the impending change in the size of the currency, several of the Federal reserve banks have thought that some change of procedure would be necessary in order that the more rapid retirement of Federal reserve notes which is anticipated following July 10 can be made without building up too large a redemption fund and thus possibly depleting the reserves against deposits. The procedure suggested is as follows:

1st - That with the approval of the Secretary of the Treasury, the agents' redemption funds be closed and all Federal reserve notes presented to the Treasury for redemption be redeemed out of the banks' gold redemption fund. This, of course, would be done with the understanding that if at any future time circumstances should arise making desirable the maintenance of such funds, the Secretary would request the Federal Reserve Board to require each agent to reestablish his fund.

2nd - That the procedure incident to the retirement of Federal reserve notes be as follows:

a - That each Federal reserve bank charge to an account entitled "Mutilitated Federal reserve notes forwarded for redemption" all notes of its issue forwarded to Washington either by itself or by another Federal reserve bank for its account. (This is identical with the present procedure).

b - That upon receipt of advice from the Treasury that notes shipped by the bank or by another Federal reserve bank for its account have been received in Washington entries be made debiting "Federal reserve notes outstanding" and crediting "Mutilitated Federal reserve

notes forwarded for redemption" thus accomplishing the retirement of the notes with a minimum amount of bookkeeping. This procedure would, of course necessitate the Federal reserve agents reducing on their books the amount of Federal reserve notes outstanding. It would not require entries in the redemption funds on the books of the Federal reserve agents, the Federal reserve banks or the Treasury of the United States.

The proposed change in procedure has already been discussed informally with the Treasury and our committee would like to have your advice as promptly as possible as to whether or not the proposed plan has your approval. If the plan meets with the approval of the agents, the matter will be taken up with the Treasury formally with a view to having the necessary instructions issued at the earliest practicable date.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS*

Enclosure.

March 28, 1929

Mr. McClelland

Mr. Smead

SUBJECT: Redemption funds against Federal reserve notes.

With regard to topic III.-D on the program for the next Governors' Conference "Redemption fund for Federal reserve notes. Is there any need for two separate funds?" I wish to comment as follows:

Section 16 of the Federal Reserve Act provides that the Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than 5 per cent of the total amount of notes issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security. The same section also provides that upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit to the Treasurer of the United States so much of the gold held by him as collateral security for Federal reserve notes as may be required for the exclusive purpose of the redemption of such Federal reserve notes. It is apparent from the above that the Act requires the Federal reserve banks to maintain a gold redemption fund with the United States Treasurer for the redemption of Federal reserve notes but that the maintenance of an agents' gold redemption fund is discretionary with the Secretary of the Treasury.

Under date of January 24, 1916, Mr. McAdoo, then Secretary of the Treasury, requested the Board to require each Federal reserve agent to transmit gold equal to 5 per cent of the amount of notes against which gold had been deposited with him, to the Treasury of the United States for the exclusive purpose of the redemption of such notes. The establishment of redemption funds by the agents was necessary at that time as a number of the Federal reserve banks had deposited gold with the agents in an amount equal to the total amount of Federal reserve notes outstanding and therefore were not required to maintain a gold redemption fund with the United States Treasury. From experience during the past several years there does not seem to be much prospect that any Federal reserve bank will in the future deposit gold with the agent equal to the amount of Federal reserve notes outstanding and consequently it is worthwhile to review the use made of each of the redemption funds in order to ascertain whether the two funds are necessary or desirable.

The present method of redeeming Federal reserve notes I understand to be as follows: When Federal reserve notes are returned to the Treasury for redemption by a Federal reserve bank, other than the bank of issue, settlement between Federal reserve banks is made in the gold settlement fund clearing. Upon receipt of notice from the Treasury that such Federal reserve notes have been received and package counted the Federal reserve

(St. 6248-a)

banks and agents of New York and Chicago merely reduce on their books the amount of Federal reserve notes outstanding. In the case of the other ten banks the United States Treasurer charges the redemption fund of the agent and credits the redemption fund of the bank with the amount of notes received, and corresponding entries are made by the bank and agent in their redemption funds, and in addition they reduce the amount of Federal reserve notes outstanding. When notes are sent to the Treasury by the bank of issue the Treasurer, in the case of nine of the banks, charges the redemption fund of the agent and credits the redemption fund of the bank for the amount of shipment. In the case of the New York and Chicago banks the Treasury merely notifies the bank and the agent of the receipt of the shipment and they make the necessary entries to reduce the amount of Federal reserve notes outstanding. In the case of the San Francisco bank the Treasury notifies the Federal Reserve Board of the receipt of the shipment and the Board charges the agent in the gold fund and credits the bank in the gold settlement fund.

In all of the above cases the work would be simplified materially and a considerable amount of bookkeeping made unnecessary if all banks handled the entries the same as do the Federal Reserve Banks of New York and Chicago.

The only other redemptions of Federal reserve notes are the relatively small amounts which find their way into the Treasury mostly through banks in Washington. It is the present practice of the Treasury to charge these notes to the agents' gold redemption fund and this is the only purpose for which the redemption fund of the Federal reserve agent at New York is used. These redemptions could very well be made out of the bank's gold redemption fund.

From the above it would seem that there is now no real occasion for the maintenance of two separate redemption funds. If one of the funds is to be eliminated it would, under the Federal Reserve Act, have to be the agents' fund and as the elimination of such fund would simplify materially the number of entries required at the Treasury and the Federal reserve banks its elimination would seem to be desirable.

(St. 6248-a)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 27, 1929
St. 6249

SUBJECT: Operating Efficiency at the Federal Reserve Banks.

Dear Sir:

In continuation of the statement, based on functional expense reports, sent you under date of June 14, 1928 we are enclosing herewith a statement, St. 6231, relating to the output per employee and unit of cost in the departments for which a measured service is available at the head offices of the Federal reserve banks.

This statement as you will note uses as a base figures for 1925 instead of 1923 as was done in the statement sent you a year ago. This change was made as it was thought that figures for 1923, the first full year for which functional expense reports were submitted, are not as satisfactory a base for future comparisons as are figures for two years later when all the banks had become familiar with the new system of reporting and misinterpretations of instructions regarding preparation of the reports had been fairly well ironed out.

It will be appreciated if you will bring to the Board's attention any comments regarding the statement that you think desirable.

Very truly yours,

J. C. Noell,
Assistant Secretary.

Enclosure

TO GOVERNORS AND CHAIRMEN OF
ALL FEDERAL RESERVE BANKS*