X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 1, 1932.

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
2	Ogdensburg Trust Co., Ogdensburg, N. Y., ...	$600,000	12-28-31
	Closed:		
3	Burlington City Loan & Trust Co., Burlington, N. J.	100,000	12-29-31
4	Farmers Bank, McCutchenville, Ohio,.	30,000	12-29-31
7	Oceana County Savings Bank, Hart, Mich., ...	40,000	12-29-31
12	Bank of Southern Utah, Cedar City, Utah, ...	100,000	12-26-31
12	Bank of Iron County, Parowan, Utah, ...	35,000	12-28-31
5	Farmers Bank of Pendleton, Franklin, W. Va., . . .	50,000	12-30-31

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

1	The Thomaston National Bank, Thomaston, Maine. (Confirmatory)	12-23-31

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 8, 1932.

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
6	Georgia Railroad Bank & Trust Co., Augusta, Ga., ...	$1,000,000	1- 6-32
	Absorption of National Bank:		
4	Cleveland Trust Co., Cleveland, Ohio, member, ...	13,800,000	
	absorbed First National Bank, Willoughby, Ohio, . . .	100,000	10- 6-31
	Absorption of Nonmember:		
2	Montclair Trust Co. Montclair, N. J., member, ...	1,250,000	12-26-31
	absorbed Mountain Trust Co., Montclair, N. J., nonmem.	200,000	
	Absorbed by National Bank:		
2	Rockland County Trust Co., Nyack, N. Y., member, . . .	200,000	12-23-31
	absorbed by Nyack National Bank of Nyack	200,000	
	Consolidations:		
4	Merchants Trust Co, Greensburg, Pa., member, ...	300,000	12-31-31
	Union Trust Co., member	400,000	
	First National Bank, Greensburg, Pa., ...	150,000	
	Consolidated under charter of latter and title of First National Bank & Trust Co., ...	480,000	
7	Guardian Detroit Bank, Detroit, Mich., member, ...	5,000,000	12-31-31
	National Bank of Commerce, Detroit, Mich., ...	5,000,000	
	Consolidated under the charter of the latter and title of Guardian National Bank of Commerce.	10,000,000	
7	Peoples Wayne County Bank, Detroit, Mich., member, . .	15,000,000	12-31-31
	First National Bank in Detroit,, ...	7,500,000	
	Consolidated under charter of the latter and title of First Wayne National Bank	25,000,000	
	Voluntary Withdrawal:		
9	Central State Bank, White Sulphur Springs, Mont. . . .	30,000	12-15-31
	Closed:		
8	Mount Olive State Bank, Mount Olive, Ill., ...	50,000	1- 7-32
8	Central Trust Co., Owensboro, Ky., ...	400,000	1- 2-32
12	State Bank of Payson, Payson, Utah, ...	50,000	1- 2-32
	PERMISSION GRANTED TO EXERCISE TRUST POWERS:		
11	San Angelo National Bank, San Angelo, Texas, (Full powers)		1- 6-32
1	Thomaston National Bank, Thomaston, Maine. (Limited powers)		12-23-31

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership:		
	None.		
	Absorption of Nonmember:		
3	Atlantic Safe Deposit & Trust Co., Atlamtic City, N. J. member	$300,000	12-28-31
	absorbed the following nonmembers:		
	Guarantee Trust Co.,	600,000	
	Marine Trust Co.,	200,000	
	Neptune Trust Co.,	200,000	
	and changed its title to Guarantee Trust Co.	1,000,000	
3	Wayne County Savings Bank, Honesdale, Pa., member,	250,000	12-12-31
	absorbed Waymart State Bank, Waymart, Pa., nonmember,	50,000	
3	Pennsylvania Co. for Insurance on Lives & Granting Annuities, Philadelphia, Pa., member,	8,400,000	12-28-31
	absorbed Continental-Equitable Title & Trust Co., nonmember,	1,000,000	
3	Wilkes-Barre Deposit & Savings Bank, Wilkes Barre, Pa. member,	499,000	1-12-32
	absorbed North End State Bank, nonmember,	50,000	
7	Bank of Sturgeon Bay, Sturgeon Bay, Wisc.,	200,000	11-18-31
	absorbed State Bank of Maplewood, nonmember,	30,000	
	Absorption by National Bank:		
10	Park County Bank, Powell, Wyoming, member,	25,000	1- 5-32
	absorbed by First National Bank of Powell,	35,000	
	Consolidation of State Members:		
1	Bank of Commerce & Trust Co., Boston, Mass., member,	1,000,000	12-31-31
	United States Trust Co., member,	2,500,000	
	consolidated under charter and title of latter		
4	Midland Bank, Cleveland, Ohio, member,	4,000,000	1-11-32
	Cleveland Trust Co., member,	13,800,000	
	consolidated under charter and title of latter		
	Closed:		
2	West Orange Trust Co., West Orange, N. J.	250,000	1-15-32
12	Farmers & Merchants Bank, Provo, Utah,	100,000	1-12-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

11	San Angelo National Bank, San Angelo, Texas. (Full Powers)	1- 6-32

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 22, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership:		
	None.		
	Absorption of Nonmember:		
1	Manchester Trust Co., South Manchester, Conn., member,	$200,000	1-14-32
	absorbed Home Bank & Trust Co., nonmember, ...	50,000	
7	Monticello State Bank, Monticello, Iowa, member, . . .	200,000	12-30-31
	absorbed Lovell State Bank of Monticello, nonmember,	200,000	
10	Sundance State Bank, Sundance, Wyo., member.	25,000	1- 9-32
	absorbed American State Bank, Moorcroft, Wyo. nonmember,	10,000	
12	First State Bank, Gresham, Ore., member, ...	30,000	1-16-32
	absorbed Bank of Gresham, Ore., nonmember, ...	15,000	
	Consolidations:		
1	Sagamore Trust Co., Lynn, Mass., member, ...	200,000	1-20-32
	consolidated with the Security Trust Co., member, .	200,000	
	under charter and title of latter.	200,000	
7	Story County Trust & Savings Bank, Ames, Iowa, member,	50,000	1- 2-32
	consolidated with Union National Bank of Ames, . . .	100,000	
	under new charter and title, "Union Story Trust & Savings Bank", nonmember.		
	Closed:		
6	Southern Bank & Trust Co., Birmingham, Ala., ...	500,000	1-22-32
7	Depositors State Bank, Chicago, Ill., ...	400,000	1-16-32
12	Bank of Southwestern Oregon, Marshfield, Ore., ...	100,000	1-18-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

4	Union National Bank, Youngstown, Ohio. (Limited powers)	1-16-32
7	National Bank of Logansport, Indiana. (Full powers)	1-20-32

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JANUARY 29, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
1	Somerville Trust Co., Somerville, Mass.,	$150,000	1-28-32
7	Glenwood State Bank, Glenwood, Iowa.,	30,000	1-27-32
	Absorbed by Nonmember		
8	Bank of La Plata, La Plata, Mo., member, absorbed by La Plata State Bank, nonmember,	50,000	1-21-32
	Closed		
6	Parish Bank & Trust Co., Opelousas, La.,	50,000	1-23-32
7	First State Bank, Barrington, Ill.,	100,000	1-27-32
7	Joliet Trust & Savings Bank, Joliet, Ill.,	100,000	1-23-32
7	Central Illinois Trust & Savings Bank, Mattoon, Ill.,	100,000	1-22-32
11	First State Bank, Slaton, Texas.,	40,000	1-28-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

None

FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 5, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
	None		
	Absorption by National Bank		
3	Dime Bank Lincoln Trust Co., Scranton, Pa., member, . . .	$1,500,000	2- 1-32
	absorbed by the First National Bank of Scranton, ...	5,000,000	
	Absorption of Nonmember		
12	Albany State Bank, Albany, Ore., member,.	50,000	1-30-32
	absorbed First Savings Bank of Albany, nonmember, . . .	62,500	
	Absorption of National Bank		
12	Bank of Woodburn, Woodburn, Ore., member, ...	50,000	1-30-32
	absorbed First National Bank of Woodburn, Ore., ...	25,000	
12	First Savings & Trust Co. of Whitman County, Colfax, Washn., member,. .	75,000	1-30-32
	absorbed Colfax National Bank of Colfax, Wash., ...	200,000	
	Voluntary Liquidation		
11	Security State Bank, Tahoka, Texas,, ...	25,000	2- 1-32
	Closed		
7	Polo State Bank, Polo, Ill., ...	60,000	2- 3-32
7	First Iowa State Trust & Savings Bank, Burlington, Iowa,	600,000	2- 2-32
12	Butler Banking Co., Hood River, Ore., ...	125,000	2- 4-32
12	Commercial Bank & Trust Co., Wenatchee, Washn., ...	100,000	2- 2-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

None

FEDERAL RESERVE BOARD ANNOUNCEMENT
Week ended February 12, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
9	Farmers State Bank, Faith, So. Dak., ...	25,000	2- 6-32
	Absorption of National Bank		
2	Manufacturers Trust Co, New York, N. Y., member, .	27,500,000	2- 9-32
	absorbed Chatham Phenix National Bank & Trust Co., New York, N. Y.	16,200,000	
	Consolidation with National Bank		
2	Guaranty Trust Co., Plainfield, N. J., member, . . .	250,000	2- 6-32
	consolidated with Plainfield National Bank,	100,000	
	Plainfield, N. J., under charter and title of latter	175,000	
3	Merchants & Miners State Bank, Luzerne, Pa., member,	50,000	2- 8-32
	consolidated with Luzerne National Bank, Luzerne, Pa.	200,000	
3	Union Savings Bank & Trust Co., Wilkes-Barre, Pa., member	500,000	1-26-32
	consolidated with Wyoming National Bank of Wilkes-Barre under charter and title of latter	500,000	
	Closed		
8	Sedalia Trust Co., Sedalia, Mo., ...	100,000	2- 8-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

10	First National Bank in Ord, Nebr. (Limited powers)	2-11-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT

WEEK ENDED FEBRUARY 19, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
	None		
	Absorption of Nonmember		
3	Easton Trust Company, Easton, Pa., member, ... absorbed Easton Dollar Savings & Trust Co., nonmember, . . .	$250,000 200,000	1-26-32
	PERMISSION GRANTED TO EXERCISE TRUST POWERS		
2	Plainfield National Bank, Plainfield, N. J..(Full powers)		2- 6-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED FEBRUARY 26, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
	None		
	Absorption of National Bank		
12	Coffman, Dobson Bank & Trust Co., Chehalis, Wash. member	150,000	2-23-32
	absorbed First National Bank in Chehalis,	50,000	
	Absorption of Nonmember		
12	Carbon County Bank, Price, Utah, member,	100,000	2-23-32
	absorbed Emery County Bank, Castle Dale, Utah, nonmember,	25,000	
	Voluntary Withdrawal		
7	Adams State Bank, Chicago, Ill.,	200,000	2-15-32
7	Presque Isle County Savings Bank, Rogers City, Mich.,	35,000	2-20-32
	PERMISSION GRANTED TO EXERCISE TRUST POWERS		
4	National Bank of Charleroi, Charleroi, Pa., (Full Powers)		2-20-32
4	First National Bank, Monongahela, Pa., (Limited Powers)		2-23-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 4, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
	None		
	Absorption of Nonmember		
4	Guardian Trust Company, Cleveland, Ohio, member, . .	$7,000,000	3- 1-32
	absorbed Ohio State Bank, nonmember, ...	200,000	
6	Bank of Statesboro, Statesboro, Ga., member, . . .	100,000	1-1- 32
	absorbed Bank of Brooklet, Ga., nonmember, ...	25,000	
	PERMISSION GRANTED TO EXERCISE TRUST POWERS		
	None		

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MARCH 11, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
10	Colorado Bank & Trust Co., Delta, Colo., ...	$50,000	3-11-32
11	First State Bank, Dodsonville, Texas, ...	25,000	3-11-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
Week ended March 18, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
	None		
	Absorption by National Bank		
7	State Bank of Wisconsin, Madison, Wisc., member, . . .	$1,000,000	2- 2-32
	absorbed by First National Bank, Madison, Wisc., . .	1,000,000	
12	Bank of Fountain Green, Fountain Green, Utah, member,.	25,000	3-16-32
	absorbed by First National Bank, Nephi, Utah, . . .	50,000	
	Reopened		
8	Peoples Exchange Bank, Russellville, Ark,, ...	100,000	3-14-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

None

FEDERAL RESERVE BOARD ANNOUNCEMENT
Week ended March 25, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
	None		
	Absorbed by National Bank		
12	Jackson County Bank, Medford, Ore., Member, . . .	$100,000	3-19-32
	absorbed by First National Bank of Medford, . .	100,000	

PERMISSION GRANTED TO EXERCISE TRUST POWERS

None

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FEDERAL RESERVE BOARD ANNOUNCEMENT

WEEK ENDED APRIL 1[illegible], 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
	None		
	- - - -		
	Absorption of Nonmember		
8	First Trust & Savings Bank, Harrisburg, Ill., member, absorbed Equality State Bank, Equality, Ill., nonmember,	$150,000 25,000	2-13-32
	Reopened		
7	Central Illinois Trust & Savings Bank, Mattoon, Ill.	100,000	3-28-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

None

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FEDERAL RESERVE BOARD ANNOUNCEMENT

WEEK ENDED APRIL 8, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership		
8	Mechanics Bank & Trust Co., Moberly, Mo., ...	$200,000	4- 2-32
	Suspended		
7	Peoples Savings Bank, Coopersville, Mich., ...	25,000	4- 4-32
8	Producers State Bank, Siloam Springs, Ark., ...	25,000	4- 2-32

PERMISSION GRANTED TO EXERCISE TRUST POWERS

1	Rockport National Bank, Rockport, Mass. (Limited powers)	4- 5-32
1	Concord National Bank, Concord, Mass. (Full powers)	4- 7-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 15, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership		
10	Bank of Moorefield, Moorefield, Nebr., ...	$25,000	4-11-32
	Change in Title		
12	The First Savings & Trust Bank of Whitman County, Colfax, Wash., has changed its title to "First Savings & Trust Bank".		3-11-32
12	The Carbon County Bank, Price, Utah, has changed its title to the "Carbon Emery Bank".		4- 1-32

NATIONAL BANKS GRANTED TRUST POWERS:

7	First National Bank at Pontiac, Pontiac, Mich.	(Full powers)	4- 8-32
11	First National Bank, Fort Worth, Texas	(Supplemental powers)	4-14-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED APRIL 22, 1932.

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership		
	None		
	- - -		
	Absorbed by Nonmember		
11	First State Bank, Roby, Texas, member, ...	$40,000	4-15-32
	absorbed by Roby State Bank, nonmember, a new organization.		
	Absorbed by National Bank		
12	Enterprise State Bank, Enterprise, Ore., member, ...	50,000	4-18-32
	absorbed by Wallowa National Bank of Enterprise, ...	50,000	

NATIONAL BANKS GRANTED TRUST POWERS:

7	First Wayne National Bank, Detroit, Mich. (Full powers)	4-22-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT

WEEK ENDED APRIL 29, 1932.

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership		
	None		
	- - -		
	Absorption of Nonmember		
7	Monroe County Bank, Dundee, Mich., member, ...	$40,000	4- 4-32
	absorbed Dundee State Savings Bank, Dundee, nonmember	20,000	
	Voluntary Withdrawal		
7	Security Bank of Chicago, Chicago, Ill., ...	700,000	4-26-32

NATIONAL BANKS GRANTED TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 6, 1932.

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
7	First Capital State Bank, Iowa City, Iowa, ...	$100,000	5- 6-32
	Absorbed by State Member:		
9	Little Missouri Bank, Camp Crook, S. Dak., member, . .	25,000	4- 2-32
	absorbed by Butte County Bank, Belle Fourche, S. Dak., member,	75,000	

NATIONAL BANKS GRANTED TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 13, 1932

CHANGES IN STATE BANK MEMBERSHIP:

Admitted to Membership:

None.

District		Date
	NATIONAL BANKS GRANTED TRUST POWERS:	
3	Farmers & Mechanics-National Bank, Phoenixville, Pa. (Full powers - confirmatory)	5- 6-32
10	First National Bank, Windsor, Colo. (Limited powers)	5-10-32

FEDERAL RESERVE BOARD ANNOUNCEMENT

WEEK ENDED MAY 20, 1932.

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Consolidation of State Members:		
12	Carbon Emery Bank, Price, Utah, Member, ...	$100,000	5-16-32
	consolidated with Price Commercial & Savings Bank, Price, Utah, Member, ...	50,000	
	under charter of latter and title of Carbon Emery Bank, Member, ...	100,000	

NATIONAL BANKS GRANTED TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED MAY 27, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Absorbed by National Bank:		
11	First State Bank, Murchison, Texas, ...	$25,000	5-17-32
	Deposit liability only assumed by the First National Bank, Athens, Texas, ...	100,000	

NATIONAL BANKS GRANTED TRUST POWERS:

None.

FEDERAL RESERVE BOARD ANNOUNCEMENT

WEEK ENDED JUNE 3, 1932.

CHANGES IN STATE BANK MEMBERSHIP

District		Capital	Date
	Admitted to Membership:		
4	Peoples City Bank, McKeesport, Pa., ...	1,000,000	5-31-32
11	Moore State Bank, Llano, Texas, ...	50,000	5-31,32
	Absorbed by Nonmember:		
12	Bank of Myrtle Point, Myrtle Point, Ore., member, . .	25,000	5-31-32
	absorbed by Security Bank, Myrtle Point, nonmember, .	25,000	

NATIONAL BANKS GRANTED TRUST POWERS

3	Cumberland National Bank, Bridgeton, N. J., (Full Powers)	6- 3-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 10, 1932

CHANGES IN STATE BANK MEMBERSHIP:

None.

NATIONAL BANKS GRANTED TRUST POWERS:

None.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 17, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Capital	Date
	Admitted to Membership:		
	None.		
	Voluntary Withdrawal:		
11	First State Bank, Bedias, Texas	$25,000	6-16-32

NATIONAL BANKS GRANTED TRUST POWERS:

10	First National Bank, Holdredge, Nebr. (Full powers)	6-15-32

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FEDERAL RESERVE BOARD ANNOUNCEMENT
WEEK ENDED JUNE 24, 1932

CHANGES IN STATE BANK MEMBERSHIP:

District		Date

No changes.

NATIONAL BANKS GRANTED TRUST POWERS:

3	Miners National Bank, Shenandoah, Pa.	(Full powers)	6-15-32

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7055

January 4, 1932.

SUBJECT: State Member Banks Not Examined During 1931.

Dear Sir:

It would be appreciated if you would forward to the Board, as early in January as possible, a list of the state member banks in your district which were not examined either by state authorities or Federal reserve examiners during 1931.

It is also requested that you advise what arrangements are being made by you or the state authorities for an early examination of the banks listed.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.
(Except Boston)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7057

January 7, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDAMAGE" has been designated to cover a new issue of Treasury Bills, dated January 13, 1932, and maturing April 13, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDAIS" 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-7059

January 15, 1932.

Dear Sir:

This is to advise you that the Federal Reserve Board has appointed Mr. Leo H. Paulger Chief of the Division of Examinations of the Board.

Mr. Paulger, who has been connected with the Federal Farm Loan Board in a similar capacity, will assume his new duties on January 16, 1932.

Under the direction of the Chief of the Division of Examinations, Mr. Frank J. Drinnen will continue in immediate charge of the examining forces of the Federal Reserve Board.

Very truly yours,

Chester Morrill,
Secretary.

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

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7060

January 16, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, December, 1931.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7060-a and X-7060-b, covering in detail operations of the main lines, Leased Wire System, during the month of December, 1931.

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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF DECEMBER, 1931.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	32,759	5,253	38,012	3.84
New York	166,733	-	166,733	16.83
Philadelphia	34,141	3,591	37,732	3.81
Cleveland	74,296	4,567	78,863	7.96
Richmond	68,495	5,467	73,962	7.46
Atlanta	60,720	10,441	71,161	7.18
Chicago	105,324	5,913	111,237	11.23
St. Louis	77,477	5,085	82,562	8.33
Minneapolis	37,499	7,321	44,820	4.52
Kansas City	83,292	4,973	88,265	8.91
Dallas	75,361	16,527	91,888	9.27
San Francisco	98,553	7,063	105,616	10.66
Total	914,650	76,201	990,851	100.00

F. R. Board business	290,066	1,280,917
Treasury Department business Incoming and Outgoing		233,775
Total words transmitted over main lines		1,514,692

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7060-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, DECEMBER, 1931.

Name of bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$2.00	$ -	$262.00	$755.92	$262.00	$493.92
New York	1,134.46	-	-	1,134.46	3,313.04	1,134.46	2,178.58
Philadelphia	225.00	-	-	225.00	750.01	225.00	525.01
Cleveland	306.66	-	-	306.66	1,566.95	306.66	1,260.29
Richmond	190.00	-	230.00 (&)	420.00	1,468.53	420.00	1,048.53
Atlanta	270.00	-	-	270.00	1,413.41	270.00	1,143.41
Chicago	3,676.51 (#)	6.00	-	3,682.51	2,210.67	3,682.51	1,471.84 (*)
St. Louis	195.00	3.00	-	198.00	1,639.79	198.00	1,441.79
Minneapolis	200.82	-	-	200.82	889.78	200.82	688.96
Kansas City	296.50	-	-	296.50	1,753.96	296.50	1,457.46
Dallas	251.00	1.50	-	252.50	1,824.83	252.50	1,572.33
San Francisco	380.00	-	-	380.00	2,098.46	380.00	1,718.46
Federal Reserve Board	-	-	15,649.59	15,649.59	-	-	-
Total	$7,385.95	$12.50	$15,879.59	$23,278.04	$19,685.35	$7,628.45	$13,528.74
				3,592.69(a)			1,471.84 (b)
				$19,685.35			$12,056.90

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $3,592.69 from Treasury Department covering business for the month of December, 1931.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7061

January 16, 1932.

SUBJECT: Holidays during February, 1932.

Dear Sir:

On Tuesday, February 9th, Mardi Gras Day, the New Orleans and Birmingham Branches of the Federal Reserve Bank of Atlanta will be closed. Please include credits of February 9th for New Orleans Branch in the Gold Fund clearing of February 10th.

On Friday, February 12th, Lincoln's birthday, there will be neither Gold Settlement Fund nor Federal reserve note clearing, and the books of the Board's Gold Settlement Fund will be closed.

For your information, the offices of the Federal Reserve Board and the following Federal reserve banks and branches will be open for business on February 12th:

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

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

On Wednesday, February 24th, the Havana Agency of the Federal Reserve Bank of Atlanta will be closed in observance of the Anniversary of the Revolution of Baire.

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-7062

January 18, 1932.

SUBJECT: Depreciation on Securities Held by State Member Banks.

Dear Sir:

There is enclosed herewith, for your information and guidance, copy of a letter addressed by the Federal Reserve Board to the Federal Reserve Agent at Minneapolis in response to an inquiry received from his office, copy of which is also enclosed, with regard to depreciation on securities held by State member banks.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures.

TO ALL FEDERAL RESERVE AGENTS.
(Except Minneapolis)

C O P Y

X-7062-a

January 14, 1932.

Mr. John R. Mitchell,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Mitchell:

This refers to Mr. Bailey's letter of December 23, 1931, inquiring as to the attitude of the Federal Reserve Board toward depreciation on securities in State member banks of the Federal Reserve System, in the light of the instructions issued to national bank examiners by the Comptroller of the Currency, under date of December 18, 1931, that, while bonds should be rated and appraised as heretofore, no part of the depreciation, except that upon defaulted bonds, should be regarded as a loss and shown as such on page 11 of the form for reports of examinations of national banks.

The Board believes that, in making examinations of State member banks and in analyzing reports of examinations of these institutions made by State authorities, it would be desirable for the Federal reserve banks to set forth the entire amounts of depreciation on securities, grouped according to the ratings of the issues. The amounts of depreciation on stocks and on defaulted bonds only should be shown as losses.

Of course, in negotiations with State member banks and State authorities relative to corrective action, all depreciation on stocks

and bonds should be given consideration and no favorable opportunity to obtain action calculated to strengthen banks whose depreciation on stocks and bonds exceeds or nearly equals the amount of their surplus and undivided profits should be overlooked. Such banks also should be impressed with the advisability of deferring the payment of further dividends until all losses and all depreciation on stocks and bonds and other doubtful assets have been charged off or otherwise eliminated or until adequate reserves have been created. A helpful and tolerant attitude should be preserved at all times, however, and care should be exercised to avoid doing or saying anything which might needlessly destroy or impair the morale of bank directors and officers.

Very truly yours,

Chester Morrill,
Secretary.

COPY

X-7062-b

FEDERAL RESERVE BANK OF MINNEAPOLIS

December 23, 1931.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

A few months ago the Comptroller of the Currency adopted a plan and issued instructions to all Chief Examiners relative to setting up bond depreciation in examination reports. Under that plan the depreciation on bonds rated B3 or better was disregarded, depreciation on bonds rated under B3 was set up in the recapitulation 75 per cent doubtful and 25 per cent loss, and all depreciation on defaulted bonds was set up as a loss.

In the examination of state member banks, we have attempted to follow as closely as possible the Comptroller's plan relative to bond depreciation. This, however, appears to differ widely from the policies of the various State Superintendents, and in fact, we find no two Superintendents in agreement on this important subject. Recently we have been advised that the Comptroller has greatly liberalized his original bond depreciation policy, and from now on will classify as a loss only the depreciation on the defaulted issues. We would like very much to have the Board's idea on this subject, with advice as to how we should handle the bond depreciation in future in the examination of state member banks.

Yours very truly,

(Signed) F. M. Bailey

F. M. Bailey
Asst. Federal Reserve Agent

FMB:EP

X-7063

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Furnishing Federal Reserve Notes, Series 1928.

December 1 to 31, 1931.

	$5	$10	$20	$50	$100	Total Sheets	Amount
Boston.....	38,000	32,000	3,000	42,000	21,000	136,000	$12,580.00
New York.....	156,000	84,000	-	-	-	240,000	22,200.00
Philadelphia....	54,000	24,000	18,000	-	-	96,000	8,880.00
Cleveland.....	38,000	40,000	13,000	-	-	91,000	8,417.50
Atlanta.....	34,000	18,000	13,000	-	-	65,000	6,012.50
St. Louis.....	125,000	-	-	9,000	-	134,000	12,395.00
Kansas City.....	6,000	-	-	-	-	6,000	555.00
Dallas.....	-	10,000	-	-	-	10,000	925.00
San Francisco...	22,000	-	-	-	-	22,000	2,035.00
	473,000	208,000	47,000	51,000	21,000	800,000	$74,000.00

800,000 sheets @ $92.50 per M, ... $74,000.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7064

January 20, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDAPPER" has been designated to cover a new issue of Treasury Bills, dated January 25, 1932, and maturing April 27, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDAMAGE" on Page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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

STATEMENT FOR THE PRESS

For release in Morning Papers, Wednesday, January 27, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of December and January, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Industrial activity declined from November to December by slightly more than the usual seasonal amount, while the volume of factory employment showed about the usual decrease. Wholesale prices declined further.

Production and employment - Volume of industrial output decreased somewhat more than is usual in December and the Board's seasonally adjusted index declined from 72 per cent of the 1923-1925 average in November to 71 per cent in December. Activity in the steel industry decreased from 30 to 24 per cent of capacity for the month, partly as a result of seasonal influences; in the first three weeks of January it showed a seasonal increase. Automobile output increased considerably in December from the extreme low level of the preceding month, and daily average output at shoe factories, which ordinarily declines at this season, showed little change. At textile mills production was curtailed by more than the usual seasonal amount.

Number employed at factories decreased seasonally from the middle of November to the middle of December. In the automobile and shoe industries there were large increases in employment, while in the clothing industries employment declined; in most lines, however, changes were of a seasonal character.

For the year 1931 as a whole the average volume of industrial production was about 16 per cent smaller than in 1930, reflecting large de-

creases in output of steel, automobiles, and building materials, offset in part by slight increases in production of textiles and shoes.

Value of building contracts awarded, as reported by the F. W. Dodge Corporation, declined considerably more than is usual from the third to the fourth quarter, and for the year as a whole was 32 per cent smaller than in 1930, reflecting reduced physical volume of construction, as well as lower building costs.

Distribution - Distribution of commodities by rail declined by the usual seasonal amount in December, and department store sales increased by approximately the usual amount.

Foreign trade - Value of foreign trade continued at a low level in December and for the year as a whole exports showed a decline of 37 per cent from 1930 and imports a decline of 32 per cent, reflecting in part the reduction in prices.

Wholesale prices - Wholesale prices of commodities declined from 68 per cent of the 1926 average in November to 66 per cent in December, according to the Bureau of Labor Statistics, reflecting decreases in the prices of many domestic agricultural products, sugar, silk, iron and steel, and petroleum products. During the first half of January prices of hogs, lard, and butter declined further, while prices of cotton, silk, coffee, and copper increased.

Bank credit - Reserve bank credit, which had declined from the middle of October to the middle of December and had increased in the latter part of the month, declined again in the first three weeks in January.

The growth in the latter part of December reflected a somewhat more-

than-seasonal increase in the demand for currency, partly offset by reductions in member bank reserve balances and in deposits of foreign central banks. In January the return flow of currency was considerably smaller than in other recent years, while member bank reserve balances continued to decline. Acceptance holdings of the reserve banks, which had reached a total of $780,000,000 in October, have declined through maturing of bills held almost uninterruptedly since that time, and on January 20 totaled $190,000,000. The banks' portfolio of United States Government securities showed some increase over the level of the early part of December, and discounts for member banks increased substantially.

Loans and investments of member banks in leading cities declined further during December and the first two weeks of January, reflecting reductions in loans on securities, as well as in other loans, and in investments.

In the middle of January buying rates for bankers' acceptances at the Federal reserve banks were reduced and open-market rates on 90-day bills declined first from 3 to 2 7/8 per cent and later to 2 3/4 per cent. Yields of high-grade bonds, after advancing for a period of about four months, declined after the turn of the year, reflecting a rise in bond prices.

X-7069

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 12:00 o'clock noon. January 25, 1932.

The Federal Reserve Board announces that the Federal Reserve Bank of Richmond has established a rediscount rate of 3½% on all classes of paper of all maturities, effective January 25, 1932.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7070

January 23, 1932.

SUBJECT: Par List.

Dear Sir:

After reviewing the replies received from the Federal reserve banks to its letters of December 3, 1931, the Board approved the changes in the par list mentioned therein and, as stated in the Board's telegram of December 17, the January, 1932 par list will be issued in the new form. The Board has also approved the changes proposed in the form of the supplements to the par list and herafter a change in the status of a given town or city will be recorded therein, in exactly the same way it would be shown in the par list itself. It is requested that, beginning with the February issue, the general procedure outlined below be observed in submitting changes for inclusion in future supplements to the par list.

1. Mail advice of changes in the par list, for inclusion in the monthly supplements, should be sent to the Board in time to reach Washington by the 26th day of each month. On the second business day of the following month, the Board should be advised by wire of any changes from the date of the mail report up to, and including, the first calendar day of the month, which is the date of issue of the monthly supplement. If there are no additional changes, the Board should be so advised.

2. If a town or city should be added to the list, due to the fact that

it has changed from a non-par status to a par status, the name of such town or city should be reported to the Board under the caption "Add to list," and if a town or city shown on the par list is changed from a par status to a non-par status, the name of the town or city should be reported under the caption "Eliminate from list."

3. If, by reason of the withdrawal of state banks from the list, a town or city shown on the par list is changed from a full par status to a partial par status (or vice versa), the change should be reported to the Board under the caption "Other changes" as follows:

> Under the caption "Change from" show the name of the state and the town or city and any other data in exactly the same way as it was shown in the preceding par list or supplement. Under the caption "Change to" show the name of the town or city and any other data in exactly the same way it would be shown in the next par list. For example, if a state bank, say the A B C Trust Company, located in Blank City, Alabama, in which there are three state banks, all of which are on the par list, withdraws from the par list, the change should be reported to the Board as follows:

	CHANGE FROM -	CHANGE TO -
ALABAMA	Blank City	Blank City - All national banks X Y Z Trust Company B C D State Bank

If a change to be made in one supplement reverses a change in a prior supplement issued since the publication of the par list, the report of such change should call attention to that fact. For example, if a town or city eliminated from the par list in one supplement is subsequently restored before the next edition of the par list, the report to the Board covering such change should be followed by a note reading "Eliminated from par list in _____ supplement, now restored."

Very truly yours,

Chester Morrill,
Secretary.

TO ALL GOVERNORS.

GLASS BILL. X-7072

Sec. 1, p. 1.
Title.

Sec. 2, p. 2, 3, 4.
Definitions.

Sec. 3, p. 4.
Amends Sec. 4 Federal Reserve Act.
Rediscounts.

Sec. 4, p. 5.
Amends Sec. 4 Federal Reserve Act.
Voting for Federal reserve directors.

Sec. 5, p. 6.
Amends Sec. 7, Federal Reserve Act.
Federal Liquidating Corporation.
Surplus earnings.

Sec. 6, p. 6.
Amends Sec. 9, Federal Reserve Act, par. 5.
Reports.
Member banks and affiliates.

Sec. 7, p. 9.
Amends Sec. 10, Federal Reserve Act.
Board to consist of Comptroller, ex-officio, and 6 members.
Sec. of Treasury dropped from Board.
At least 2 members - tested banking experience.
New terms - 12 years.

Sec. 8, p. 11.
Amends Sec. 11, Sub-section (c) Federal Reserve Act.
Reclassification of reserve and central reserve cities.

Sec. 9, p. 12.
Amends Sec. 11, Sub-section (m) of Federal Reserve Act.
Affirmative vote of 6 members.

May fix percentage of member banks capital and surplus which may be represented by collateral loans.

Duty of Board to establish such percentages and prevent undue use of bank loans for speculative carrying of securities.

Sec. 9, p. 12 (Cont'd.)

Amends Sec. 11, Sub-section (m) of F. R. Act (Cont'd.)

Power to direct member banks to refrain from further increase of its security loans for periods up to 1 year, under penalty of suspension of all rediscount privileges at Federal reserve bank.

Sec. 10, p. 13.
New Section of Federal Reserve Act, Sec. 11-A
Unanimous of members.
Advances to groups of banks.
Progressive rate, beginning at ½% above F. R. rate.
Not to serve as collateral for F. R. notes.

Sec. 11, p. 14.
Loans and investments to affiliates.
To be secured by eligible paper, listed stocks, etc.

Sec. 12, p. 16.
New Sections to F. R. Act - 12-A, 12-B.
Sec. 12-A.
Federal Open Market Committee.
Sec. 12-B.
Federal Liquidating Corporation.
Class A and Class B stock.

Sec. 13, p. 27.
Amends Sec. 13, F. R. Act, paragraph 7.
Advances to member banks.
15-day collateral notes.
Collateral:
Eligible paper and Govt. bonds.
Rate, 1% over F. R. rate.
Such notes to become immediately payable:
If borrowing bank -
(a) Increases its security loan.

(b) Loans to member of any stock exchange, investment house, or dealer in securities, upon any obligation, note or bill, for the purpose of purchasing and/or carrying investment securities (except obligations of U. S.)
Such member banks shall be ineligible as a borrower at the F. R. Bank of District upon 15-day paper.

Sec. 13, p. 27 (Cont'd.)

Amends Sec. 13, F. R. Act, paragraph 7.

Unanimous vote of Board.
May suspend above in whole or part when public interest so requires.

Such suspension to be for 90 days, renewable for one additional period of 90 days upon unanimous vote of Board.

Sec. 14, p. 28.
Amends Sec. 14 Federal Reserve Act.
In defining power of Board, adds - subject to regulation, limitations and restrictions prescribed by Board.

Board to have supervision and control over all relationships and transactions entered into by any F. R. bank with any foreign bank or any group.

Subject to regulations, limitations and restrictions of Board.

Board to have right to be represented at any such conference.

Full report to be filed with Board:

1. Subjects discussed.
2. Views expressed.
3. Understandings or agreements reached.

Sec. 15, p. 30.
Amends Sec. 16, Federal Reserve Act, par. 2, 3, 4.

Not to be used as collateral for F. R. notes.

1. 15-day notes secured by Govt. bonds.

2. Acceptances
Revolving or renewal.

Sec. 16, p. 34, 37, 39.
Amends Sec. 19, Federal Reserve Act.
New reserve requirements.

No member bank to act as medium for any non-banking corporation as individual in making collateral loans.

Sec. 16, p. 34, 37, 39 (Cont'd.)

Amends Sec. 19, F. R. Act (Cont'd.)

No member bank shall make loans or discount paper for any corporation or individual who, at time of making or renewing such loan shall have outstanding, collateral loans in favor of any investment banker, broker, member of any stock exchange or any dealer in securities.

Transfer of excess balances in F. R. banks.

Liability under repurchase agreements to be added to net, - due to and due from.

Sec. 17, p. 39.
Amends Sec. 24, Federal Reserve Act.
Real estate loans.

Sec. 18, p. 42.
Amends Sec. 513, Revised Statutes.
Power of national banks.
Purchase of securities.
Investments.

Sec. 19, p. 44.
Adds to Sec. 5138, Revised Statutes.
Capital, surplus and individual profits must equal 15% of average deposits.

Sec. 20, p. 45.
No transfer of stock to be conditional on ownership.

Sale or transfer of a certificate representing stock of any other corporation.

Sec. 21.
Certain interlocking directorates etc. forbidden.
Certain correspondent relationships forbidden.

Sec. 22, p. 46.
Amends Sec. 5144, Revised Statutes.
Stockholders voting, however.

Sec. 23, p. 47.
Stockholders statement.

Sec. 24, p. 48.
Affiliates
Voting permits.

Sec. 25, p. 52.
Branches
State limit
Capital.

Sec. 26, p. 53.
Consolidation. Act Nov. 7, 1918.
Adds state.
Branches.

Sec. 27, p. 53.
Amends Sec. 5197, Revised Statutes.
Discount rates charged by national banks.

Sec. 28, p. 54.
Interest on deposits, national and member banks.
No interest to be paid on deposits subject to check.

Sec. 29, p. 55.
Amends Sec. 5200, Revised Statutes.
Obligations not entitled to exemption from 10% limitation.
Limitation of obligations of all affiliates of a national bank.
Exceptions.
Method of raising capital for affiliates.
Cash or stock dividends, etc. by Parent bank forbidden.
Limitation on loans on stock of Parent company.

Sec. 30. p. 56.
Limitation on loans of member bank on collateral security.

Not over 10% of its capital, or an amount fixed by Federal Reserve Board under Sec. M, Sec. 13, F. R. Act, whichever is smaller.

Sec. 31, p. 57.
Amends Sec. 5211, Revised Statutes.
Reports by affiliates.

Sec. 32, p. 59.
Amends Sec. 5240, Revised Statutes.
Examination of affiliates.

Sec. 33, p. 60, 61.
Amends Clayton Act.

No person
Director of national bank or any bank organized under U. S. laws
and
A corporation organized for any purpose which makes collateral loans to any individual association, partnership or corporation, - other than its own subsidiaries.

No corporation, foreign or domestic, other than banks incorporated under U. S. or state laws operating within U. S. and engaged in commerce as defined in this Act, shall make collateral loans to any individual, other corporation (except its own subsidiaries), private banks, or incorporated banks. Penalty $5000.

No corporation engaged in commerce as defined by this Act shall deposit its funds with any individual, private banker, or banking association or trust company, - except banking associations incorporated under state or U. S. law. Penalty $1000.

No corporation failing to deposit its funds in banking associations incorporated under state of U. S. laws shall engage in such commerce.

Sec. 34, p. 61.
Right to amend Act.

SECTIONS AND PAGES OF S.3215 DEALING WITH THE FOLLOWING SUBJECTS:

Collateral Loans.

Sec. 9, pp. 12,13;

Sec. 11, pp. 14,15;

Sec. 13, p. 28;

Sec. 16, p. 37;

Sec. 17, pp. 39,40;

Sec. 29, p. 56;

Sec. 30, p. 56;

Sec. 33, p. 60;

Investments of national banks.

Sec. 2, p. 2;

Sec. 11, p. 15;

Sec. 12 B (c), pp. 18,19;

Sec. 17, pp. 40,41;

Affiliates.

Sec. 2, pp. 2-3;

Sec. 6, pp. 7,8;

Sec. 11, pp. 14,15;

Sec. 23, p. 47;

Sec. 24, pp. 48-52;

Sec. 29, pp. 55,56;

Sec. 31, pp. 57,58;

Sec. 32, p. 59;

Interest on deposits.

Sec. 17, p. 41;

Sec. 18, pp. 42-44;

Sec. 28, p. 54.

Reserves

Sec. 6, p. 6;

Sec. 8, pp. 11,12;

Sec. 15, pp. 31,33 (Federal Reserve Notes);

Sec. 16, pp. 34-39;

Sec. 17, p. 41.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7074

January 26, 1932.

SUBJECT: New Issues of Treasury Certificates of Indebtedness.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Certificates of Indebtedness:

"NOWHISS" Treasury Certificates of Indebtedness, Series A-1932, to be dated February 1, 1932, maturing August 1, 1932.

"NOWHITAL" Treasury Certificates of Indebtedness, Series A-1933, to be dated February 1, 1932, maturing February 1, 1933.

These code words should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOWHIRE" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS

TABLE SHOWING WHERE THE PROVISIONS AMENDING THE FEDERAL RESERVE ACT MAY BE FOUND IN THE GLASS BILL (S. 3215)

Section of Federal Reserve Act	Amended by Glass Bill
Sec. 4 (4th paragraph after paragraph numbered "Eighth" on page 7)	Sec. 3, p. 4, lines 18-25, p. 5, lines 1-18
Sec. 4 (25th paragraph, p. 8)	Sec. 4, p. 5, lines 19-25, p. 6, lines 1-6
Sec. 7 (1st paragraph, p. 13)	Sec. 5, p. 6, lines 7-18
Sec. 9 (5th paragraph, p. 15) (new paragraph between 5th and 6th paragraphs, p. 16)	Sec. 6, p. 6, lines 19-25, p. 7, lines 1-17 Sec. 6, p. 7, lines 18-25, p. 8, lines 1-25, p. 9, lines 1-6
Sec. 10(1st paragraph, p. 19) (2nd paragraph, p. 20) (4th paragraph, p. 20)	Sec. 7(a), p. 9, lines 7-25, p. 10, lines 1-6 Sec. 7(b), p. 10, lines 7-25, p. 11, lines 1-7 Sec. 7(c), p. 11, lines 8-23
Sec. 11(e), p. 23	Sec. 8, p. 11, lines 24,25, p. 12, lines 1-16
Sec. 11(m), p. 26	Sec. 9, p. 12, lines 17-25, p. 13, lines 1-11
Sec. 11A (new sec. between secs. 11 and 12, p. 27)	Sec. 10, p. 13, lines 12-25, p. 14, lines 1-23
Sec. 12A (new sec. between secs. 12 and 13, p. 28)	Sec. 12, p. 16, lines 1-25, p. 17, lines 1-25
Sec. 12B (new section)	Sec. 12, pp. 18-26, p. 27, lines 1-10
Sec. 13 (7th paragraph, p. 31)	Sec. 13, p. 27, lines 11-25, p. 28, lines 1-18
Sec. 14 (2nd paragraph, p. 35) (new paragraph at end of sec. p. 36)	Sec. 14(a), p. 28, lines 19-25 Sec. 14(b), p. 29, lines 1-25, p. 30, lines 1-7
Sec. 16 (2nd paragraph, p. 37) (3rd paragraph, pp.37 and 38) (4th paragraph, p. 39)	Sec. 15, p.30, lines 8-25, p. 31, lines 1-13, p. 31, lines 14-25, p.32, lines 1-25, p. 33, lines 1-3, p. 33, lines 4-25, p. 34, lines 1-2
Sec. 19 (entire sec. pp. 46-48)	Sec. 16, p. 34, lines 3-25, p. 35, p. 36, p. 37, p. 38, p. 39, lines 1-15.
Sec. 24 (entire sec., pp. 52-53)	Sec. 17, p. 39, lines 16-25, p. 40, p. 41, p. 42, lines 1-10

X-7076

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 4:00 p.m. January 27, 1932.

The Federal Reserve Board announces that the Federal Reserve Bank of Dallas has established a rediscount rate of 3½ per cent on all classes of paper of all maturities, effective January 28, 1932.

COPY

X-7077
a-1

FEDERAL RESERVE BANK

OF BOSTON

Frederic H. Curtiss
Chairman

January 29, 1932

Hon. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Following your request by telegram I am giving herewith my views on the proposed Bill (S. 3215) introduced by Senator Glass. I may say at the beginning that I am wholly in sympathy with the purposes of this Bill and that my suggestions or criticisms are to be accepted from that point of view.

1. I have no comment to make on Section 2.

2. It would appear to me that Section 3 is too inelastic in its provision. As long as securities and collateral loans are allowed in the National Bank Act as proper investments for National banks, and also in State laws for State banks, the Federal Reserve Bank should not be prevented from giving assistance in reasonable instances. For instance, when a member bank had heavy withdrawals of deposits, it is important that it should be enabled to borrow pending liquidation of its securities or collateral loans. I believe the same purpose could be accomplished if that section should read as follows:

> "The Federal Reserve Board shall prescribe regulations further defining and regulating the use of the credit facilities of the Federal Reserve System within the limitations of this Act, and especially with the view to the improper use of such credit facilities extended to member banks for the purpose of making or carrying loans covering the investments or facilitating the carrying of, or trading in, stocks, bonds, or other investment securities other than obligations of the Government of the United States."

3. It would appear to me that the danger that Section 4 proposes to cover is not only remote but is provided for in Section 11(f), which provides that the Federal Reserve Board may remove any director of any Federal Reserve Bank.

4. Section 5 as at present drawn would appear to be an emergency measure to meet the present condition. As now drawn it would tend to weaken the Federal reserve banks. (The Federal Reserve Bank of Boston has been obliged to draw on its surplus account to meet dividends the past two years, and similar conditions exist in other Federal reserve banks.) Under the proposed plan a Federal reserve bank could not build up any surplus from now on. I would

suggest therefore, in lieu of Section 5, The first paragraph of section 7 of the Federal Reserve Act,
as amended, be amended to read as follows:
"After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met the net earnings, beginning with the net earnings for the year ending December 31, 1932, shall be paid to the Federal Liquidating Corporation provided for in Section 12B of this Act, and shall be used by the said corporation for carrying out the purposes of such section, except that the whole of such net earnings shall be put into a surplus fund until it shall amount to 100 per centum of the subscribed capital of the bank."

5. Section 6. I would suggest the omission of lines 4 and 5 on page 7, which reads "They shall also comply with all the requirements of this Act". I think if the power is given to the Federal Reserve Board to handle this particular section it would be an advantage.
On this same page 7, line 22 and 23, I should omit "during the period of two years". I see no reason why this provision should not begin at once and be continuous.

6. Section 7. I think it would be an advantage to have an uneven number of members of the Federal Reserve Board. I also wonder if it might not relieve the burden of the Comptroller of the Currency if he were not a member ex officio.

7. Section 8. I approve in principle.

8. Section 9. While I am sympathetic with the purposes which this section endeavors to meet, I think during the past year or so I have come to the conclusion that it is the volume of credit in use rather than the character, not the way in which credit is extended. I do not believe that this will meet the particular purpose for which it is designed. On the one hand, it would prevent a bank extending collateral loans for use in commercial purposes, on the other hand, it might tend toward the use of single-named notes to be used for speculative purposes. The provision that loans to an individual should not be in excess of 10 per centum of the unimpaired capital and surplus of such bank is in accord with other similar restrictions contained in the present National Bank Act.

9. Section 10. I suggest that lines 15 and 16 be changed to read "upon unanimous consent of members of the Federal Reserve Board present and not less than five (5)"

Page 14, lines 3 and 4. I suggest that the following change be made - omit "with a suitable trustee" and substitute therefor "with the Federal Reserve Bank". Pp. 14Lines 8,9,10,11 and 12, omit "one-half of 1 per centum a month for the first period of ninety days of the life of such advance, and thereafter the rate of interest shall be increased by one-fourth of 1 per centum a month for each succeeding period of ninety days or fraction thereof." Insert in place thereof "1 per centum above discount rate."

10. Section 11. Lines 15 and 16, omit "at the time of making the loan of at least 20 per centum more" and insert "a 20 percent margin shall be maintained of at least 20 percent during the life of such loan.

11. Section 12A(a)Lines 6, 7 and 8, omit "of the Governor of the Federal Reserve Board and as many additional members as there are" and insert "one representative from each Federal Reserve Bank".

Line 10. Insert after "member" "and an alternate".

Lines 17,18,19 and 20, omit "In the absence or inability of the Governor of the Federal Reserve Board to act at such meetings the Board shall designate the vice governor or some other member of the Board to act in place of the governor", and insert "The Federal Open Market Committee shall elect annually one of its members as a Chairman and one of its members as a Vice Chairman."

Section 12A(b) Line 23 after "committee" insert "and the approval of the Federal Reserve Board.

Section 12A (d). I believe if the Federal Reserve System is to work as a system, every Federal reserve bank should be obliged to accept the conclusions of the Federal Open Market Committee. That each Federal reserve bank should share in the gains or losses on some pro rata basis to be fixed by the Federal Open Market Committee on every open market operation, to include bankers' acceptances, Government securities, and advances to other central banks.

12. Section 12B (c). Line 1, page 19 omit "one-fourth of the surplus of such bank on December 31, 1931", and insert "any surplus over and above 100 per centum of its capital at the date of the passage of this Act and any additional earnings before provided for in this Act."

13. Section 13. I recommend that this entire section be omitted. This is largely an operating matter and would work hardship on the member banks and Federal reserve banks, and would accomplish little.

14. Section 14. I have no comments.

15. Section 15. Page 30, lines 20,21,22 and 23 "(except promissory notes of member banks acquired under the provisions of the seventh paragraph of such section 13 secured by the deposit or pledge of bonds or notes of the United States)." I believe this provision should be omitted as it would seriously interfere with the Treasury financing and dangerously restrict the issuance of Federal reserve notes at this time. It might be advisable if this section is continued to add "except with the permission of the Federal Reserve Board."

16. Section 16. (1) and (2) I believe very strongly in the general principles of definitely specifying the types of deposits, of demand, time, savings and thrift, and the segregating of assets a proper one. One reserve for demand and time deposits would be desirable, as it is less liable to evasion. On the other hand the provisions for increasing reserve requirements are too violent and would therefore act as a deflationary measure for the years specified for adjustment. I would prefer the formula developed by the Committee of the Federal Reserve System, but in lieu thereof suggest that the principles laid down by this bill for the designating of certain characters of deposits be adopted without any change in the reserve requirements, member banks being given a reasonable time to make changes in the character of such deposits, possibly a year, and that then the Federal Reserve Board be required to fix a percentage of reserve against such deposits, so that the entire reserve required would be a less burden than immediate adjustments would entail.

Sec. 16. (e) page 38, lines 10,11,12,13,14,15,16,17,18,19, omit "unless the Federal Reserve Board shall have first authorized by general order the making of such sales or transfers within such district or between such district and another Federal reserve district, but no such sale or transfer shall be made by any such bank without first charging and reserving a fee to be fixed by the Federal Reserve Board on the basis of the rate of discount then charged upon ninety-day paper by the Federal reserve bank of the district in which the bank making such sale or transfer is located," Insert in place thereof "if said selling member bank is indebted to the Federal reserve bank."

17. Section 17. No comment.

18. Section 18. Page 43 Lines 17 to 21, omit "nor shall the total amount of the securities so purchased and held for its own account at any time exceed 15 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 25 per centum of its unimpaired surplus fund." This would place a serious handicap on banks in this district.

19. Section 19. No comment.

20. Section 20. No comment.

21. Section 21. Line 8, insert after the word "officer" "except a director".

22. Sections 22, 23, 24, 25, 26, 27, 28, 29, 30 and 31. No comment.

23. Section 32. Page 59 line 7, omit "That during the period of two years".

24. Section 33. No comment.

This Bill is very long and complicated, and the time that I have had to analyze its provisions has been very limited. I trust, however, that the suggestions that I have made will be helpful.

I am,

Very truly yours,

(S) Frederic H. Curtiss
Federal Reserve Agent.

FHC/D

C O P Y

X-7077
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FEDERAL RESERVE BANK

OF BOSTON

Roy A. Young
Governor

January 29, 1932.

Hon. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

In reply to your wire of January 26 requesting me to study thoroughly and carefully Senate Bill No. 3215 introduced by Senator Glass on January 21, 1932, I advise that I have attempted to do so but the bill covers so many things that I feel I should have more time but inasmuch as your telegram requests that a reply be in your hands not later than three o'clock Washington time tomorrow, I am offering the following:

Pages 1, 2, 3 and 4 up to line 7 has to do with the definition of affiliates, holding companies and subsidiaries and the meaning of the word "commerce". I have no objection to offer to these sections.

Sub-sections f, g and h on page 4, lines 7 to 17 inclusive, define demand, time and thrift deposits. If reserve requirements are going to be based upon the percentages provided for in the proposed Glass bill, I have no objection to offer to these definitions.

Lines 21 to 24, page 4, suggest the following addition to Section 4 - "but only if such discounts, accommodations and advancements are intended for the accommodation of commerce, industry and agriculture". From a practical standpoint I do not believe that this is possible. From my experience in lending credit for a Federal reserve bank, I have found that in practically every case credit is advanced to individual member banks because of a reduction in deposits, and frequently the credit is retired because of an increase in deposits. When there is a reduction in deposits, temporarily at least, the banks borrow. Under these conditions, it is impossible to state whether or not the proceeds are used for the accommodation of commerce, industry or agriculture. I, therefore, would also be opposed to the additional provision starting with line 24, page 4, and ending with the word "States" on line 7 page 5.

I have no objection to the additional language starting on line 7 and ending with the words "action in the matter" on line 14, page 5.

I am opposed to the discretionary penalty permitted starting on line 14 and ending on line 18 on page 5.

Lines 19 to 25 on page 5, and lines 1 to 6 on page 6, would prohibit member banks owned by holding companies or affiliates from voting

for directors in a Federal reserve bank. This provision, I assume, is put in to prevent any one holding company or affiliate from securing a majority representation on the board of directors of a Federal reserve bank. It seems to me that where the Federal Reserve Board appoints three of the directors of each Federal reserve bank, and a small $25,000 bank has as much of a vote as a ten million dollar bank, the chances for group control are very remote. I therefore feel that this provision is unneeessary and too severe on certain member banks even if they are owned by affiliates. Furthermore, it seems to me that this provision would make the election of directors cumbersome and filled with confusion.

Lines 7 to 18 inclusive on page 6 has to do with the payment of dividends to member banks and, to a degree, provides for funds for a Federal Liquidating Corporation. The language of the proposed amendment eliminates that part of the section of the Federal Reserve Act now creating a surplus, and as far as I can observe no provision is made in any other part of the proposed bill for the further accumulation of a surplus. I assume that this was an oversight.

For many years the member banks have felt that they were entitled to a larger division of the earnings of the Federal reserve banks as, when and if earned. I have leaned strongly that way for the past two or three years and I think my views are shared by many associated with the System and, of course, by the great majority of our member banks. I believe an amendment to the act permitting larger dividends to member banks as, when and if earned, should be recommended.

The creation of a Federal Liquidating Corporation is offered in lieu of payment of additional dividends and I do not believe that this will prove an incentive for state banks to join the System or for present member banks to continue membership. The creation of a Federal Liquidating Corporation may have some merits but a rough estimate convinces me that the liquidating value at the present time of the amount involved in closed banks is far in excess of what the System could do under the proposed legislation, and someone would have to go without. Therefore, if a Federal Liquidating Corporation is desirable it would be far better to permit a liquidating corporation to purchase the claim of a depositor against the Receiver of a closed bank rather than attempt to do it collectively. A comparison by specific example of what the Glass bill proposes and an alternate proposal will bring out the reasons for my suggestion:

(1) Glass proposal. A bank closes with a million dollars of deposits. A committee set up by the Liquidating Corporation determines that $600,000 can be recovered on the assets of the bank within a reasonable length of time, making due allowance for interest on the advances, they would give the Receiver $500,000 in cash. The Receiver in turn would distribute the funds so received to the depositors. Commercial depositors and the needy could and, of course, would use the money so received but inasmuch as the majority of deposits in closed banks represent savings deposits, these

persons would have no need for the money because that was why they were savings depositors in the first place. When they received the money from the Receiver they would invest it, deposit it in another bank or hoard it. It would be my guess that the majority of them would hoard it under conditions that exist at the present time.

(2) Alternate plan. The same as above except the Liquidating Corporation would not advance $500,000 in cash in one lump sum to the Receiver but would say to anyone that had a claim against the Receiver that it would advance 50 per cent of the claim upon proper assignment, collect 6 per cent during the period of liquidation, and agree to return to them everything over this amount at time of final liquidation. The commercial depositors and the needy would of course accept the proposal but it is my guess that the great majority of savings depositors would not because when they are given the assurance by a definite offer from a reliable source that their deposit is worth a certain amount and probably more, it will allay their fears and they will feel their money is just as safe in the Receiver's trust as it would be anywhere else, and for the further fact that they would not care to pay 6 per cent to get a part of it. To be concise, this alternate proposal would in my opinion take far less money, result in less hoarding, and everyone would be better satisfied.

I have no objection to the language starting with line 19 page 6 and ending on line 18 page 7, except lines 4 and 5 on page 7 which contain the following sentence: "They shall also comply with all the requirements of this act applicable to National Banks". This would require a more careful study with legal assistance before making a commitment.

I have no objection to the language starting with line 18 page 7, and ending on line 7 page 9, except the following which appears on lines 22 and 23, page 7: ".....during the period of two years after this section as amended takes effect.....". It seems to me that this should be permanent.

I have no objection to the language starting on line 7, page 9 and ending on line 6, page 12. In making this statement, I am not unmindful of the fact that at one time I vigorously advocated the continuance of the Secretary of the Treasury as a member of the Federal Reserve Board. My reason for now agreeing to his elimination is because the Secretary of the Treasury is an extremely busy man and unable to attend the Board meetings regularly, and for the further reason that for a long time I have felt that the Board should be composed of an odd rather than an even number.

I cannot approve of the language starting on line 6 and ending on line 16 on page 12, until the question of reserves has been settled.

I object to everything starting with line 17 on page 12 and ending on line 11, page 13, for the reasons already furnished.

The amendment suggested between line 15 on page 13 and line 23, page 14, I believe to be a step in the right direction. Personally, as the Board already knows, I would prefer to go further but at the same time this should be helpful. I do not believe that a definite higher rate should be fixed by law and, furthermore, I do not believe in a progressive provision. Provision for a higher rate seems to me to be sufficient. I also believe that it would be far better to change the language so that a reserve bank could accept the secured note of a member bank guaranteed by the group rather than accept the unsecured joint note of a group.

I do not believe that acceptances should be included in the ten per cent limit provided for in the amendment starting on line 24, page 14, and ending on line 25, page 15.

I am opposed to the suggested amendment starting with line 1 on page 16 and ending with line 25 on page 17, because I believe that if Section 14 is amended as suggested by the Glass bill starting with line 19 on page 28 and ending with line 25 on page 28, such an amendment would clarify any misunderstandings there have been in the past as to the Board's authority and veto power over open market operations, particularly in reference to U. S. government bonds. The open market policy committee could continue as a voluntary organization, the autonomy of the several reserve banks would be maintained, and there would be no question about the Board's veto power. Furthermore, disclosure of transactions that are extremely confidential would not by law be made a matter of public record.

As stated earlier in this letter, I am not entirely in accord with the creation of a Federal Liquidating Corporation and, therefore, at this writing can not approve of the proposals contained in the language starting with line 1 on page 18 and ending with line 10 on page 27.

I am opposed to the proposed amendment to Section 13, starting with line 14 on page 27 and ending with line 13, page 28, first because I object to the one per cent higher rate and second, because I do not believe that the making of certain collateral loans by a member bank should be dependent upon what the member bank owes a Federal reserve bank on a 15-day collateral note. If it is desirable to curb speculative loans, it seems to me that it would be much better to apply the brakes to the member bank rather than attempt to do it in a circuitous way through the Federal reserve bank.

As previously stated I approve of the proposal contained in lines 19 to 25 on page 28.

I object to the amendment proposed starting with line 4 on page 29 and ending with line 7 on page 30 because it takes the initiative power away from the Federal reserve bank and provides for restrictions that for

all practical purposes would make negotiations impossible. The amendment suggested by Senator Glass to Section 14 it seems to me, gives the Board all the supervisory powers that are necessary.

In the amendment proposed starting with line 11 page 30 and ending on line 2, page 34, I am opposed to the provision which excludes promissory notes of member banks secured by U. S. government obligations as eligible for collateral security for Federal reserve notes.

I am also opposed to the change suggested in lines 18 and 19 on page 31 which reads as follows: "...not offset by gold or lawful money deposited with the Federal Reserve Agent".

The amendment suggested starting with line 5 page 34 and ending with line 22 page 37, has to do with reserves. I like the idea of eventually having demand deposits and time deposits carry the same reserves and I would even go so far as to include thrift deposits so that there would be a flat reserve for all deposits, with some discrimination between Federal reserve bank cities, branch bank cities, other reserve cities and others. I also believe that further consideration should be given to the formula developed by the reserve committee of the Federal Reserve System.

The provisions starting with line 6 page 38 and ending with line 5 page 39, have to do with dealings in Federal reserve funds and while I can not agree with the suggested amendments, because I believe them to be too severe in normal times, nevertheless I have felt that dealings in Federal reserve funds might some day become a menace. I therefore believe I would be willing to give further consideration to an amendment that would give power to the Federal Reserve Board to deny to certain specific banks the right of dealing in Federal reserve funds.

Starting with line 18 on page 39 and ending with line 25 on page 41, the bill relates to real estate loans and the segregation of assets against time or thrift deposits. I am not in agreement with the sentence - lines 6 to 10 on page 40 - which reads as follows: "Such valuations shall be revised by the Comptroller of the Currency at the time of each examination of the bank making the loan and he shall have power to order changes therein and to require the adjustment of loans to such revised valuations". It seems to me that this is impractical. If a bank made a farm loan for five years in accordance with the terms of the act and two years later the value of the farm land back of the security depreciated say forty per cent, I do not see how the bank could adjust the loan because it is not due for three years, and the bank would have no legal demand on the maker. The only thing the Comptroller could do would be determine whether or not the loan was good and if not entirely good, what proportion of it was good, and request the bank to charge off accordingly. Under the present law he now has ample authority to follow this procedure.

I am not thoroughly convinced that the segregation of assets against certain deposits is a good thing where a bank does both a commercial and savings business. Obviously it works to the advantage of those having time deposits and at the same time is a disadvantage to the commercial depositor in the event of failure of the bank. Perhaps that should be so in so far as the thrift depositor is concerned, but when a corporation deposits a large amount with a bank that has the customary 60-day clause, I do not believe that the corporation should receive a preference over another corporation that possessed a demand deposit. If $5000 is to be the limit on thrift deposits it seems to me that the same limit should apply on time deposits.

The amendment suggested starting with line 1 page 42 and ending on line 10 page 42, might make it impossible for a state member bank to comply at the same time with the provisions of its State law and of this section if there were a conflict between the two laws. For instance, in Massachusetts a trust company is required to segregate assets against savings deposits but not against certain other time deposits.

I have no objection to the wording of the proposed amendment starting on line 14, page 42 and ending with line 15 on page 44, except the following which starts on line 24 on page 43 and ends on line 4 of page 44, which reads as follows: "No such association shall purchase or hold any obligation of any corporation unless such corporation and any predecessor thereof earned for each of the five years preceding such purchase at least 4 per centum upon the outstanding capital stock of the corporation". If I understand this correctly, it would mean that a national bank would be prohibited from buying bonds of a corporation that was not earning 4 per cent on a very heavy capitalization but might be earning its interest charges many times over on a very small bonded indebtedness. This seems too severe and I will recommend that this clause be eliminated.

I am in agreement with the amendment suggested starting with line 19 on page 44 and ending with line 7 on page 45.

I am somewhat in sympathy with the suggestions contained in the amendment starting with line 10 on page 45 and ending with line 7 on page 46, but do not believe the present the opportune time for its adoption.

I am somewhat sympathetic with the language which starts on line 8 of page 46 and ends with the word "business" on line 14 of page 46, but prefer to have more time to consider before making a definite committal. If the succeeding language which reads that ...."no national bank or member bank shall perform the functions of a correspondent bank on behalf of any such individual, copartnership, unincorporated association or corporation" means that they could not even accept deposits, I

am very much opposed to this provision. The last clause starting on line 17 and ending in line 21 I do not understand.

The language of the proposed amendment starting on line 24 of page 46 and ending with line 8 on page 52 places certain limitations and restrictions on voting privileges of shareholders of national banks which, in my opinion, would temporarily deprive certain individuals, affiliates, holding companies and other corporations from justified voting privileges and eventually make it impracticable for affiliates, corporations and holding companies to continue as stockholders in member banks. It seems to me the enactment of this amendment would have the effect of driving a vast number of both national and state member banks out of the System and I am opposed to it.

The amendment suggested starting with line 11 on page 52 and ending with line 13 on page 53 has to do with the establishment of branches by national banks. I believe this to be a step in the right direction but if I understand the language of the amendment correctly it would only permit national banks the extended privileges of establishing new branches outside of the city of the parent office where the State law permits it and inasmuch as there is no amendment to Section 9 of the Federal Reserve Act in the Glass bill, State member banks although permitted by State law to establish new branches outside of the city in which the parent State member bank was located could not now establish them and continue as members under Section 9.

I also want to throw out the suggestion that no branches should be established anywhere except with the approval of the Federal Reserve Board in addition to that of the Comptroller of the Currency.

The amendment suggested starting with line 16 on page 53 and ending with line 9 on page 54 has to do with interest rates that a national bank may charge and I see no objection.

Lines 10 to 24 inclusive on page 54 have to do with the rate of interest which a national bank may pay depositors. I am opposed to all of these restrictions because I am convinced that no national bank could compete with other institutions.

I would want more time to study the amendment suggested starting on line 4 page 55 and ending on line 6, before making a definite commitment, but my impulsive thought is that it is too severe.

The suggested amendment to Section 52 starting on line 9 of page 52 and ending with line 20 discriminates in specific cases as to the amount that may be lent by a national bank under the various exceptions to Section 5200 and with United States Government bonds as security, and if I have interpreted it correctly it discriminates against certain livestock loan companies. I am, therefore, opposed to this section.

The amendment suggested starting with line 24 on page 55 and ending on line 8 on page 56 appears to be to severe.

The proposed amendment starting on line 9, page 56, and ending with line 19, I do not thoroughly understand and I cannot comment upon it at this time.

I am opposed to the language to the amendment starting on line 20 of page 56 and ending with line 4 on page 57, for the reasons given previously under comments on sub-section M. I approve of the language of the proposed amendment starting on line 8, page 57 and ending on line 15 page 58. I am opposed, however, to the language starting on line 15 on page 58 and ending on line 3 of page 59 because I believe it is just as unreasonable to publish the portfolio of an affiliate as it would be to require national bank to publish its portfolio.

The language of the proposed amendment starting on line 7 of page 59 and ending with line 2 on page 60 provides for examining affiliates which I favor and I believe that certain penalties should be resorted to in the event of refusal to permit such examinations. I am opposed, however, to authorizing the Comptroller of the Currency to publish report of his examinations of any national banking association or affiliate under any condition.

The proposed amendment starting with the language on line 8 of page 60 would, in my opinion, prohibit many desirable people from being directors in national banks but would apparently permit the same people to be directors of a State member bank.

The language in the proposed amendment starting on line 16 of page 60 and ending on line 24 on page 60 is difficult to interpret but if it means, for example, that the Canadian Bank of Commerce cannot lend on a promissory note secured by collateral payable in American dollars in this country, or if a corporation cannot lend its own employees, secured by its stock, on a partial payment plan, I believe the language of the proposed amendment to be too severe.

The language of the proposed amendment starting on line 1 on page 61 and ending with line 12 on page 61, if I interpret it correctly, would prohibit a corporation from depositing with a private banker, or a country elevator company from carrying an unsecured credit balance with a city elevator company, or a corporation or bank from carrying a deposit with a foreign bank or other corporation, etc. I, therefore, am opposed to the amendment.

As stated in the opening paragraph of my letter, I feel that I should have had more time and assistance in analyzing this proposed bill or to appraise the ultimate effect of many of its provisions, and such views as I have expressed are therefore necessarily subject to such revision as a further study of the bill may suggest to me.

Yours respectfully,

(Signed) R. A. Young

R. A. Young,
Governor.

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FEDERAL RESERVE BANK OF PHILADELPHIA

TELEGRAM

Philadelphia 11:20 A Jan 30

Governor Meyer: Washington.

In Governor Norris' absence I am replying to your inquiry concerning the Glass Bill.
The bill provides so many radical changes affecting current practices and relations of banks and other corporations, that I hope all of its provisions can be subjected to further careful study by financial experts.
Federal reserve member banks could hardly compete with nonmember banks if the provisions of the Act were put into effect.
The restrictions on affiliates as defined might greatly disturb useful corporations whose activities are beyond criticism.
Its limitations on advances and discounts for member banks might bar many members doing a conservative banking business from exercising their privileges in providing funds to restore their legal reserves.
Many of the powers conferred on the Reserve Board and the Comptroller of the Currency appear to be extreme and threatening.
Many bankers would look upon many of its provisions as unreasonable restrictions to a legitimate banking business.
The recommendations of the Federal Reserve System's committee on legal reserves should be substituted for the plan in the bill.
State bank members would object to being subjected to examinations by the Comptroller.
The provision of a Federal liquidating corporation seems admirable, but would it not be better to provide funds in some other way than cutting into the Federal reserve surpluses? The surplus of Federal reserve banks should be protected, and removing a large section of it by legislation would raise a question as to whether it will not be followed by other government actions to use these funds which have been not too large in our recent financial strains.
Questions will arise as to whether an official whose appointment is generally looked upon as political should head the corporation.
The provisions of the bill against making advancements to member banks on their fifteen day notes seem to have unnecessary restrictions.
The prevention of the free use of member bank balances in reserve banks will meet with objections.
The provision for the valuation of securities at the market value seems unnecessarily severe, and we do not see how a change in the situation of properties securing mortgages, by the Comptroller, can accomplish any useful purpose.
Many will question the desirability or fairness of requiring banks to re-establish a one hundred dollar par value for their stock.
The provision whereby stockholders should be prevented from voting their shares might throw the control of a corporation to a minority, and this provision might raise serious legal questions.

2.
Federal Reserve Bank of Philadelphia - Telegram.

Many believe that branch banking within state lines is not logical but that it would be better to make any division lines on the basis of trade areas or Federal reserve districts. Segregation of capital in the separate branches does not appear feasible. The provision for a different set-up and method of operations of the open market committee does not appear to represent the attitude of the banks toward this function. I would especially call your attention to the provision that a reserve bank may have thirty days in which to make a decision as to participation.

The proposed discrimination against making advances to a member bank on its fifteen day notes secured by Government obligations or eligible paper, will disturb a convenient and desirable method of accommodation and the provision to bar such notes collateraled by bonds or notes of the United States, as security for Federal reserve notes, might be regretted at some time when there may not be sufficient commercial paper available to support the volume of Federal reserve notes that might be needed.

HUTT

1144am

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FEDERAL RESERVE BANK OF PHILADELPHIA

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

55COT

Philadelphia, Penna. 1210PM January 30 1932

Governor Meyer,
Washington

In compliance with telegram of 26th, submit result of study of Glass Bill and our views regarding it.

In re Glass Bill S 3215

Pages 1, 2, 3, and part of 4 generally refer to affiliates. The problem of affiliates is a very large one. As we have had little contact with them, we feel that we should make more of a study of them and their relations with member banks before criticizing the provisions of this bill. Some of its provisions seem unfair to stockholders of banks and possibly would endanger control of such banks. Would it not be better to treat the matter of affiliates in a separate bill?

Section 3, pages 4 and part of 5, controlling application of proceeds of rediscounts. Borrowings from Federal Reserve Banks largely are to make good deficiency in reserves, to limit the application of the proceeds to the accommodation of commerce, industry and agriculture and prevent their use in any way for the carrying of, or facilltating the carrying of, or trading in securities, by implication would prevent any bank, holding any loans collaterally secured by investment or speculative securities, from rediscounting with its Federal Reserve Bank. We think this section should be omitted. Section 7 page 9. This appears to omit the secretary of the Treasury as a member of the Federal Reserve Board. For one, I see not the least objection, but rather advantages, in having the Secretary of the Treasury a member of the Board, so believe that this amendment is undesirable.

Section 8; page 11. This, and all other sections of this bill, affecting reserves, we think should be omitted. The provisions of the Bill prepared by the Federal Reserve Board, based upon the findings of its committee on reserves, are far superior to the provisions in the Glass bill referring to the same subject. We would favor striking out all reference to reserves in the Glass Bill and substituting the Board's bill.

Section 9 page 12. This clause of the Bill suggests that there has been abuses in the past by the banks generally, in that they used the proceeds of rediscounts to make loans to stock exchange houses. If the power, which is proposed to be given to the Federal Reserve Board by this section, can prevent in the future any improper use of Federal Reserve funds, this provision is desirable, but it so limits the operations of the banks, that one feels such a provision would be vigorously opposed, and if enacted, probably would drive a great many institutions out of the system.

Section 10. Seems to provide a satisfactory way for enlarging the loaning powers of Federal Reserve Banks in times of emergencies without a general increase in the kinds of paper or loans eligible for rediscount. It is unlikely that groups of banks would be organized to assist one or more of their members except in times of crises, when unusual measures to meet such crises would be justified, but one feels that the bank to be benefited by the emergency loan should deposit with the group its note, secured by satisfactory collateral, which note and collateral could be used as collateral security for the group's obligation, which the Federal Reserve Bank presumably would be authorized to take in making advances to the group.

Section 12 A. Recognizes the open market committee as set up at present as satisfactory. Proper notice to the Federal Reserve Board and the banks of the discussions and actions of the committee is necessary. The 30 day option to any Federal Reserve Bank to determine whether or not it wanted to participate in any of the committee's operations probably would cause delays that many times would prevent the committee's action being effective.

Section 12 B. The Federal Liquidating Corporation, as proposed, should be able to operate efficiently and accomplish a good purpose, but we feel that, possibly, an organization for each Federal Reserve District might be better than one large organization. It is a question whether or not it is wise to put all the surplus earnings of the Federal Reserve Banks into the capital of this corporation, as proposed in Section 5. A reasonable amount of capital should be provided for it, and provision made for calling on Federal Reserve Banks for additional capital any time such additional capital might be necessary.

Section 13; page 27. The reason for charging one per cent higher for loans on 15 day notes than for rediscounting paper is hard to understand. The use of the 15 day note is helpful to the member banks and to the Reserve Banks, and we see no necessity for establishing a higher rate of discount for such obligations; we think it would be contrary to good banking practice.

The provision contained in lines 1 to 18, page 28, seems to be a further effort to control and limit the loans of member banks on investment and other securities, the necessity and advisability of which is not plain to us. We feel that the member banks would not consent to it, and its enactment would result in trouble for the system.

Section 15 page 30, lines 20 to 24. Eliminates member bank's 15 day notes, secured by United States government bonds or notes, for use by a Federal Reserve Bank as security for Federal Reserve notes issued to it.

There does not seem to be any good reason for this; the bonds securing such notes are in no way permanently deposited as security for circulation, but constantly are being retired by the banks and so withdrawn as security for currency. The elasticity of the currency is in no way impaired by their use; they in no way make Federal Reserve currency less responsive to the requirements of business.

Page 31 line 17, provides for gold deposited with the Federal Reserve Agent as security for note issues only being used as an offset against outstanding notes and not as a part of the Bank's gold reserve, as at present. This provision would reduce available gold reserves in every Federal Reserve bank in an amount equal to 60 per cent of the notes so offset. If applied to this bank today it would be below its legal reserve, and if applied to the whole system, it would have little reserve in excess of its requirements. The results of such a provision would be very disastrous at this time.

Page 38 lines 6 to 19, forbidding the transfer of excess Federal Reserve Balances, seems most objectionable. What could hamper banking operations more, or make funds of Federal Reserve Banks less desirable, than a provision that deprives a bank of handling freely its own funds. But this provision would not prevent any Federal Reserve Bank from transferring at any time any of its required reserve balances. The proposed remarketable provision only applies to excess balances. Section 24 page 40 line 6, would give the comptroller of the Currency the right to adjust mortgage loans to comply with his valuation of properties. We think this would be impracticable. An amount of real estate loans, equal to one half of a bank's time and thrift deposits, as proposed in lines 10 to 22, in many instances, especially in country banks, would be too much. Time and savings deposits in many such banks equal 60 to 70 per cent of their total deposits. A maximum investment at any one time of a sum not more than 25 per cent of the time and thrift deposits would be safer. The inclusion of the investment in bank premises among real estate loan is a good provision.

Section 19 page 44 line 19. One supposes this is a proposal to limit the amount of any bank's deposits to a sum equal to about seven times its capital funds. Many think that the amount of deposits that a bank could carry should be limited by the amount of its capital and surplus but our feeling is that deposits equal to ten times the amount of a bank's capital and surplus would be a reasonable provision. Page 44, line 1 to 5. To forbid banks to hold any obligation of any corporation, which had not earned for five years preceding such purchase, at least 4 per cent upon the outstanding capital stock of the corporation, apparently would prevent banks from investing in any securities of newly formed corporations.

Section 21 page 46, Seems very drastic and would unduly interfere with the operations of many institutions and corporations, the operations of which are now properly conducted.

Section 25, page 52, Proposing to extend the right of National Banks to establish branches. To restrict such branches to the state in which the parent bank is located will not enable those banks to serve properly their communities, which very often extends beyond state lines. We think banks should be authorized to establish branches within their trade area, as proposed by the comptroller of the Currency, or any where within its own Federal Reserve District. It has been suggested that, in addition to the minimum

capital of $1,000,000 which it is proposed that a bank must have to establish branches, for every branch established the capital of the parent bank should be increased, say $50,000 to $100,000.

Section 28 page 54, We question the wisdom of specifying a maximum rate of interest that banks may pay on time deposits. We think it would be a very serious mistake to forbid the payment of any interest on demand deposits that successfully has been done here for years. If such a law were enacted, we feel there would be a flight of banks from the system.

Section 8-A page 60. We question the propriety of prohibitions contained in paragraphs 1, 2, and 3 under this section. They improperly would interfere with the rights of corporations and individuals to pursue their business operations.

R L Austin,

133p

C O P Y

Federal Reserve Bank

of Cleveland

January 29, 1932.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

This letter sets forth the substance of objections raised by officers of the Federal Reserve Bank of Cleveland to the proposed amendments to the Federal Reserve Act in the Glass Bill, as requested in the Board's telegram of January 26. Criticisms have been limited largely to proposals with which we are entirely out of sympathy. Where suggestions have been offered, they may be accepted as indicative of our approval of the proposals in principle, but not of the sections in the form in which they are drawn. With reference to sections where no comment is made, it is not necessarily to be assumed that we accept the proposed amendments in toto.

Sec. 3. Our objection to this paragraph is based primarily upon the fact that it grants to the Federal Reserve Board powers which it should not exercise. It would tend to make the Reserve Board an operating rather than a supervisory body. We believe that disciplining member banks, when necessary, is clearly the function of each individual Federal Reserve bank. It would be next to impossible to carry out the provisions of the proposed law, which, if carried out, would inevitably result in withdrawals from the system of state banks and the conversion of national banks to state banks to escape their obnoxious features. In the present situation the enforcement of these provisions would result in suspending the use of Federal Reserve credit facilities to every member bank in the City of Cleveland.

Sec. 5. If a liquidating corporation of the kind provided by S. 3215 is to be established, we believe that it should be accomplished through special legislation such as that proposed in S. 2810. We are not particularly friendly to the idea of member bank subscriptions to stock in any such liquidating corporation at the present time.

Sec. 6. To require state bank members to comply with all the requirements of the National Banking Act would be to compel them to relinquish certain charter and statutory rights which the law specifically provides that state bank members are to retain. In view of the trend of recent

years for important national banks to surrender their charters in favor of state charters, to enable them to take advantage of the more liberal provisions of the latter, we believe that the effects of adopting this section would be further to encourage this movement and to drive state banks which now are members out of the reserve bank system. A further objection is found in the fact that the national banks normally carry the burden of commercial credits, whereas many state banks engage in banking operations of a nature which would work hardships upon them were they compelled to meet all the requirements and restrictions of the laws relating to national banks.

Sec. 8. We do not believe in the arbitrary designation of reserve and central reserve cities. We hold that required reserves should be measured by other standards. We approve the report recently made by the Reserve Committee of the System, which would render unnecessary the designation of reserve or central reserve cities.

Sec. 9. In our opinion this section is thoroughly objectionable and its conditions too drastic. We do not believe that any supervisory body should be clothed with such power. It would conflict in certain cases with the loan limits established for state-chartered banks. It would not be equitable in its application, because a Board order aimed at a limited number of banks, or the banks in a certain city, would apply to all other banks in the district irrespective of the fact that they were not offending. In our judgment, the enactment of this section would result in the withdrawal of state banks and conversion of national banks to institutions chartered by the states.

Sec. 10. We concur in the idea that the Reserve Act should contain some emergency provision, but we believe that a plan superior to that proposed could be developed. Situations of the kind obviously contemplated by this section would probably originate as a result of demands for currency. Since promissory notes of the groups receiving reserve bank funds would not be eligible as collateral for Federal Reserve notes, it would place a further strain upon a reserve bank's gold; and since developments making borrowing of the type described seldom occur at times other than periods of unusual credit stress, we believe that the regional banks should not have this added strain placed upon their gold reserves.

Sec 12. We do not believe that any necessity exists for the creation of a new Open Market Committee, in view of the fact that the proposed committee does not differ materially from the present setup of the System Policy Committee.

Sec. 13. We are unalterably opposed to any proposal to establish a higher rate of discount on member bank collateral notes than on other eligible paper offered for rediscount. We do not contemplate all collateral-secured loans as representing speculative transactions. We believe that member banks in discounting with their reserve bank should have access to reserve credit facilities in the manner which is most convenient for the borrowing bank. It is common practice for banks to borrow on their own collateral notes for short periods in preference to rediscounting customers' paper to maturity.

Sec. 14-b. We are opposed, in principle, to any provision of law which required the Federal Reserve Board to exercise CONTROL over the activities of Federal Reserve banks. We believe that the present law gives the Board ample power to supervise the relationships referred to in this section through the regulations which the law authorizes it to promulgate.

Sec. 15. We know of no more effective way to kill the system than to adopt this section.

Sec. 16. In our opinion the report of the System's Committee on Reserves establishes reserve requirements on a thoroughly scientific basis, and we strongly urge the adoption of the committee's report as a substitute for the reserve requirement proposed by the Glass bill.

Sec. 16-a. We believe that the Federal Reserve Board should have authority to regulate dealings in Federal funds, other than legitimate transfers, with a view to preventing abuses that may develop in connection with either transfers or sales of excess balances.

Sec. 17. Most of the provisions of this section involve such radical departures from present banking practice that we believe they should be subject to further study before enactment. We agree, in principle, with the idea of special protection for thrift and savings deposits. We do not believe that all time deposits, in view of the known nature of certain special time accounts, should be

permitted to be invested under the provisions of this section as at present drafted.

With respect to investments in bank premises - in our judgment this should be treated as an entirely separate proposal covered by a separate section, and should set up not only the limitations with respect to the percentage of a bank's capital and surplus represented in bank buildings or real estate owned, but should differentiate between buildings erected by banks for their sole occupancy and buildings erected by banks parts of which are to be rented for office or commercial uses.

Sec. 19. Since the requirement of any specified percentage of capital funds to deposit liabilities is purely arbitrary, we recommend that further study be given to the problem to determine whether the fifteen per cent requirement of this section is, on the one hand necessary, or on the other hand, adequate. In either event, we suggest that capital funds for this purpose be limited to capital and surplus only, and that in the event any provision increasing the capital-liability ratio be enacted, ample time be allowed for making the adjustment.

Sec. 28. We are in sympathy with the proposal to establish limits to the rate of interest paid by banks on deposit accounts, including deposits of public funds. In our opinion the section as at present drawn is too restrictive, especially with respect to payment of interest on demand deposits. To prohibit the payment of interest on deposits of this type by member banks would place them at a distinct disadvantage in competing with non-member institutions for either bank balances or commercial accounts.

While there are points in the bill which appeal to us as meritorious, much of the text is so vague and indefinite as to make it difficult of interpretation and analysis, or so obviously impractical as to render it unworkable. It appears in spots as an attempt to deal with evils which we do not believe exist in fact. In the main, we believe that the great bulk of our membership would oppose its restrictions and requirements and that the effects of its passage would be disastrous to a continuance of System operations.

Comment upon questions of the bill dealing with proposals which are more of a legal character are being prepared by counsel for this bank and will be communicated to counsel for the Board at the latter's request.

Very truly yours,

(S) E. R. Fancher,
Governor.

(S) Geo. DeCamp,
Federal Reserve Agent.

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FEDERAL RESERVE BANK OF RICHMOND

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

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Richmond, Va. 850am Jan. 30.

Governor Eugene Meyer,
F. R. Board, Washn.

Your wire 26th stop Have studied bill under handicap of limited time stop Approve some points stop Have always believed initiative in open market operations and foreign agreements should be vested in Federal Reserve Board stop Endorse heartily proposals re branches of member banks stop believe in assistance to failed banks but think it should be administered outside system stop on liquidating corporations bill is vague and contradictory in language stop reserve banks making loans to groups of members is wise emergency measure but I hope any proposal to legally introduce into Federal Reserve Banks paper not eligible for note issue will receive close scrutiny stop Approve some of provisions as to affiliates, particularly as to their examination, provided there is presented a reasonable and understandable conception of an affiliate which is lacking in the bill stop As to reserves much prefer system committee plan to that in bill stop the considerable increase in reserve requirements would curtail lending power of member banks and react sharply upon borrowers in agricultural districts stop to my mind the desirable in bill is far outweighed by the undesirable stop the bill represents oppressive legislation in certain provisions particularly in those relating to collateral loans and to deposits of corporations engaged in commerce and to my mind is destructive in that our good members will withdraw leaving us only those who cannot afford to withdraw. I deplore even the bill's publicity at this juncture when the message vitally needed is one which inspires hope and awakens courage.

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FEDERAL RESERVE BANK

OF RICHMOND

January 29, 1932.

SUBJECT: THE GLASS BILL.

Honorable Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Answering your Trans. 1434, sent on the 26th, relative to the Glass Bill, I have the following comments to make, which I am sending by letter since it will reach you prior to the time fixed in your request, namely, 3 o'clock Saturday afternoon.

The legislation proposed is of such far-reaching, experimental, and radical nature that there should be no thought whatever of passing the bill without giving hearings to the banks in every part of the country. In saying this, I do not omit to bear in mind the fact that the bill itself was framed as a result of extensive hearings. It is one thing, however, to frame a bill intending to correct evils believed to exist, brought out at the hearings, and quite another thing to consider the bill intending to correct those evils.

In my judgment, there is no man living who can appraise the effects of this bill if enacted into law. The consequences might be -- and I believe they would be -- appalling. Moreover, in my judgment, it is exceedingly unfortunate that a bill involving as much controversy as this bill is bound to raise should come up at the very time when we are seeking to allay unrest by remedial legislation without complications which probably can be put into immediate effect. Furthermore, the banks of the country are too much occupied at this time over their disturbed affairs to give immediate study to the bill.

This bill should be split up into several bills. For instance, that provision of the bill which provides for branch banking might with great advantage be taken from this bill and passed separately. Unless I am greatly mistaken, it could be passed without any great delay. I believe that provision to be imperatively needed at the present time. There are many communities all over the country which are practically deprived of banking facilities, and already legislative minds are at work to supply the need with totally inadequate facilities. Small banks are being proposed, which in the end will, of course, have to go the way which other small banks have gone.

C O P Y

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Hon. Eugene Meyer, Governor,
Federal Reserve Board, Page 2.

January 29, 1932.

Without attempting any detailed analysis of the bill, which I do not believe to be wanted, I give it as my opinion that it would cripple the Federal Reserve System beyond repair. My belief is that it would result in an exodus from the System of those large banking institutions in which the commercial business does not dominate, and it will preclude getting into the System very many banking institutions which might advantageously be included. It will spur the competition and antagonism which already exist between state banks and national banks, and it will give state banks immeasurably the advantage in obtaining the deposits of the country. Even if it should not be felt immediately, when business quiets down and assumes its customary aspect the disintegration of the Federal Reserve System will begin.

The control or censorship over loans on collateral, by which it is assumed that stocks and bonds are meant (although it is nowhere stated in the bill), would be an intolerable provision. How would the banks lend their funds? There is not sufficient commercial paper. It is known to everybody how the corporations formerly accustomed to borrow have provided themselves with working capital by the issue of securities. There would remain then for the investment of banking capital securities of all classes and real estate, and the bill seeks to restrict and diminish loans of this character.

The provision which penalizes the 15 day notes upon all classes of collateral, including bills receivable, would place a burden on the banks which the banks would not and could not tolerate.

The provision which renders member bank notes secured by Government bonds ineligible as collateral for Federal Reserve notes would inconvenience and restrict the operations of Federal Reserve Banks in supplying currency in a manner which at times might, and would, prove disastrous. If, at the present time, paper secured by Government bonds discounted by the Federal Reserve Banks were eliminated, it would remove about 450 million dollars of free gold. The bill takes for granted, of course, that such notes would be replaced by the discount of ordinary bills receivable. This might or might not be the case. There are other provisions affecting the issuing powers of Reserve Banks adversely.

That provision of the bill prohibiting the payment of interest on demand deposits is one of the provisions mentioned above which would give state banks a tremendous advantage in competition for deposits, which they would not be slow to use.

The provisions of the bill for reserve requirements are so radical that they could not fail to be rebelled against.

Hon. Eugene Meyer, Governor, January 29, 1932.
Federal Reserve Board, Page 3.

That provision of the bill which aims to form a liquidating corporation contains in it the germ of a good idea. But it is such an innovation that it needs to be thought of from all angles, and it should not be hastily passed until it can be thoroughly digested. The provision as drawn has such obvious defects that it shows either a lack of understanding or too great haste in preparation. The latter is believed to characterize the entire bill. The provision for the liquidating corporation as drawn would leave no excess earnings of Federal Reserve Banks to increase the surplus, and does not provide for making good depletion of surplus from deficient earnings such as that experienced last year.

Another proposal in the bill which contains the germ of a good idea, in my opinion, is that which provides for the formation of groups of banks which may act as clearing houses have heretofore acted in rendering aid to a bank in trouble, and which makes the obligations created thereby eligible for discount by Federal Reserve Banks but not eligible as security for Federal Reserve notes. This needs to be thoroughly considered by member banks themselves.

The provision of the bill which makes changes in the manner in which real estate loans are made is believed to be too complicated for administration by country banks, in which we are accustomed to find the greatest volume of real estate loans, according to my experience.

The final provision of the bill, which prohibits corporations of the country from depositing their funds with any but incorporated banking institutions is probably not enforceable and would not be tolerated by the country I am sure.

Those provisions of the bill which tend to concentrate far greater power in the Federal Reserve Board and to make the Board in all but details the operators of Federal Reserve Banks, appear to tend towards a great central banking system, which I believe could not be operated with success in a country of this magnitude and of such diverse interests and such diverse customs and practices of banking. Furthermore, it seems to relieve directors of Federal Reserve banking institutions of a very great part of their initiative and responsibility, and would certainly I believe tend in the course of time, if not immediately, to lower the calibre of the men who would undertake to occupy positions of such restricted responsibility.

I believe that this bill will be torn to pieces by the banks of the country, and that it would be almost a crime to attempt its hasty passage.

Hon. Eugene Meyer, Governor,
Federal Reserve Board, page 4.

January 29, 1932.

The bill if enacted into law will have a severely depressing effect upon Government securities. The mere offering of the bill may have some adverse effect.

It is, of course, a drastic deflationary bill.

Very truly yours,

GJS-CCP

(S) George J. Seay

GEO. J. SEAY,
Governor.

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FEDERAL RESERVE BANK

OF ATLANTA

January 29, 1932.

Mr. Eugene Meyer, Governor,
The Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Reference is made to your telegram (Trans No. 1434), under date of January 26th, asking my views with respect to the Bill, S. 3215, introduced in the Senate by Senator Glass on January 21, 1932.

I firmly believe in the Federal Reserve Act. It is my own belief that the present session of Congress is not an opportune time for a thorough revision of the Federal Reserve Act, because of the greatly disturbed banking conditions which now exist. While I am entirely in accord with the purposes of the Bill as expressed in the introductory, I do not favor entirely the plans proposed for the enactment of these purposes. Although the importance of the measures incorporated in the Bill deserves much more study than I have been able to give them in the limited a time a copy of it has been available to me, I shall express my views on such sections of the Bill as I deem comment necessary.

SECTION 3 OF THE BANKING ACT OF 1932, amending paragraph 8 of the Federal Reserve Act.

I believe that some restriction should be placed on the use of Federal reserve credit for speculative purposes, but that the provisions of this section are entirely too drastic.

SECTION 4 OF THE BANKING ACT OF 1932, amending the 25th paragraph of Section 4 of the Federal Reserve Act, with regard to the election of Federal reserve bank directors.

I am not in favor of this amendment.

SECTION 5 OF THE BANKING ACT OF 1932, amending Section 7 of the Federal Reserve Act, relating to earnings of Federal reserve banks.

I am opposed to this amendment for the reason that it would greatly weaken the Federal reserve banks. I am firmly of the opinion that there should be no change in the provisions of the present law relating to the distribution of earnings of Federal reserve banks.

SECTION 6 OF THE BANKING ACT OF 1932, provides for a new paragraph between the 5th and 6th paragraphs of Section 9 of the Federal Reserve Act, requiring affiliates of a bank admitted to membership under authority of Section 9, during a period of two years after the section as amended takes effect, to make and furnish to the president of the bank for transmission by him to the Federal Reserve Board, not less than three reports during each year, etc.

FEDERAL RESERVE BANK OF ATLANTA

Federal Reserve Board
Washington, D. C. -2- 1-29-32

I am in accord with this provision except that I do not think the period for which the reports are to be rendered should be limited.

SECTION 8 OF THE BANKING ACT OF 1932, amending Section 11(e) of the Federal Reserve Act relating to the reclassification of reserve cities.

Inasmuch as I am opposed to Section 16 of the Bill, I see no justification for this amendment.

SECTION 9 OF THE BANKING ACT OF 1932, amending Subsection(m) of Section 11 of the Federal Reserve Act.

This amendment gives the power to the Federal Reserve Board to fix from time to time for each Federal reserve district the percentage of individual bank capital and surplus which may be represented by collateral secured loans by member banks within such district.

I am not in favor of this amendment, but believe the credit extension and collateral requirements of member banks should be allowed to remain with their managements.

SECTION 10 OF THE BANKING ACT OF 1932, providing for a new section 11A of the Federal Reserve Act.

This new section authorizes Federal Reserve Banks, with the consent of the Federal Reserve Board, to make advances to groups of member banks within their districts, and provides that such loans are not to be eligible as collateral security to Federal reserve notes. This apparently is designed for a relief measure, and under the conditions the Federal Reserve Bank of Atlanta has experienced and is experiencing, the Atlanta reserve bank, under similar conditions, would not be in a position to afford much, if any, relief to any bank under this provision of law.

SECTION 11 OF THE BANKING ACT OF 1932 restricts member banks in making loans to their affiliates, both as to amount and as to kind of collateral security.

I am in accord with this provision.

SECTION 12 OF THE BANKING ACT OF 1932, enacting a new section 12A of the Federal Reserve Act.

This section creates a Federal Open Market Committee.

I am in accord with this provision in the Bill as it relates to System account, except that I do not think that the members of the committee appointed by the boards of directors of the Federal reserve banks should be subject to the confirmation of the Federal Reserve Board, but that they should be subject to removal for just cause by the Federal Reserve Board.

SECTION 12B OF THE BANKING ACT OF 1932, establishing the Federal Liquidating Corporation.

I am unalterably opposed to this provision in the Bill for the reason that the capital to be furnished the corporation for use in liquidating the assets of closed member banks is to be furnished by the Federal reserve banks and their members. Federal reserve banks would be weakened by the amount of the capital subscription charged to its surplus, and under the provisions of Section 5 of this Bill, all earnings of Federal reserve banks would be paid to the Federal Liquidating Corporation. In the event a Federal reserve bank had an operating deficit (depreciation and losses) such deficit would necessarily further reduce its surplus and would make necessary the postponement of the payment of dividends until such time as they were earned. There is no provision for restoring the surplus of Federal reserve banks, either by earnings in excess of dividend requirements, or by any other method.

I am opposed to this section of the Bill for the further reason that the member banks are required to furnish capital equal to one-half of one per centum of their total outstanding net time and demand deposits for which they would receive stock in the Federal Liquidating Corporation. The assets of this corporation would necessarily be of a slow nature, and the member banks would, under the law, be forced to use their funds for a slow investment. I believe that this provision in the Bill would be very objectionable to the member banks, even to the extent that some would be lost to membership in the Federal Reserve System.

SECTION 13 OF THE BANKING ACT OF 1932, amending the 7th paragraph of Section 13 of the Federal Reserve Act, providing for a one per centum higher rate than the rediscount rate on a member bank's 15-day promissory note, and prohibiting a member bank from increasing its collateral notes during the term of such 15-day borrowings.

I am not in favor of this amendment for the reason that legitimate business needs of the customers of the member bank who will be able to secure their notes with investment stocks or bonds as collateral, could not be met by the bank under provisions of this section. I would favor an amendment not provided for in the Bill permitting Federal reserve banks to discount direct notes of member banks secured by eligible paper for a period of ninety days.

SECTION 14 OF THE BANKING ACT OF 1932, providing for additional subsection of Section 14 of the Federal Reserve Act, relative to the relationships and transactions between Federal reserve banks and foreign banks.

I am in accord with the purpose of this amendment.

SECTION 15 OF THE BANKING ACT OF 1932 amends the second, third and fourth paragraphs of Section 16 of the Federal Reserve Act, relative to the issuance of Federal reserve notes.

I am in accord with the proposed amendments to this section. I believe that eventually the promissory notes of member banks acquired under the provisions of Section 13, secured by deposits or pledge of bonds of the

United States should be declared ineligible as collateral security to Federal reserve notes. However, in my opinion, this exception is not desirable at the present time because of the unusual demands for currency which have recently been in evidence, and for the reason that the Government will require the full cooperation of the member banks in the flotation of large issues of short term Government securities in the near future.

SECTION 16 OF THE BANKING ACT OF 1932, amending Section 19 of the Federal Reserve Act, with respect to member bank reserve requirements.

The proposed Bill provides for an increase of 10%, 7% and 4% in the reserves required to be maintained with Federal reserve banks against time deposits (exclusive of thrift deposits) by banks located in central reserve cities, reserve cities, and other cities, respectively.

I am of the opinion that any increase in total reserves required would be met with opposition from our member banks. I believe that reserves against time and demand deposits should be calculated on the same basis, but at a rate which would produce a total volume of reserves approximately equal to our member bank reserve deposits under present requirements.

I am in accord with the provisions of this section which prohibit a member bank from acting as the medium or agent of any non-banking corporation or individual in making loans secured by collateral, and which provide that no member bank shall make loans and discount paper for any corporation or individual who shall, at the time of making or renewing any such loan, have outstanding such loans secured by collateral in favor of any investment banker, broker, member of any stock exchange, or dealer in securities.

I do not favor the amendment in this section which requires that a fee be charged for the sale or transfer of a member bank's excess balance, and which also requires authority of the Federal Reserve Board for such sale or transfer.

I am not in favor of the provision that requires the addition of the liability created by repurchase or other similar agreements to the net difference of amounts due to and from other banks, in computing reserve requirements.

SECTION 17 OF THE BANKING ACT OF 1932, amending Section 24 of the Federal Reserve Act with respect to real estate loans, etc.

I do not favor the provision in this section requiring the Comptroller of the Currency at the time of each examination of a bank to revise the valuations of real estate securing loans, and to require adjustments in the amounts of such loans according to the revised valuations.

I am in accord with the provision limiting the aggregate amount of real estate loans to 15% of the amount of the capital stock actually paid in and unimpaired, and to 15% of its unimpaired surplus, or to one-half of its time and thrift deposits.

I do not think investments in bank premises and unsecured loans whose eventual safety depends upon the value of real estate should be counted as real estate loans. I do, however, think that some other limitation should be made on investment in bank premises.

In the limited time I have had to study the Bill, I am not prepared to express my views with reference to that part of this section authorizing the balance of time and thrift deposits to be invested in property and securities in which savings banks may invest under the State law, and the requirement that the receiver of an insolvent bank apply the property acquired under this section ratably and proportionately to the payment of time and thrift deposits.

SECTION 18 OF THE BANKING ACT OF 1932, amending paragraph 7 of Section 5106 of the Revised Statutes, with respect to investment powers of national banks.

I do not favor the amendment requiring the Comptroller of the Currency, by regulation, to prescribe the amount of investment securities that a national bank may purchase for its own account. I think this should be determined by the management of the bank. There does not appear to me to be any other provision in this section that is seriously objectionable.

SECTION 19 OF THE BANKING ACT OF 1932, amending Section 5138 of the Revised Statutes, by adding at the end a new paragraph relating to the amount of capital of national banks.

I am in favor of this amendment except that I do not favor the penalties for non-compliance, as, in my opinion, they are too drastic.

SECTION 20 OF THE BANKING ACT OF 1932 provides for an amendment to Section 5139 of the Revised Statutes, with regard to the par value of certificates of stock of national banks, and provides that no certificate representing the stock of any banking association shall represent the stock of any other corporation.

After careful study of these provisions, I am of the opinion that Section 5139 of the Revised Statutes should not be amended at this time.

SECTION 21 OF THE BANKING ACT OF 1932, relating to officers and employees of member banks serving as officers and employees of any corporation, association, copartnership, or individual, engaged in the purchasing, selling, or negotiating securities.

In my opinion the abuses arising out of such relationships are not of enough importance to justify this provision.

SECTION 22 OF THE BANKING ACT OF 1932, amending Section 5144 of the Revised Statutes, with regard to the voting of stock.

This amendment is so closely connected with Section 24 of the Bill that my views will be expressed in connection with that section.

SECTION 23 OF THE BANKING ACT OF 1932, with regard to oaths of stockholders.

This amendment is also so closely connected with Section 24 of the Bill that my views will be expressed in connection with that section.

SECTION 24 OF THE BANKING ACT OF 1932, relative to the voting rights of national banks' stock held by affiliates.

The provisions of Sections 22, 23 and 24 would, in my opinion, be so objectionable that many national banks would convert into non-member State banks, thereby weakening both the national bank system and the Federal reserve system, and state bank member would withdraw from membership, thereby further weakening the System.

SECTION 25 OF THE BANKING ACT OF 1932, amending paragraph (c) of Section 5155 of the Revised Statutes with respect to branches of national banks.

Because of the short time which I have had to study the provisions of this section, I am not prepared to express an opinion at present.

SECTION 27 OF THE BANKING ACT OF 1932, amending the first two sentences of Section 5197 of the Revised Statutes relating to interest charged by national banks.

I am in accord with this amendment.

SECTION 28 OF THE BANKING ACT OF 1932, limiting the rate of interest which member banks are permitted to pay on deposits.

I do not favor this amendment for the reason that member banks come in competition with non-member State banks which are not subject to such restrictions with regard to interest paid on deposits.

SECTION 29 OF THE BANKING ACT OF 1932, amending Section 5200 of the Revised Statutes, relative to limitations of loans of national banks to one person.

I have not studied this amendment sufficiently to express an opinion at this time.

SECTION 31 OF THE BANKING ACT OF 1932, amending Section 5211 of the Revised Statutes, by adding a new paragraph requiring reports of affiliates of national banks.

I am in favor of that part of this amendment which requires affiliates to render reports to the Comptroller of the Currency, but I am not in favor of requiring an affiliate to publish its entire portfolio when indebted to the bank in excess of 5% of its capital and surplus.

SECTION 32 OF THE BANKING ACT OF 1932, amending Section 5240 of the Revised Statutes, by adding a paragraph relating to examination of affiliates of national or member banks.

FEDERAL RESERVE BANK OF ATLANTA

X-7077
f-1

Federal Reserve Board,
Washington, D. C. -7-

I am in favor of the amendment authorizing an examiner in making an examination of a member bank to make an examination of the affairs of all affiliates of such banks, but I believe the penalties prescribed for non-compliance are too severe.

SECTION 33 OF THE BANKING ACT OF 1932 provides for addition of another section 8A to the Clayton Anti Trust Act.

I am not in favor of this addition to the Clayton Act for the reason that, in my opinion, it is entirely too severe.

Yours very truly

(Signed) Oscar Newton

Federal Reserve Agent.

C O P Y

X-7077
g-1

FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

January 25, 1932

Federal Reserve Board

Washington, D. C.

Mr. Chester Morrill, Secretary

Gentlemen:

I appreciate your promptness in sending us copies of the Senate Bill No. 3215, introduced by Senator Glass on January 21.

We are, of course, disturbed by the presentation of this Bill at just this time, particularly with reference to the radical changes which it imposes upon the conditions of membership in the Federal Reserve System and its reaction on the individual member banks. The elimination from a practical standpoint of Government bonds as eligible for borrowings from the Federal Reserve banks alone seems very inopportune in connection with the present Treasury program, as we are convinced that a large proportion of the holdings of Government bonds by banks are so held because of their eligibility.

We trust that action on this Bill may be delayed until a more opportune time and that the viewpoint of practical banking may be heard.

Very truly yours,

(Signed) Eugene M. Stevens.

C h a i r m a n

EMS HH

FEDERAL RESERVE BANK OF CHICAGO

TELEGRAM

X-7077
G-2

240gb
Chicago Jan 29 252p
Meyer
Board Washington

Answering your request for my views on senate bill 3215 my primary reaction is that legislation proposing so much of radical changes in conduct of banking structure is exceedingly in-opportune during present disturbed conditions.

Believe it wiser to defer any action whatever than institute fundamental changes just now. Application of theories proposed are so much at variance with actual and necessary practice in operation growing out of experience of practical bankers that would expect strong protest from member banks everywhere and greatly lessen their desire to continue membership in system. Consider proposed bill would in practice largely destroy efficacy of system in what it was established to perform with strong probability of drastic weakening of national system by conversion into state banks and otherwise minimizing its efficiency.

Believe passage would result in practice in great contraction in available federal reserve credit and would be marked deflationary measure at this time. Provision prohibiting making of collateral loans while bank was borrowing on governments would in practically every case completely estop them from any use of such credit in practice. Whatever may be proper theory of bond secured currency, the facts are that presently and usually, Federal Reserve credit to members is over 50 percent based on government bond borrowings.

Member banks have without question carried the greater portion of the government financing because of its eligibility and if dependent only on markets for liquidity would without doubt greatly decrease their present holdings. Further, by reason of great amount of public financing by corporations since enactment of Act, percentage of eligible paper offered to member banks and in their portfolios has greatly decreased. The five principal banks in City of Chicago on last call showed about 24% of deposits invested in U S bonds and less than 6% thereof in eligible paper and acceptances, and it is probable that average of all member banks in this district would not be over 10% to 15% of deposits in eligible paper.

In seeking liquidity to replace their government bonds, which would become in practice ineligible and for substitute employment of their deposits, of which so small a proportion is required in commodity transactions, temptation would be almost irresistible to employ them on call money markets against securities, thus directly defeating purposes aimed at in proposed bill.

Provision for ten bank joint borrowing on ineligible paper would only be used in extreme emergency and in very few cases and would not be efficacious excepting to very limited degree in extending federal Reserve credit. More practical extension of such credit in emergency could be effected without violation of principal of eligibility and basis of currency issue by extending maturity of eligible paper from ninety days to six months, possibly with penalty rate, to banks individually as at

present.

Bill seems to be drawn on assumption that all security loans are speculative loans. Truth is that very great proportion thereof are entirely legitimate banking service with no relation whatever to speculative purposes. In my personal opinion perhaps best index of strictly speculative loans are those made to individuals by stock brokers through their margin accounts, which is a form of banking business in no way under direct government regulation. If speculators had to make their individual loans with their banks direct instead of brokers, speculative tendencies would be greatly checked in times of inflation.

Do not think essential strength of federal reserve banks should be impaired by contributions from surplus to liquidating corporation, nor that their efficiency in their present responsible functions and their standing in communities which they serve be impaired by their undertaking management of liquidating and consequent forcing collection of assets of closed banks. Am in sympathy with some regulation and examination of affiliates and curbing their activities in merchandising of stocks but consider proposed regulations altogether too drastic at this time. This also applies to certain regulations imposed on group and chain banking systems. Consider favorably some revision of legal reserves on time deposits upward but should be accompanied by a careful consideration of effect of increased aggregate reserve deposits in federal reserve banks.

Without commenting specifically on other proposed changes from present regulations, recognize some provisions worth favorable consideration. Also recognize attempt to apply certain economic theories but strongly believe some of them are not only untimely but proposed methods of application are impractical if not impossible.

Eugene M. Stevens.

427p

FEDERAL RESERVE BANK OF CHICAGO

TELEGRAM

X-7077
G-3

194gb
Chicago Jan 29 1255 p
Meyer
Board Washington

In response to the request contained in your telegram 26th instant for an expression of my views concerning Senate bill No 3215 upon due consideration I submit the following:

The provisions of this bill would stimulate dissatisfaction on the part of member banks, would result in withdrawals from the system, and would remove to a large extent the incentive for other banks to become members.

The capital structure of the Federal Reserve System would be seriously impaired through the application of 25% of its surplus to supply capital for the suggested Federal Liquidating Corporation, and that provision under which future excess earnings of Federal Reserve Banks would revert to the said corporation would leave the Federal Reserve Banks without any means of restoring their surplus accounts: This in the face of possible losses and other charges to the surplus which in the natural course of events are bound to occur as time goes on. Without questioning the necessity or advisability of establishing some organization of the character described I firmly believe that it would be a serious mistake to impose upon the Federal Reserve Banks the obligation to supply any part of the necessary capital or the responsibility involved in the management and operation of any such corporation. The compulsory subscriptions for the capital of the proposed corporation imposed upon member banks would naturally be resented.

The restrictions imposed on loans made by member banks, basis collateral securities, impress me as unduly severe and would impose an injustice on a clientele which is manifestly entitled to reasonable credit accommodations.

The bill expressly prohibits the use of member bank's promissory notes secured by Government bonds as collateral for Federal Reserve notes, and this in my opinion would seriously impair the ability of the Federal Reserve System to function in the matter of meeting demands for currency. The proposed penalty rate on loans to member banks supported by government securities would impose an unjust and serious hardship upon those member banks which, in the absence of an adequate supply of eligible paper, have purchased government bonds for the express purpose of borrowing on them if necessary.

I believe the Federal Reserve Banks should not be denied the right, within reasonable limitations, to engage in open market operations, which would not be permissible under the sweeping provisions embodied in the bill.

There are some other objectionable features which would make for dissatisfied membership, and also some favorable provisions. Viewing the bill as a whole, if enacted into law, I believe the results would be destructive rather than constructive. The ability of the Federal Reserve banks to function, even in normal times, would be seriously im-

paired and it would be impossible for them to cope with serious emergencies, as and when they arise.

Under all circumstances, I feel that it would be extremely unfortunate if the bill as written should become the law.

McDougal, Governor.

234p

Federal Reserve Bank of St. Louis

St. Louis Jan 29

Telegram

Meyer - Washington

Experience shows that as a rule bad times make bad laws and it is desirable to make drastic changes only after most careful and unhurried consideration, except so far as an emergency exists. Therefore it is suggested that only portion of Glass bill requiring immediate attention is section 12 "B" creating a Federal liquidating corporation. This should be covered in a separate bill so that unhurried consideration can be given to other portions of bill. It seems unwise and unfair to weaken Federal Reserve System to require net earnings in accordance section 5 be paid to Federal Liquidating Corporation and have government furnish funds to take care non member state banks. It would seem better to have government furnish entire amount and not call on member banks for subscriptions. As this section now written, it is in nature of guarantee of bank deposits, putting on good banks the burden of carrying the bad ones. Section 12 "A" creating federal open market committee and section 14 proposing changes to section 14 of Federal Reserve Act take away independent character of twelve Federal Reserve Banks and make a central bank of the System. It changes character of Federal Reserve Board from advisory and supervisory body and puts upon it the responsibility of operating and in so doing is liable to impair its judicial balance. Section 17, incorrectly printed section 19 in senate bill, would increase the amount of reserves that practically all banks would have to carry and result in contraction of credit. It would result in a confusion of the reserve problem rather than helping its solution. Section 13, placing higher rate on 15 day collateral notes would work great hardship on many banks, large and small, who have found it more convenient to use this method of borrowing for agricultural and commercial purposes, especially in emergencies when under this method of borrowing, they can forward to Federal Reserve Bank and pledge eligible collateral and then as emergency develops send in 15 day note for such funds as needed, which we can ship by airplane or method best suited to meet emergency. Instead of penalizing 15 day note would be desirable to authorize collateral notes of not to exceed 90 days maturity. In this district 15 day notes have enabled us to render assistance it would have been difficult to render if limited entirely to rediscount operation. At this time penalty rate on government securities and section 15, prohibiting collateral notes secured by government bonds as security for federal reserve notes, unfortunate as it will discourage purchase of governments, as well as reducing note issuing power of reserve bank. Third paragraph section 15 and fourth paragraph same section would seem to limit use of gold as reserve. Section 19 forcing national banks to have capital setup not less than 15 percent of their deposit liabilities is good provision. This bill as it stands might force so many member banks, national and state, out of the system that the system would cease to exist. It is a deflationary measure.

Martin

203p

FEDERAL RESERVE BANK OF ST. LOUIS

X-7077
H-2

TELEGRAM

214pb
St. Louis Jan 30 1216p
Meyer
Washington

Generally the local reaction to glass bill has been unfavorable. It is believed the intent of the bill is good and that the committee was prompted by a desire to keep the federal reserve banks liquid, improve the managements of the member banks and make funds of depositors safe. The fundamental error of committee lies in its seeming belief that a legislative formula will in itself produce good bank management. There must be as many good bank management as there are banks, otherwise banks will continue to close and depositors will continue to lose money. The bill has not attempted in a definite way to provide for removal of bad bank managements. Section three does charge Federal Reserve Banks with informing themselves as to loan and investment policies of member banks and empowers Federal Reserve Board to suspend offending members for one year from the use of credit facilities of system. This has value but will not result in permanent change of bad policies. The only way to change bad policies is to change management. Power should be lodged in some body, either Federal Reserve Board or some special group to remove bad management provided bank directors cannot be persuaded to remove them stop Sections five and twelve B should be eliminated and the organization of federal liquidating corporation handled separately as emergency legislation. Any such aid as proposed should be extended by government both as to the member and non-member banks stop the sections relating to control of affiliates are in a number of respects impractical. In some respects they are all right. The comptroller should be given power of supervision over national affiliates and of correction in the same degree as in case of National Banks. Federal Reserve Board should be given the same power in respect to state members except correction could only extend to forfeiture of membership in System. Investment affiliates have suffered such loss in prestige that their value to their banks has been greatly decreased stop Section six requires state members to comply with all the requirements of the act applicable to National Banks. Might this be construed to include examinations by National Bank Examiners thereby nullifying exception provided in paragraph seven Section nine of the act stop Section eight should be discarded stop Section nine in its present form would render it difficult for a member bank to function in a central reserve city stop Section ten should be discarded stop Sections thirteen and fifteen discriminate unjustly against a proper form of member bank borrowing. Practically all of the reserve city banks in eighth district voluntarily use collateral note for borrowing both with Governments and eligible paper as collateral. Also many country member banks find it a more convenient form of borrowing. If permitted for ninety days with eligible paper most member banks would prefer it stop Section fifteen contains reserve requirements for Federal Reserve notes that would unduly restrict currency operations stop Section sixteen is a

disappointment in its failure to attempt to scientifically change reserve requirements stop Section Seventeen attempts to make real estate loans safer for member banks but its provisions are so involved as to render the section difficult for practical operation in member banks. It is questionable if commercial banks should be permitted to make real estate loans. It might be in the interest of safer banking to withdraw the privilege and permit banks a period of say three to five years to dispose of such loans now held stop Section nineteen might in the interest of liberality to smaller unit banks be changed from fifteen percentum to twelve and one half percentum.

Wood.

COPY X-7077 102

FEDERAL RESERVE BANK OF MINNEAPOLIS I-1

TELEGRAM

213gb

Minneapolis Jan 29 1230p

Eugene Meyer,

Washington

After personally studying S F 3215 in detail and analyzing it paragraph by paragraph in conference with our officers we are of the opinion that the bill would be destructive of the membership of this bank for reasons hereinafter cited.

With the criticisms and comments in the analysis of Mr. Walter Wyatt, we unanimously and emphatically agree, but desire to add the following supplementary comments.

The burdensome capital stock and reserve requirements could not be met by the rural members of this bank who are numerically in the great majority, without heavy selling of governments and other securities to the injury of the bond market.

The provisions for the increase of the gold cover for federal reserve notes is a further deflationary influence.

Section 3 is impractical and so restrictive that it would drive our more important member banks out of membership.

Section 4 is highly dangerous and unfair. Its practical effect would be to deprive one third of the member banks in our district holding two thirds of the total member banks deposits from voting in the election of directors, while at the same time compelling them to remain stockholders.

Section 9 is ambiguous and unsound and would work hardship on member banks while permitting discrimination between reserve districts.

In this and other sections the word "Collateral" is very loosely used and should be specifically defined. In this district collateral means warehouse receipts on agricultural and other commodities, bills of lading, chattel mortgages on livestock and as written this section would seriously injure important live-stock and agricultural interests.

Section 10 is unworkable and we doubt the necessity or desirability of any such group action.

In regard to section 12, we recommend that there be no change in the procedure or operations of the present open market committee.

Section 12 B is impractical, unwieldy, unfair to member banks and would involve the system in the liquidation of non member banks over which it has no jurisdiction. In the light of our own experience we doubt the ability of such an organization to make a profit or of member banks to obtain any return on their stock investment under a liquidation charge which is limited to six percent and if intent of the section is strictly followed.

We believe all the objects of this section can be better attained by the reconstruction corporation already set up.

We strongly object to section 13 which would handicap this bank in many cases where it much prefers to take the promissory note of a member bank to rediscounting its paper.

As to section 14 G, we believe that all agreements, formal or informal, between any Federal Reserve Bank or banks and any foreign bank or bankers, should be under the control of the Federal Reserve Board and that there should be a provision of law to this effect, but as written, the section is restrictive to the point of absurdity.

We disapprove of the amendments of section 15 and section 16 of the Federal Reserve Act which would increase the gold cover for Federal Reserve notes, which under present conditions would be embarassing.

We are strongly opposed to provisions of section 16 reclassifying member bank deposits and increasing the provision for reserves as unduly burdensome upon member banks, especially under present conditions, and likely to force many of them out of membership.

Section 17 is very unfair and dangerous to country banks long on farm real estate loans and discriminates against them and in favor of competing non member banks. It evidently intends to throw safe-guards around the segregation of thrift and time deposits, but as drawn is incomplete and ambiguous and would result in great confusion in case of insolvencies. This section would limit the investment in lot and building of a new bank to 15 percent of its capital and surplus.

Section 18 is very objectionable in that it bars loans, as well as investments, of all new corporations for five years of their existence, and to any existing corporation which during the five years previous has not been able to consistently maintain earnings of four percent of its capital.

It is impossible to determine the percentage of earnings upon the outstanding capital stock of a corporation whose stock has no par value.

The provisions of section 19 would require an unnecessary increase of approximately 35 percent of the member bank capital in this district, an amount impossible for them to raise under present conditions. This would put many of them out of business or force them out of membership and with such increased capital large numbers of banks now experiencing very unsatisfactory earnings would be put in such a position as to be unable to make an adequate return on their capital.

The provisions of section 20 are unnecessary.

We would be concerned about the adoption of section 24 (B) and (C) because many of our member banks are "affiliates", as that term is used in the act, and we believe that these paragraphs would

result in these banks leaving the national banking system and in the case of state banks, membership in the Federal Reserve System.

The bill is very loosely drawn, contradictory in some respects, and as to some of its provisions there is serious doubt of their constitutionality. As to sections regarding which no comment is made, we are in accord with Mr. Wyatt's comments and criticisms.

Mitchell, and Geery.

333p.

FEDERAL RESERVE BANK OF KANSAS CITY

TELEGRAM

X-7077
J-1

278

Governor Meyer

Washington

In response to your telegram of the 26th the following comments on Senate Bill 3215 are submitted as our views, formulated after the necessarily hurried study of the bill and after consultation with other officers of the bank and with our counsel. We are not making comments on those provisions of the proposed bill in which we concur or to which we see no particular objection at this time. Throughout the act it should be made plain just what the meaning is of such terms as "Collateral loans" "Loans on collateral" etc section 3: We believe that the making of a normal volume of loans on stock and bond collateral is a perfectly legitimate banking function, and that this fact should be recognized by any law designed to curb the improper use of member bank or Federal Reserve Bank credit. This section appears to unduly restrict the exercise of such function. Impractical for Federal Reserve Bank to keep currently informed as to loan and investment practices of member banks.

Section 4: We are in sympathy with such restrictions as may be necessary to prevent substantial control of Federal Reserve Bank directors by branch, group or chain bank Systems, but we do not believe there should be such a broad denial of representation in elections of Federal Reserve Bank directors.

Section 5: Such a disposition of Federal Reserve Banks earnings is contrary to the spirit and intent, of the Federal Reserve Act, and would, in theory at least, curtail the ability of Federal Reserve banks to extend credit in time of need, and reduce the ability to pay dividends to member banks during years when there are no Federal Reserve Bank profits.

Section 8: We think that our banking system, as developed with the Federal Reserve System, has made obsolete the old plan of reserve city classifications. We believe the recommendations by the Committee on Bank Reserves should be followed.

Section 9: This provision places too much power and responsibility in the Federal Reserve Board, and contains elements of danger to the system. We think any legal provision of this kind should make it plain that there will be no interference with any member bank which is carrying for its customers not more than a normal amount of loans secured by stocks and bonds. In this connection, we think it well to mention that the proceeds of some loans so secured are used for commercial purposes, and that the proceeds of some loans, unsecured or secured by other collateral than stocks and bonds, may be used for speculating in stocks and bonds.

Section 10: We think it is wrong in principle to make Federal Reserve credit available for inelgible purposes and on the basis of frozen collateral. In any event such a provision should be safeguarded by

limitations as to amount and duration of advances and provision that the Federal Reserve Board shall have full information as to the purpose of advance and nature and value of collateral to be pledged by individual banks before consent is given. We do not believe that operations under such a provision of law would prove to be of practical value.

Section 11: We believe the collateral permitted for loans to affiliates under this section should be made more inclusive and should specifically include conforming real estate mortgages. In this connection some of the states do not specify the character of investments which may be made by savings banks.

Section 12: A: It occurs to us thatin order to facilitate emergency action, an executive committee or some smaller body than the whole committee should have power to act. Thirty days appears unnecessarily long period for Federal Reserve Banks to accept participation.

Section 12: B: As stated under section 5, we object to the principle of such an employment of Federal Reserve Banks resources. We believe further that the Federal Reserve Banks, as managers of the liquidating corporation and as creditors of suspended banks would be placed in an anomalous position, and that if such a corporation is established it should be entirely separate and apart from the Federal Reserve System. We further believe that compulsory assessment of member banks for stock in the corporation is improper and will tend to drive members from system.

Section 13: See no reason for any difference in rate or other differences, in extending credit on member bank notes secured by eligible paper and extending credit through rediscount of eligible paper. As to member bank notes secured by governments, we believe a higher rate provision is objectionable at this particular time and so long as banks are encouraged to assist in Treasury financing. The other provisions of this section, if taken literally, would seriously interfere with a member bank's normal and proper loaning operations, and are much more drastic than they need be to prevent abuse of Federal Reserve Bank credit.

Section 15: Believe the provision of this section making member bank notes secured by Government securities ineligible as collateral to Federal Reserve notes is objectionable at this particular time and so long as member banks are encouraged to assist in Treasury financing, and that the provision limiting acceptances eligible as collateral to Federal Reserve notes to those made against shipment of goods actually sold in the foreign trade of the United States is also objectionable.

Section 16: We believe that any revision of the reserve requirements should be a complete revision which in our judgment should be based on the principles called attention to in the report of the committee on bank reserves. It is particularly desirable that the reserve requirement make proper allowances for cash in vault, to eliminate many inequities now existing between banks in Federal Reserve and branch cities and banks located elsewhere.

The provisions of paragraph C are not readily understandable. If lines 10 to 14, page 37, mean that a member bank shall not loan to a customer who is at the same time borrowing from an investment banker, broker, etc, such a restriction is unwarranted from any viewpoint. If this wording means that a member bank shall not loan to a customer who is at the same time loaning to an investment banker, broker, etc, the provision is too arbitrary and comprehensive, since not all loans to investment bankers, brokers, etc, are made to facilitate speculation or are of such a nature that payment thereof can be had on demand. Certainly a member bank should not be required to take a sworn statement every time a loan is made or renewed, in order to avoid a violation of law. Paragraphs E and F are not clear. There should be no interference whatever with the transfer of member bank balances through the Federal Reserve Banks, so long as such transfers are in the usual course of business. The reference to purchase of other similar agreements should be amplified by definition. In this connection, it might be advisable to include in the law that a resource item representing a sale of Federal Reserve exchange shall be classified as a loan.

Section 17: There should be no further restriction of total amount of real estate loans which a member bank may make and such loans should be confined to conforming real estate loans. To include bank premises and unsecured loans based on the value of real estate would place many banks in a position where necessary adjustments could not be made within two years. The present limitations on conforming real estate loans to five year terms and to fifty per cent of market value are such safeguards that there should be no requirement for periodic revaluation and adjustment. The provision for segregating assets in which time and thrift deposits are invested is unsound in our opinion. The provisions of this section would, we believe, be detrimental to the national banking system and force the withdrawal of many member banks.

Section 18: The provision limiting investments in bonds and securities other than governments and municipals to fifteen percent of capital and twenty five per cent of surplus would prove a tremendous hardship on many member banks, and is, in our opinion, an unnecessarily low limit. The provision that no member bank shall purchase or hold any obligation of any corporation failing to earn four per cent on capital stock for each of the preceding five years is arbitrary and unwarranted. The word "Obligation" in this provision might be held to include current notes of the corporation, under a strict interpretation. Further possible effect of the provision is to deny credit facilities of national banks to new and worthy corporations.

Section 19: There is such a variation in the size of banks and the nature of business handled, both between individual banks and between different sections of the country, that we do not believe an arbitrary ratio of capital funds to deposits can be made a practical or an equitable provision of law. In small and medium size banks operating expenses, including taxation on bank shares, are so high in relation to maximum earning capacity that a high ratio of deposits to capital funds is necessary to a proper return on the capital. A limitation of this kind, certainly one of fifteen per cent, would be a decided hardship on many member banks and would undoubtedly bring about withdrawals from the national banking system.

Section 20: We see no objection to permitting bank shares to represent a proportionate ownership in affiliated corporations.

Section 21: The provision that an officer of a member bank shall not be an officer or employee of a securities company should be qualified by excepting affiliated companies. The provision prohibiting a member bank from performing the functions of a correspondent bank on behalf of securities companies should not prevent a member bank from accepting deposits and performing ordinary bank services for such companies.

Section 22: Depriving a corporation or holding company owning more than ten percent of the stock of a national bank of right to vote such shares might drive a number of national banks out of the system, particularly where a majority of the stock of such bank is owned by holding company. This section is also objected to on the ground that it would deprive a trustee or other fiduciary of the right to vote stock held in trust estate.

Section 23: Believe the provision is objectionable in that it applies only to shareholders becoming such after March 1, 1934, as shareholders prior to that date may continue ownership of stock of affiliate the discrimination as against subsequent shareholders not based on any rational distinction.

Section 24: Our views as to this section are reflected in comments on Sections 22 and 23.

We consider all of the conditions set forth in this section, for obtaining a permit, are proper, with the exception of subdivision E, which appears too drastic.

Section 28: Prohibiting payment of interest on deposits subject to check, which would apparently include bank balances, would place member banks under a tremendous handicap in comparison with nonmember banks. Member banks would be prevented from acting as depositaries for states and municipalities where statutes provide for payment of interest.

Section 29: Paragraph A - Such an arbitrary provision does not prescribe a proper test for credit risk.

Paragraph B - The activities of an individual or corporation other than an affiliate should not deprive the individual or corporation of the benefits of the exceptions to section 5200, if they are otherwise entitled to such benefits.

Paragraph C - The second paragraph of this subsection is ambiguous in its present form. See no reason why cash dividends should not be used for capitalizing an affiliate, with unanimous consent of stockholders.

Section 30: Our views with reference to the latter part of this section are contained in comments concerning section 9.

Section 31: We are in sympathy with having reports filed by affiliates, but believe that this provision would place national banks at a disadvantage as compared with state member banks.

Section 32: We think examination of affiliates is desirable, but question the reason for timing the period to two years.

Section 33: The provisions of this section appear to us to be too far reaching and unreasonable in their terms. Some less stringent provision should serve to correct the abuses aimed at.

Hamilton and McClure

C O P Y

X-7077
k-1

FEDERAL RESERVE BANK OF DALLAS

T E L E G R A M

FEDERAL RESERVE SYSTEM

(Leased Wire Service)

Received at Washington, D. C.

209gb

Dallas 1201 p Jan. 30

Meyer
Washington

In compliance your wire January 26 we have given as careful consideration as time would permit to senate bill 3215 and submit the following. We favor in principle some of the purposes sought to be accomplished by this bill, such as a more effective control of speculation, better supervision and regulation of affiliates, fixing the par value of member bank stock at one hundred dollars etc, but the bill appears to us to be loosely drawn and ambiguous, entirely too drastic in its provisions and calculated to drive member banks from the system, thus jeopardizing both the reserve and national bank systems. We believe it should undergo careful consideration and overhauling before it is enacted into law.

Section 3: We are in sympathy with the principle that advances should be made for the accommodation of commerce, industry and agriculture but in our judgment this section provides for an unwarranted interference and supervision of the affairs of member banks. The sentence beginning on line 7 page 5 and ending on line 10 calls for a procedure that would be very difficult for reserve banks to successfully follow.

Section 4: While the general purpose of this section may not be undesirable, it would be very difficult for Federal Reserve Banks to properly construe and act under the last phrase of the section extending from lines two to six on page six.

Section 5: Under terms of this section no federal reserve bank whose surplus is now or becomes below the statutory amount through the payment of expenses and dividends or losses in operation and writeoffs would ever be able to restore it. The surplus would become a diminishing sum and conceivably over a period of time the capital stock of a Federal Reserve Bank could become impaired not to mention the passing of dividends to member banks.

Section 6: Page 7: In lines 4 and 5 member state banks are required to comply with all the requirements of the federal reserve act applicable to national banks. In effect it repeals the present provision of the Federal Reserve Act that permits member state banks to retain their charter rights and statutory powers, such as fiduciary powers. We doubt if it is intended to deprive member state banks of the concessions which are permitted them under the present law, but such appears to be the effect, nevertheless. There are other changes in this section which we think should be made but we will not burden this message with them.

Section 9: This is particularly an unwarranted effort to control the operation of member banks. Reasonable corrective measures can be inaugurated and enforced without resorting to this proposed drastic regulations. There are many member banks yet throughout the country that are ably officered and supervised by capable boards of directors. These institutions would resent this effort to thus regulate their affairs and probably seek relief by withdrawing from the system. In this paragraph and other sections of the bill the word "Collateral" is used as a synonym for investment securities. Inasmuch as there are many different kinds of collateral that form the basis of bank loans that are non speculative in character, such as for example, bills of lading, warehouse receipts, chattel mortgages and other instruments commonly hypothecated with banks to finance movements of crops and merchandise, we think the bill should be corrected so as to clearly set out the particular type of collateral the framers of the bill had in mind.

Section 10: We do not believe that any necessity exists for the enactment of this section of the bill. Situations demanding concert of action on the part of banks to save a local institution can best be handled by them in their own way with such assistance as may be rendered by the reserve bank of the district in accordance with existing law. The fact that the note of the group banks would not be secured and not eligible as collateral for Federal reserve notes is a further objectionable feature because of the shortage of eligible paper which reserve banks now frequently experience.

Section 12 A: We see no reason for making a legal body out of the open market committee and hedging it about with the provisions contained in this section. We believe that the act as now in force grants to the Federal reserve board sufficient supervisory power in that connection, at the same time reserving to the several federal Reserve Banks sufficient autonomous powers to protect them against any plan or policy inaugurated by the open market committee which they may feel not in their own interest or for the welfare of their respective districts.

Section 12 B: While we appreciate the motive reflected in this section and other bills having substantially the same purpose, it is our feeling that there is no justification for the creation of a liquidating corporation in any form. The deposits of a failed bank are invested in the notes and other assets of that corporation. The liquidation of these deposits in the long run can come only from collection of the assets and only to the extent that they may be converted into cash. The arbitrary anticipation of the collection of the assets by bringing funds from the outside would tend to create an artificial or inflationary situation locally, with possible injury to the community when the funds are withdrawn as the assets are reduced to cash. Furthermore, when the proposed corporation lends to the receiver what would probably be the maximum collectible value of the assets, both the receiver and the community would relax their diligence in enforcing payment of the failed banks notes. In many instances depositors committees have been of assistance to receivers in collecting a failed bank's paper. In addition to this, we do not think that congress should attempt to force member banks to make loans and investments. Member banks are privately owned and should be supervised but not directed in their investment

policies. We believe, too, that in so far as Federal reserve banks should be required to subscribe to the capital stock of the liquidation corpn it would be an unjust if not unconstitutional confiscation of their property and a step in the direction of freezing up their own assets and impairing their usefulness as the reservoirs of the reserves of their districts. The proposal bears some resemblence to the guaranty of deposits. Again, it carries some of the evils of deposits in a going bank, against surety bonds of outside public funds which are loaned locally and which when withdrawn often wreck both bank and community. Morecver, the measure seems to contemplate that we are to continue indefinitely to have bank failures as we have experienced them in recent months: whereas, we hope and expect that the time will soon come when a suspension in this country will be an unusual and rare happening. Even if this section is sound in principle and should be enacted into law it should be rewritten, clarified and made more workable.

Section 13: There is no justification, in our opinion, for applying to fifteen day notes a rate of interest higher than the rediscount rate at the reserve bank. The best member banks in this district get temporary accommodation from us under a fifteen day note, and we have regarded this practice on their part as evidence of conservatism and liquidity as well as close attention to their own affairs. We do not think that any member bank should be required to borrow money for a longer period of time than it reasonably needs it.

Section 14 B: We recognize the fact that the federal reserve board is the counterpart in this country as nearly as may be of a foreign central bank, and we agree that all relations and transactions of the system and the several federal reserve banks with foreign banks should be under the supervision of the Board: But we wonder if the amendment proposed does not go too far, with the result that foreign banks would hesitate to participate in negotiations and conferences with the frankness and thoroughness that is desirable.

Section 15: It would be unfortunate at this time particularly if promissory notes of member banks secured by government obligations would be made ineligible as collateral to secure federal reserve notes. In recent months the Federal reserve banks have been noticeably short on collateral which may be pledged withthe agent, and the elimination of the obligations mentioned would add to their difficulties. The recent expansion in federal reserve notes, increasing about $1,200,000,000 over the amount outstanding a year ago, has shown that the demand for currency is not always accompanied by corresponding demands for additional reserve credit.

Section 16: For some time we have felt that no distinction should be made in the reserve requirements as between time and demand deposits, and therefore we do not disfavor that feature of this section: But we do think that any change in the reserve requirements of member banks should be made only after thorough consideration by proper committees in congress of the report recently made by the special reserve committee of the system.

Section 16-C: Member banks are justified from time to time in making stock collateral loans to some of their customers, even in taking up loans previously held by brokers and others and in line with our comment upon other provisions of the bill we feel that the inflexible rule set forth on page 37, lines 10 to 15, is an unwarranted limitation upon the control of a bank by its officers and directors.

In conclusion, we may say that the bill represents an effort to control member banks through detailed statutory regulations and evidently grows out of a chapter in our financial and credit history which may not be repeated for many years. Rather than to try to cover every feature of banking by statute, we think a much better plan is to clothe the Federal Reserve Board with a proper measure of general and flexible discretionary powers which will enable it to meet the changing nature of our economic disturbances without imposing undue hardships and unwarranted supervision and limitations upon member banks.

McKinney, and Walsh

237p

C O P Y

X-7077
k-2

FEDERAL RESERVE BANK OF DALLAS

T E L E G R A M

65 gb

Dallas Feb. 2, 1025 a.m.

Meyer

Washington.

Supplementing our message of January thirtieth regarding Glass bill we recommend that section thirty two page fifty nine be amended to provide for examination of affiliates of state member banks by examiners appointed or approved by Federal Reserve Board. The bill as it now stands apparently limits the right of examination of affiliates to examiners appointed by comptroller of currency whereas in our opinion there would be many cases in which it would be desirable and important that affiliates of member state banks be examined by Federal Reserve examiners. We therefore suggest that section thirty two be amended by inserting the following clause in parenthesis immediately following the word examiner in line ten quote Whether he be an examiner appointed by the Comptroller of Currency or an examiner appointed by the Federal Reserve Board or a Federal Reserve Bank unquote. We believe this change highly desirable in order to expressly clothe Federal Reserve Banks with the power to examine affiliates of both national and member state banks.

McKinney, and Walsh.

1204p

FEDERAL RESERVE BANK OF SAN FRANCISCO

X-7077
L-1

TELEGRAM

236gfa

San Francisco Jan 30 1234pm

Governor Meyer

Washington

Pending presentation other comments banking act of 1932 I would like to bring to your attention Section 17 which if adopted would seriously affect credit of National Banks. Ostensibly purpose is to give preference to time and thrift depositors over commercial depositors and other creditors of same bank. Unless definite limitations are placed on extent to which such depositors may be preferred commercial depositors naturally would be reluctant to patronize bank so organized. Intention is to secure savings depositors with capital assets and commercial depositors with liquid assets. Under California Departmental law this is carried out by creating in effect under one charter two banks one engaging in commercial banking having separate capital and one engaging in savings banking likewise capitalized and with restriction as to character of assets which can be carried in savings department, each department maintaining separate set of books. In event of liquidation no encroachment by creditors of one department can be made upon other department except that residue in one department, after creditors claims are satisfied is applied to claims against other department before any return is made to stockholders. Creditors of separate departments are on equitable basis with all other creditors of same department just as though one bank only existed. Should section 17 become effective it would seriously impair value of a national bank endorsement which would result in curtailment of amount of credit obtainable and more severe test applied to paper which a national bank may offer for discount at reserve bank of correspondent bank. Provisions of section 17 also would unfavorably react upon acceptances of a national bank.

Calkins.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7079

January 28, 1932.

SUBJECT: Collateral Security to Government Deposits - Treasury Department Circular No. 92.

Dear Sir:

There is enclosed herewith, for your information, copy of a letter addressed to the Governor of the Federal Reserve Board, under date of January 6, 1932, by Assistant Secretary of the Treasury Ballantine, on the subject of the proper classification of agricultural paper as security for Government deposits under Treasury Department Circular No. 92, as amended.

There is also enclosed copy of a letter which the Assistant Secretary of the Treasury addressed on the same date to the Controller of the Federal Reserve Bank of St. Louis relative to the acceptance, from a depositary bank, under sub-paragraph (h) of the circular, of a note of a correspondent bank secured by marketable securities other than customers' notes, drafts or bills of exchange.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures.

TO THE GOVERNORS OF ALL F. R. BANKS.

C O P Y

X-7079-a

116

TREASURY DEPARTMENT

WASHINGTON

January 6, 1932.

My dear Governor:

Mr. Drinnen has requested the ruling of the Treasury as to the proper classification of agricultural paper as security for Government deposits under Treasury Department Circular No. 92, as amended, a copy of which I enclose.

It has been generally considered by the Treasury that agricultural paper properly falls within the provisions of paragraph (g) of the collateral security provisions of the circular which includes customers' notes indorsed by a correspondent incorporated bank or trust company and rediscounted by the depositary bank or trust company, rather than under paragraph (f) providing for the acceptance of commercial paper and bankers' acceptances, except in the case of notes of dealers in mules and cattle and dealers in agricultural implements, or other similar notes, which have been classified by the Federal Reserve Board as commercial rather than agricultural paper.

As you will note, however, under the terms of the circular the approval and valuation of securities is committed to the Federal Reserve Banks acting under the direction of the Secretary of the Treasury and it has been the policy of the Treasury to a large extent to depend upon the discretion of such banks as to the classification of eligible paper rather than to make an inflexible ruling. Federal Reserve Banks are in a better position to determine the desirability of the paper and the condition of the indorsing and pledging banks which would appear to be the primary consideration. It is expected that the Federal Reserve Banks will give this type of paper tendered as collateral for deposits under Circular No. 92 the same careful scrutiny that is given paper rediscounted for member banks.

By direction of the Secretary:

Very truly yours,

(Signed) A. A. Ballantine

Assistant Secretary of the Treasury.

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

(enclosure)

COPY

January 6, 1932.

Mr. S. F. Gilmore, Controller,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Sir:

I have your letter of December 15, 1931, addressed to the Division of Deposits, requesting advice as to whether you should accept, from a depositary bank, under sub-paragraph (h) of the collateral security provisions of Treasury Circular No. 92, a note of a correspondent bank secured by marketable securities other than customers' notes, drafts, or bills of exchange.

If the notes to which you refer are otherwise eligible under the terms of sub-paragraph (h), the Treasury will not object to their acceptance as security for deposits under Circular No. 92, provided the securities pledged as collateral against such notes are also eligible under the other classes specified in the circular, as amended, and provided further that the securities so pledged are in amounts at least equal to the notes in each case.

Very truly yours,

(Signed) A. A. Ballantine

Assistant Secretary of the Treasury.

5/2/32.

DISTRICT NO. 1 X-7081

FEDERAL RESERVE BANK OF BOSTON

OFFICERS AND DIRECTORS, 1932

OFFICERS

Roy A. Young, 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

Charles 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
Carl B. Pitman, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
Class A:		
Alfred L. Ripley	Chrm., The Merchants Nat'l. Bank, Boston, Mass.	1932
Edward S. Kennard	V. P. & Cash., Rumford Nat'l. Bank, Rumford, Maine	1933
Frederick S. Chamberlain	Pres., New Britain Nat'l. Bank, New Britain, Conn.	1934
Class B:		
Philip R. Allen	Pres., Bird and Son, Inc., East Walpole, Mass.	1932
Albert Farwell Bemis	Chrm., Bemis Brothers Bag Company, Boston, Mass.	1933
Edward S. French	Pres., Boston and Maine RR., Boston, Mass.	1934
Class C:		
Frederic H. Curtiss	Boston, Mass.	1932
Allen Hollis	Lawyer, Concord, N. H.	1933
Charles H. Merriman	Pres., Lippitt Woolen Co., Providence, R. I.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Thomas M. Steele

COUNSEL

Phillips Ketchum

DISTRICT NO. 2 X-7081

FEDERAL RESERVE BANK OF NEW YORK

OFFICERS AND DIRECTORS, 1932

OFFICERS

George L. Harrison, Governor
Louis F. Sailer, Deputy Governor
Edwin R. Kenzel, Deputy Governor
W. Randolph Burgess, Deputy Governor
Leslie R. Rounds, Deputy Governor
Arthur W. Gilbart, Deputy Governor
Walter S. Logan, Deputy Governor & Gen.Counsel
Jay E. Crane, Deputy Governor
Ray M. Gidney, Asst. Deputy Governor
Allan Sproul, Asst. Deputy Governor & Sec'y.
Walter B. Matteson, Asst. Deputy Governor
J. Wilson Jones, Asst. Deputy Governor
L. Werner Knoke, Asst. Deputy Governor
Chas. H. Coe, Asst. Deputy Governor
James M. Rice, Asst. Deputy Governor

J. Herbert Case, Chairman of the Board and Federal Reserve Agent
Owen D. Young, Deputy Chairman of the Board
William H. Dillistin, Assistant Federal Reserve Agent
H. S. Downs, Assistant Federal Reserve Agent
Carl Snyder, General Statistician
Edward L. Dodge, General Auditor
George W. Ferguson, Asst. General Auditor

Jacques A. Mitchell, Manager
Edwin C. French, Manager
I. Ward Waters, Manager
Dudley H. Barrows, Manager
Harold V. Roelse, Manager & Asst.Sec'y.

Robert F. McMurray, Manager
William A. Scott, Manager
Robert M. Morgan, Manager
Wesley W. Burt, Manager
Edward O. Douglas, Manager
A. Phelan, Manager

DIRECTORS

		Term Expires Dec. 31
Class A:		
Thomas W. Stephens	Pres., Bank of Montclair, Montclair, N.J.	1932
David C. Warner	Pres., Endicott Trust Company, Endicott, N.Y.	1933
Albert H. Wiggin	Chrm., The Chase National Bank, New York, N.Y.	1934
Class B:		
Theo. F. Whitmarsh	Chrm., Francis H. Leggett & Co., New York, N.Y.	1932
Sam'l. W. Reyburn	Pres., Assoc. Dry Goods Corp. of New York, New York, N.Y.	1933
William H. Woodin	Pres., American Car & Foundry Company, New York, N.Y.	1934
Class C:		
Owen D. Young	Chrm., General Electric Company, New York, N.Y.	1932
Clarence M. Woolley	Chrm., Amer. Radiator & Stand.Sani.Corp., Greenwich,Conn.	1933
J. Herbert Case	New York, N.Y.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Robert H. Treman

ASSISTANT COUNSEL

Theodore M. Crisp
Herbert H. Kimball

DISTRICT NO. 3 X-7081

FEDERAL RESERVE BANK OF PHILADELPHIA

OFFICERS AND DIRECTORS, 1932

OFFICERS

Geo. W. Norris, Governor

William H. Hutt, Deputy Governor

C. A. McIlhenny, Cashier & 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
Wm. G. McCreedy, Comptroller

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

DIRECTORS

		Term Expires Dec. 31
Class A:		
Joseph Wayne, Jr.	Pres., Phila. National Bank, Philadelphia, Pa.	1932
George W. Reily	Pres., Harrisburg National Bank, Harrisburg, Pa.	1933
John C. Cosgrove	Banker and Coal Operator, Johnstown, Pa.	1934
Class B:		
Arthur W. Sewall	Pres., General Asphalt Company, Philadelphia, Pa.	1932
J. Carl DeLaCour	V. P., Wm. S. Scull Co., Camden, N.J.	1933
C. Frederick C. Stout	John R. Evans & Co., Philadelphia, Pa.	1934
Class C:		
Richard L. Austin	Philadelphia, Pa.	1932
Alba B. Johnson	Chrm., Southwark Fndry. & Machine Co., Philadelphia, Pa.	1933
Harry L. Cannon	Farmer and Packer, Bridgeville, Del.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Howard A. Loeb

COUNSEL

Williams, Brittain and Sinclair

DISTRICT NO. 4 X-7081

FEDERAL RESERVE BANK OF CLEVELAND

OFFICERS AND DIRECTORS, 1932

OFFICERS

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

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

DIRECTORS

		Term Expires Dec. 31
Class A:		
Robert Wardrop	Chrm., First National Bank, Pittsburgh, Pa.	1932
O. N. Sams	Pres., Merchants National Bank, Hillsboro, Ohio	1933
Chess Lamberton	V. P., Lamberton National Bank, Franklin, Pa.	1934
Class B:		
George D. Crabbs	Pres., Philip Carey Mfg. Co., Cincinnati, Ohio	1932
J. E. Galvin	Pres., Ohio Steel Foundry Co., Lima, Ohio	1933
R. P. Wright	Sec'y-Treas., Reed Manufacturing Co., Erie, Pa.	1934
Class C:		
Geo. DeCamp	Cleveland, Ohio	1932
W. W. Knight	V. P., Bostwick-Braun Company, Toledo, Ohio	1933
L. B. Williams	Hayden, Miller and Company, Cleveland, Ohio	1934

MEMBER FEDERAL ADVISORY COUNCIL

J. A. House

COUNSEL

Squire, Sanders and Dempsey

DISTRICT NO. 5 X-7081

FEDERAL RESERVE BANK OF RICHMOND

OFFICERS AND DIRECTORS, 1932

OFFICERS

George J. Seay, Governor
Chas. A. Peple, Deputy Governor
R. H. Broaddus, Deputy Governor
J. S. Walden, Jr., Controller
George H. Koesee, Cashier
John T. Garrett, Manager
Albert S. Johnstone, 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

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

DIRECTORS

		Term Expires Dec. 31
Class A:		
L. E. Johnson	Pres., First National Bank, Alderson, W. Va.	1932
Charles E. Rieman	Pres., Western National Bank, Baltimore, Md.	1933
James C. Braswell	Pres., Planters Nat'l. Bk. & Tr. Co., Rocky Mount, N.C.	1934
Class B:		
D. R. Coker	Merchant, Hartsville, S.C.	1932
W. M. Addison	Princ. Agt., Mutual Assur. Soc. of Va., Richmond, Va.	1933
Edwin C. Graham	Pres., Nat'l. Electrical Supply Co., Washington, D.C.	1934
Class C:		
Wm. W. Hoxton	Richmond, Va.	1932
Frederic A. Delano	Receiver, Washington, D.C.	1933
Robt. Lassiter	Textiles, Charlotte, N.C.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Howard Bruce

COUNSEL

Maxwell G. Wallace

DISTRICT NO. 6 X-7081

FEDERAL RESERVE BANK OF ATLANTA

OFFICERS AND DIRECTORS, 1932

OFFICERS

E. R. Black, Governor
W. S. Johns, Deputy Governor
H. F. Conniff, Deputy Governor
W. S. McLarin, Jr., Asst. 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
E. P. Paris, General Auditor
J. W. Honour, Assistant Auditor

R. A. Sims, Assistant Cashier
V. K. Bowman, Assistant Cashier
C. R. Camp, Assistant Cashier
P. L. T. Beavers, Assistant Cashier
S. P. Schuessler, Assistant Cashier
L. M. Clark, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
Class A:		
G. G. Ware	Pres., First National Bank, Leesburg, Fla.	1932
H. Lane Young	V. P., Citizens & Southern Nat'l. Bank, Atlanta, Ga.	1933
E. C. Melvin	Pres., Selma National Bank, Selma, Ala.	1934
Class B:		
Leon C. Simon	V. P., Kohn, Weil & Simon, Inc., New Orleans, La.	1932
J. A. McCrary	Pres., J. B. McCrary Company, Decatur, Ga.	1933
J. B. Hill	Pres.,Nashville,Chattanooga & St. Louis Ry., Nashville, Tenn.	1934
Class C:		
Oscar Newton	Atlanta, Ga.	1932
Geo. S. Harris	Hunter Mfg. & Commission Company of N. Y., Atlanta, Ga.	1933
W. H. Kettig	Southern Representative, Crane Company, Birmingham, Ala.	1934

MEMBER FEDERAL ADVISORY COUNCIL

John K. Ottley

COUNSEL

Robert S. Parker

DISTRICT NO. 7 X-7081

FEDERAL RESERVE BANK OF CHICAGO

OFFICERS AND DIRECTORS, 1932

OFFICERS

James B. McDougal, Governor
John H. Blair, Deputy Governor
C. R. McKay, Deputy Governor
J. H. Dillard, Deputy Governor
W. C. Bachman, Asst. Deputy Governor
O. J. Netterstrom, Asst. Deputy Governor
D. A. Jones, Asst. Deputy Governor
E. A. Delaney, Asst. Deputy Governor

Eugene M. Stevens, Chairman of the Board and Federal Reserve Agent
James Simpson, Deputy Chairman of the Board
Clifford S. Young, Assistant Federal Reserve Agent
Geo. A. Prugh, Assistant Federal Reserve Agent
F. R. Burgess, General Auditor
W. A. Hopkins, Assistant Auditor

A. W. Dazey, Manager
R. J. Hargreaves, Manager
H. G. Pett, Manager
J. G. Roberts, Manager
J. C. Callahan, Manager
R. E. Coulter, Manager
L. G. Meyer, Manager

Irving Fischer, Manager
L. G. Pavey, Manager
F. L. Purrington, Manager
F. Bateman, Manager
F. A. Lindsten, Manager
A. L. Olson, Manager & Asst. Sec'y.
William W. Turner, Manager

DIRECTORS

		Term Expires Dec. 31
Class A:		
Geo. J. Schaller	Pres., Citizens First Nat'l. Bank, Storm Lake, Iowa	1932
George M. Reynolds	Chrm., Continental Illinois Bk. & Tr. Co., Chicago, Ill.	1933
Edward R. Estberg	Pres., Waukesha Nat'l. Bank, Waukesha, Wis.	1934
Class B:		
Robert M. Feustel	Pres., Public Service Co. of Indiana, Fort Wayne, Ind.	1932
Max W. Babb	V. P., Allis-Chalmers Mfg. Co., Milwaukee, Wis.	1933
Stanford T. Crapo	Sec.-Treas., Huron Portland Cement Co., Detroit, Mich.	1934
Class C:		
James Simpson	Chrm., Marshall Field & Company, Chicago, Ill.	1932
Eugene M. Stevens	Chicago, Ill.	1933
Frank C. Ball	Pres., Ball Brothers Company, Muncie, Ind.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Melvin A. Traylor

COUNSEL

Carl Meyer

X-7081

DISTRICT NO. 8

FEDERAL RESERVE BANK OF ST. LOUIS

OFFICERS AND DIRECTORS, 1932

OFFICERS

Wm. McC. Martin, Governor

O. M. Attebery, Deputy Governor

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

Jno. S. Wood, Chairman of the Board and Federal Reserve Agent

Jno. W. Boehne, Deputy Chairman of the Board

C. M. Stewart, 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
G. O. Hollocher, Controller
O. C. Phillips, Controller

DIRECTORS

		Term Expires Dec. 31
Class A:		
John G. Lonsdale	Pres., Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.	1932
Max B. Nahm	V. P., Citizens National Bank, Bowling Green, Ky.	1933
John C. Martin	V. P. & Cashier, Salem National Bank, Salem, Ill.	1934
Class B:		
M. P. Sturdivant	Planter, Glendora, Miss.	1932
James W. Harris	Pres., Harris-Polk Hat Company, St. Louis, Mo.	1933
W. R. Plunkett	Pres., Plunkett-Jarrell Grocer Co., Little Rock, Ark.	1934
Class C:		
Jno. W. Boehne	Retired, Evansville, Ind.	1932
Jno. S. Wood	St. Louis, Mo.	1933
Paul Dillard	Dillard & Coffin Company, Memphis, Tenn.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Walter W. Smith

COUNSEL

Jas. G. McConkey

DISTRICT NO. 9 X-7081

FEDERAL RESERVE BANK OF MINNEAPOLIS

OFFICERS AND DIRECTORS, 1932

OFFICERS

William B. Geery, Governor

Harry Yaeger, Deputy Governor

H. I. Ziemer, Deputy Governor & Cashier

F. C. Dunlop, Controller

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 and Secretary

F. M. Bailey, Assistant Federal Reserve Agent

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

DIRECTORS

		Term Expires Dec. 31
Class A:		
H. R. Kibbee	Pres., Commercial Tr. & Svgs. Bk., Mitchell, S.D.	1932
H. C. Hansen	Pres., First National Bank, Churchs Ferry, N.D.	1933
P. J. Leeman	Pres.& Gen. Mgr.,First Bk.Stock Corp.,Minneapolis,Minn.	1934
Class B:		
J. E. O'Connell	Manufacturer of Bakery Products, Helena, Mont.	1932
John S. Owen	John S. Owen Lumber Company, Eau Claire, Wis.	1933
W. O. Washburn	Pres., A. J. Krank Company, St. Paul, Minn.	1934
Class C:		
John R. Mitchell	Minneapolis, Minn.	1932
Homer P. Clark	Pres., West Publishing Company, St. Paul, Minn.	1933
George W. McCormick	Pres., Menominee River Sugar Co., Menominee, Mich.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Theodore Wold

COUNSEL

Andreas Ueland

FEDERAL RESERVE BANK OF KANSAS CITY

OFFICERS AND DIRECTORS, 1932

OFFICERS

Geo. H. Hamilton, Governor

C. A. Worthington, Deputy Governor

J. W. Helm, Deputy Governor & Cashier

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

H. M. Langworthy, Deputy Chairman of the Board

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

S. A. Wardell, Auditor

John Phillips, Jr., Assistant Cashier
E. P. Tyner, Assistant Cashier
G. E. Barley, Assistant Cashier
M. W. E. Park, Assistant Cashier
G. H. Pipkin, Assistant Cashier
N. R. Oberwortmann, Assistant Cashier and Examiner

DIRECTORS

		Term Expires Dec. 31
Class A:		
E. E. Mullaney	Pres., Farmers & Merchants Bank, Hill City, Kans.	1932
C. C. Parks	V. P., First National Bank, Denver, Colo.	1933
Frank W. Sponable	Pres., Miami County National Bank, Paola, Kans.	1934
Class B:		
L. E. Phillips	V. P., Phillips Petroleum Co., Bartlesville, Okla.	1932
Willard D. Hosford	John Deere Plow Company, Omaha, Nebr.	1933
J. M. Bernardin	Pres., Bernardin Timber & Mfg. Co., Kansas City, Mo.	1934
Class C:		
M. L. McClure	Kansas City, Mo.	1932
Edward P. Brown	Farmer, Davey, Nebr.	1933
H. M. Langworthy	Langworthy, Spencer & Terrell (Att'ys.), Kansas City, Mo.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Walter S. McLucas

COUNSEL

H. G. Leedy

DISTRICT NO. 11 X-7081

FEDERAL RESERVE BANK OF DALLAS

OFFICERS AND DIRECTORS, 1932

OFFICERS

B. A. McKinney, Governor
R. R. Gilbert, Deputy Governor
R. B. Coleman, Deputy Governor
Fred Harris, Cashier
W. O. Ford, Assistant Deputy Governor

C. C. Walsh, Chairman of the Board and Federal Reserve Agent
Sam. B. Perkins, Deputy Chairman of the Board
Charles C. Hall, Assistant Federal Reserve Agent and Secretary
William Joseph Evans, Assistant Federal Reserve Agent
W. P. Clarke, General Auditor
C. C. True, Assistant Auditor

E. B. Austin, Assistant Cashier
L. G. Pondrom, Assistant Cashier
R. O. Webb, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
Class A:		
J. P. Williams	Mineral Wells, Texas	1932
R. E. Harding	Pres., Fort Worth National Bank, Fort Worth, Texas	1933
W. H. Patrick	Pres., First National Bank, Clarendon, Texas	1934
Class B:		
J. J. Culbertson	V. P., Southland Cotton Oil Co., Paris, Texas	1932
J. R. Milam	V. P., Cooper Grocery Co., Waco, Texas	1933
A. S. Cleveland	W. D. Cleveland & Sons, Houston, Texas	1934
Class C:		
E. R. Brown	Pres., Magnolia Petroleum Co., Dallas, Texas	1932
Sam. B. Perkins	Pres., Perkins Dry Goods Company, Dallas, Texas	1933
C. C. Walsh	Dallas, Texas	1934

MEMBER FEDERAL ADVISORY COUNCIL

J. H. Frost

COUNSEL

Charles C. Huff
Locke, Locke, Stroud & Randolph

FEDERAL RESERVE BANK OF SAN FRANCISCO

OFFICERS AND DIRECTORS, 1932

OFFICERS

Jno. U. Calkins, Governor

Wm. 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 and Secretary

Oliver P. Wheeler, Assistant Federal Reserve Agent

F. H. Holman, General Auditor

R. T. Hardy, Auditor

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

DIRECTORS

		Term Expires Dec. 31
Class A:		
T. H. Ramsay	Pres., Pacific Nat'l.Agri.Credit Corp., San Francisco,Cal.	1932
Keith Powell	Pres., Bank of Woodburn, Woodburn, Ore.	1933
C. K. McIntosh	Pres., The Bank of California N.A., San Francisco, Cal.	1934
Class B:		
A. B. C. Dohrmann	Chrm., Dohrmann Comm'l. Co., San Francisco, Cal.	1932
Malcolm McNaghten	Pres., Broadway Dept. Store, Inc., Los Angeles, Cal.	1933
Elmer H. Cox	Pres., Madera Sugar Pine Co., Madera, Cal.	1934
Class C:		
Isaac B. Newton	San Francisco, Cal.	1932
Walton N. Moore	Pres., Walton N. Moore Co., San Francisco, Cal.	1933
Wm. Sproule	Pres., Southern Pacific Railroad Co., San Francisco, Cal.	1934

MEMBER FEDERAL ADVISORY COUNCIL

Henry M. Robinson

COUNSEL

Albert C. Agnew

DISTRICT NO. 2 X-7081-a

BUFFALO BRANCH of the FEDERAL RESERVE BANK OF NEW YORK
(Established May 15, 1919)
OFFICERS AND DIRECTORS, 1932

OFFICERS

R. M. O'Hara, Managing Director
R. B. Wiltse, Assistant Manager
Halsey W. Snow, Jr., Cashier
Clifford L. Blakeslee, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
R. M. O'Hara	Buffalo, New York	1932
F. B. Cooley # Chrm.	Pres., New York Car Wheel Co., Buffalo, N.Y.	1932
Lewis G. Harriman	Pres., M & T Trust Company, Buffalo, N.Y.	1932
Edward G. Miner #	Pres., Pfaudler Company, Rochester, N.Y.	1933
George F. Rand	Pres., Marine Trust Company, Buffalo, N.Y.	1933
Geo. G. Kleindinst #	Pres., Liberty Bank of Buffalo, Buffalo, N.Y.	1934
Raymond N. Ball	Pres., Lincoln-Alliance Bk. & Tr. Co., Rochester, N.Y.	1934

Appointed by the Board

DISTRICT NO. 4 X-7081-a

CINCINNATI BRANCH of the FEDERAL RESERVE BANK OF CLEVELAND
(Established January 10, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
C. F. McCombs	Cincinnati, O.	1932
John Omwake # Chrm.	Pres., U. S. Playing Card Co., Cincinnati, O.	1932
Thomas J. Davis	Chrm., First National Bank, Cincinnati, O.	1932
George M. Verity #	Pres., American Rolling Mill Co., Middletown, O.	1933
B. H. Kroger	Chrm., Provident Savings & Trust Co., Cincinnati, O.	1933
Fred. A. Geier #	Pres., Cincinnati Milling Machine Co., Cincinnati, O.	1934
E. S. Lee	Pres., First National Bank & Trust Co., Covington, Ky.	1934

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PITTSBURGH BRANCH of the FEDERAL RESERVE BANK OF CLEVELAND
(Established April 22, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
J. C. Nevin	Pittsburgh, Pa.	1932
A. L. Humphrey # Chrm.	Pres., Westinghouse Air Brake Co., Pittsburgh, Pa.	1932
J. R. Eisaman	Dir., Atlantic Crushed Coke Co., Greensburg, Pa.	1932
J. S. Jones #	Sec'y.-Treas., Stone & Thomas, Wheeling, W. Va.	1933
R. B. Mellon	Pres., Mellon National Bank, Pittsburgh, Pa.	1933
James Rae #	Sec'y.-Treas., Arbuthnot-Stephenson Co., Pittsburgh, Pa.	1934
Arthur E. Braun	Pres., Farmers Deposit National Bank, Pittsburgh, Pa.	1934

Appointed by the Board

DISTRICT NO. 5 X-7081-a

BALTIMORE BRANCH of the FEDERAL RESERVE BANK OF RICHMOND
(Established March 1, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

Hugh Leach, Managing Director
John R. Cupit, Cashier
F. W. Wrightson, Assistant Cashier
J. A. Johnston, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
Hugh Leach	Baltimore, Md.	1932
Edmund P. Cohill # Chrm.	Pres., Tonoloway Orchard Company, Hancock, Md.	1932
L. S. Zimmerman	V. P., Maryland Trust Company, Baltimore, Md.	1932
Norman James #	James Lumber Company, Baltimore, Md.	1933
M. M. Prentis	Pres., First Nat'l. Bk., Baltimore, Md.	1933
William H. Matthai #	Pres., Beaver Dam Marble Company, Baltimore, Md.	1934
Levi B. Phillips	Pres., National Bank of Cambridge, Cambridge,Md.	1934

CHARLOTTE BRANCH of the FEDERAL RESERVE BANK OF RICHMOND
(Established December 1, 1927)
OFFICERS AND DIRECTORS, 1932

OFFICERS

W. T. Clements, Managing Director
Robt. L. Cherry, Cashier

DIRECTORS

		Term Expires Dec. 31
W. T. Clements	Charlotte, N. C.	1932
C. A. Cannon # Chrm.	Pres., Cannon Manufacturing Co., Concord, N.C.	1932
C. L. Cobb	Cashier, Peoples National Bank, Rock Hill,S.C.	1932
John A. Law #	Manufacturer - Banker, Spartanburg, S. C.	1933
Robt. Gage	V. P. & Cashier, Commercial Bank, Chester, S.C.	1933
Jno. L. Morehead #	Manufacturer, Charlotte, N. C.	1934
W. H. Wood	Pres., American Trust Company, Charlotte, N. C.	1934

Appointed by the Board

DISTRICT NO. 6 X-7081-a

NEW ORLEANS BRANCH of the FEDERAL RESERVE BANK OF ATLANTA
(Established September 10, 1915)
OFFICERS AND DIRECTORS, 1932

OFFICERS

Marcus Walker, Managing Director
J. A. Walker, Assistant Manager
W. H. Black, Cashier
F. C. Vasterling, Assistant Cashier
W. E. Miller, Assistant Auditor

DIRECTORS

		Term Expires Dec. 31
Marcus Walker	New Orleans, La.	1932
Leon C. Simon # Chrm.	V. P., Kohn, Weil & Simon, Inc., New Orleans, La.	1932
F. W. Foote	Pres., First National Bank, Hattiesburg, Miss.	1932
Albert P. Bush #	V. P., T. G. Bush Grocery Co., Mobile, Ala.	1933
J. D. O'Keefe	Pres., Whitney National Bank, New Orleans, La.	1933
Paul H. Saunders #	Saunders, Son & Co., Inc., New Orleans, La.	1934
R. S. Hecht	Pres., Hibernia Bank & Trust Co., New Orleans, La.	1934

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BIRMINGHAM BRANCH of the FEDERAL RESERVE BANK OF ATLANTA
(Established August 1, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

A. E. Walker, Managing Director
H. J. Urquhart, Cashier
T. N. Knowlton, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
A. E. Walker	Birmingham, Ala.	1932
Oscar Wells #	Chrm., First National Bank, Birmingham, Ala.	1932
W. W. Crawford	Vice Chrm., First National Bank, Birmingham, Ala.	1932
E. F. Allison #	Pres., Allison Lumber Company, Bellamy, Ala.	1933
W. E. Henley	Pres., Birmingham Trust & Savings Co., Birmingham, Ala.	1933
W. H. Kettig # Chrm.	Southern Representative, Crane Co., Birmingham, Ala.	1934
Jno. H. Frye	Pres., Central Investment Company, Birmingham, Ala.	1934

Appointed by the Board

JACKSONVILLE BRANCH of the FEDERAL RESERVE BANK OF ATLANTA
(Established August 5, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

Hugh Foster, Managing Director

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

DIRECTORS

		Term Expires Dec. 31
Hugh Foster	Jacksonville, Fla.	1932
Fulton Saussy # Chrm.	Saussy and Common, Jacksonville, Fla.	1932
Edward W. Lane	Chrm., Atlantic National Bank, Jacksonville, Fla.	1932
S. O. Chase #	Chase and Company, Sanford, Fla.	1933
Arthur F. Perry	V.Chrm., Barnett National Bank, Jacksonville, Fla.	1933
John C. Cooper #	Attorney at Law, Jacksonville, Fla.	1934
G. G. Ware	Pres., First National Bank, Leesburg, Fla.	1934

NASHVILLE BRANCH of the FEDERAL RESERVE BANK OF ATLANTA
(Established October 21, 1919)
OFFICERS AND DIRECTORS, 1932

OFFICERS

Joel B. Fort, Jr., Managing Director

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

DIRECTORS

		Term Expires Dec. 31
Joel B. Fort, Jr.	Nashville, Tenn.	1932
Paul M. Davis #	Pres., American National Bank, Nashville, Tenn.	1932
C. W. Bailey	Pres., First National Bank, Clarksville, Tenn.	1932
W. P. Ridley #	Farmer, Columbia, Tenn.	1933
C. A. Craig	Pres., National Life & Accident Ins.Co., Nashville,Tenn.	1933
J. B. Hill # Chrm.	Pres., Nash., Chatt. & St. Louis Ry., Nashville, Tenn.	1934
Frank J. Harle	Cashier, Cleveland National Bank, Cleveland, Tenn.	1934

SAVANNAH AGENCY of the FEDERAL RESERVE BANK OF ATLANTA
(Established February 4, 1919)

J. H. Bowden, Manager

Jas. A. Goethe, Assistant Manager

HAVANNA AGENCY of the FEDERAL RESERVE BANK OF ATLANTA
(Established September 1, 1923)

H. C. Frazer, Manager

A. H. Alston, Assistant Manager

#/ Appointed by the Board

DISTRICT NO. 7 X-7081-a

DETROIT BRANCH of the FEDERAL RESERVE BANK OF CHICAGO
(Established March 18, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

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

Isadore Levin, Assistant Counsel

DIRECTORS

		Term Expires Dec. 31
William R. Cation	Detroit, Mich.	1932
N. P. Hull # Chrm.	Pres., Mich. Milk Producers Assn., Lansing, Mich.	1932
John Ballantyne	Chrm., First Wayne National Bank, Detroit, Mich.	1932
David McMorran #	Tr.& Mgr., McMorran Milling Co., Port Huron, Mich.	1933
George B. Morley	Chrm., Second National Bank & Trust Co.,Saginaw,Mich.	1933
James Inglis #	Pres., American Blower Company, Detroit, Mich.	1934
William J. Gray	Counsel, First Wayne National Bank, Detroit, Mich.	1934

Appointed by the Board

DISTRICT NO. 8 X-7081-a

LOUISVILLE BRANCH of the FEDERAL RESERVE BANK OF ST. LOUIS
(Established December 3, 1917)
OFFICERS AND DIRECTORS, 1932

OFFICERS

Jno. T. Moore, Managing Director
C. A. Schacht, Cashier
S. B. Jenks, Assistant Cashier
L. A. Moore, Assistant Auditor

DIRECTORS

		Term Expires Dec. 31
Jno. T. Moore	Louisville, Ky.	1932
W. R. Cole # Chrm.	Pres., Louisville-Nashville R.R., Louisville, Ky.	1932
Eugene E. Hoge	Pres., State National Bank, Frankfort, Ky.	1932
E. H. Woods #	Planter, Lucas, Ky.	1933
Walter F. Huthsteiner	Pres., Tell City Nat'l. Bank, Tell City, Ind.	1933
William W. Crawford #	Humphrey, Crawford & Middleton, Attys., Louisville, Ky.	1934
John T. Reynolds	Pres., First National Bank, Greenville, Ky.	1934

MEMPHIS BRANCH of the FEDERAL RESERVE BANK OF ST. LOUIS
(Established September 3, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
W. H. Glasgow	Memphis, Tenn.	1932
Wm. Orgill # Chrm.	Pres., Orgill Brothers & Co., Memphis, Tenn.	1932
Jno. M. Tarrant	Pres., First - Citizens Nat'l. Bank, Dyersburg, Tenn.	1932
E. L. Anderson #	Pres., King & Anderson, Clarksdale, Miss.	1933
R. Brinkley Snowden	V. P., Bank of Commerce & Trust Co., Memphis, Tenn.	1933
S. E. Ragland #	Pres., First National Bank, Memphis, Tenn.	1934
Jno. W. Alderson	V. P., Bank of East Arkansas, Forrest City, Ark.	1934

Appointed by the Board

DISTRICT NO. 8 X-7081-a

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

(Established January 6, 1919)

OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
A. F. Bailey	Little Rock, Ark.	1932
Gordon H. Campbell # Chrm.	Insurance, Little Rock, Ark.	1932
Stuart Wilson	Pres., State National Bank, Texarkana, Ark.	1932
C. H. Murphy #	Pres., Sipsey Valley Lumber Co., El Dorado, Ark.	1933
W. A. Hicks	Pres., Peoples Trust Co., Little Rock, Ark.	1933
Moorhead Wright #	Chrm., Union Trust Co., Little Rock, Ark.	1934
Jo Nichol	Pres., Simmons National Bank, Pine Bluff, Ark.	1934

Appointed by the Board

DISTRICT NO. 9 X-7081-a

HELENA BRANCH of the FEDERAL RESERVE BANK OF MINNEAPOLIS
(Established February 1, 1921)
OFFICERS AND DIRECTORS, 1932

OFFICERS

R. E. Towle, Managing Director
H. L. Zimmermann, Cashier
A. A. Hoerr, Assistant Cashier

T. B. Weir, Counsel

DIRECTORS

		Term Expires Dec. 31
R. E. Towle	Helena, Mont.	1932
W. R. Strain # Chrm.	Pres., Strain Brothers, Inc., Great Falls, Mont.	1932
S. McKennan	Pres., Union Bank & Trust Co., Helena, Mont.	1932
Henry Sieben #	Pres., Sieben Livestock Co., Helena, Mont.	1933
Thomas A. Marlow	Pres., First Nat'l. Bank & Tr. Co., Helena, Mont.	1933

Appointed by the Board

DISTRICT NO. 10 X-7081-a

OMAHA BRANCH of the FEDERAL RESERVE BANK OF KANSAS CITY
(Established September 4, 1917)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
L. H. Earhart	Omaha, Nebr.	1932
W. E. Hardy # Chrm.	Hardy Furniture Company, Lincoln, Nebr.	1932
Thomas L. Davis	V. P., First National Bank, Omaha, Nebr.	1932
Daniel M. Hildebrand #	Farmer and Stockman, Seward, Nebr.	1933
R. O. Marnell	Cashier, Merchants National Bank, Nebraska City, Nebr.	1933
Wm. Diesing #	Vice Pres., Cudahy Packing Company, Omaha, Nebr.	1934
A. H. Marble	Pres., Stock Growers National Bank, Cheyenne, Wyo.	1934

DENVER BRANCH of the FEDERAL RESERVE BANK OF KANSAS CITY
(Established January 14, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

Joseph E. Olson, Managing Director
Stanley A. Brown, Cashier
John A. Cronan, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
Joseph E. Olson	Denver, Colo.	1932
Roblin H. Davis # Chrm.	Exec. Vice Pres., Denver National Bank, Denver, Colo.	1932
Henry Swan	V. P., U. S. National Bank, Denver, Colo.	1932
Merritt W. Gano #	The Gano-Downs Company, Denver, Colo.	1933
Harold Kountze	Chrm., Colorado National Bank, Denver, Colo.	1933
Murdo MacKenzie #	Mgr., The Matador Land & Cattle Co., Ltd., Denver, Colo.	1934
H. W. Farr	Livestock and Farming, Greeley, Colo.	1934

Appointed by the Board

DISTRICT NO. 10 X-7081-a

OKLAHOMA CITY BRANCH of the FEDERAL RESERVE BANK OF KANSAS CITY
(Established August 2, 1920)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
C. E. Daniel	Oklahoma City, Okla.	1932
Austin Miller # Chrm.	Pres., Oklahoma Furniture Mfg. Co., Oklahoma City, Okla.	1932
H. H. Ogden	Pres., First Nat'l. Bank & Trust Co., Muskogee, Okla.	1932
J. B. Doolin #	Pres., Schaefer-Doolin Mortgage Co., Alva, Okla.	1933
William Mee	William Mee & Sons, Investments, Oklahoma City, Okla.	1933
Lee Clinton #	Tulsa, Okla.	1934
Ned Holman	Pres., Liberty Nat'l. Bank, Oklahoma City, Okla.	1934

Appointed by the Board

DISTRICT NO. 11 X-7081-a

EL PASO BRANCH of the FEDERAL RESERVE BANK OF DALLAS
(Established June 17, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

J. L. Hermann, Managing Director Allen Sayles, Cashier

DIRECTORS

		Term Expires Dec. 31
J. L. Hermann	El Paso, Texas	1932
A. P. Coles # Chrm.	Investments, El Paso, Texas	1932
Arthur F. Jones	Cashier, First National Bank, Portales, New Mexico	1932
S. P. Applewhite #	Investments, Douglas, Ariz.	1933
Geo. D. Flory	V. P., State National Bank, El Paso, Texas	1933
C. M. Newman #	Investments, El Paso, Texas	1934
E. M. Hurd	Wholesale Grocer, El Paso, Texas	1934

HOUSTON BRANCH of the FEDERAL RESERVE BANK OF DALLAS
(Established August 4, 1919)
OFFICERS AND DIRECTORS, 1932

OFFICERS

W. D. Gentry, Managing Director H. R. DeMoss, Assistant Cashier
C. B. Mendel, Cashier

DIRECTORS

		Term Expires Dec. 31
W. D. Gentry	Houston, Texas	1932
J. Cooke Wilson # Chrm.	Wilson-Broach Oil Co., Beaumont, Texas	1932
N. E. Meador	Pres., National Bank of Commerce, Houston, Texas	1932
E. A. Peden #	Peden Iron and Steel Co., Houston, Texas	1933
A. A. Horne	V. P., City National Bank, Galveston, Texas	1933
R. M. Farrar #	Pres., Farrar Lumber Co., Houston, Texas	1934
John A. Wilkins	Pres., State National Bank, Houston, Texas	1934

Appointed by the Board

DISTRICT NO. 11 X-7081-a

SAN ANTONIO BRANCH of the FEDERAL RESERVE BANK OF DALLAS
(Established July 5, 1927)
OFFICERS AND DIRECTORS, 1932

OFFICERS

M. Crump, Managing Director
W. E. Eagle, Cashier
H. K. Davis, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
M. Crump	San Antonio, Texas	1932
Frank G. Crow # Chrm.	Investments, McAllen, Texas	1932
Franz C. Groos	Pres., Groos National Bank, San Antonio, Texas	1932
J. M. Bennett #	Pres., Standard Trust Company, San Antonio, Texas	1933
Geo. C. Hollis	Pres., First National Bank, Eagle Pass, Texas	1933
Frank M. Lewis #	F. M. Lewis & Company, Brokers, San Antonio, Texas	1934
Walter P. Napier	Pres., Alamo National Bank, San Antonio, Texas	1934

Appointed by the Board

DISTRICT NO. 12 X-7081-a

SPOKANE BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO
(Established July 26, 1917)
OFFICERS AND DIRECTORS, 1932

OFFICERS

D. L. Davis, Managing Director
Jos. M. Leisner, Assistant Manager
A. J. Dumm, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
D. L. Davis	Spokane, Wash.	1932
Peter McGregor # Chrm.	Mgr., McGregor Land & Livestock Co., Hooper, Wash.	1932
R. M. Hardy	Pres., Yakima First National Bank, Yakima, Wash.	1932
G. I. Toevs #	V. P., Centennial Mill Co., Spokane, Wash.	1933
D. W. Twohy	Chrm., Old Nat'l. Bank & Union Tr. Co., Spokane, Wash.	1933

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SEATTLE BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO
(Established September 19, 1917)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
C. R. Shaw	Seattle, Wash.	1932
Henry A. Rhodes # Chrm.	Merchant, Tacoma, Wash.	1932
M. F. Backus	Chrm., National Bank of Commerce, Seattle, Wash.	1932
Charles H. Clarke #	Trustee, Kelley Clarke Co., Seattle, Wash.	1933
M. A. Arnold	Pres., First National Bank of Seattle, Seattle, Wash.	1933

Appointed by the Board

DISTRICT NO. 12 X-7081-a

PORTLAND BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO
(Established October 1, 1917)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
R. B. West	Portland, Ore.	1932
Edward C. Pease # Chrm.	Merchant, The Dalles, Ore.	1932
Richard S. Smith	Pres., First National Bank, Eugene, Ore.	1932
Nathan Strauss #	Retired, Portland, Ore.	1933
J. C. Ainsworth	Chrm., U. S. National Bank, Portland, Ore.	1933

SALT LAKE CITY BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO
(Established April 1, 1918)
OFFICERS AND DIRECTORS, 1932

OFFICERS

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

DIRECTORS

		Term Expires Dec. 31
W. L. Partner	Salt Lake City, Utah	1932
G. G. Wright # Chrm.	Dir., The Utah Idaho Sugar Co., Salt Lake City, Utah	1932
E. O. Howard	Pres., Walker Bank & Trust Co., Salt Lake City, Utah	1932
Lafayette Hanchett #	Chrm., Utah Power & Light Co., Salt Lake City, Utah	1933
H. E. Hemingway	Pres., Commercial Security Bank, Ogden, Utah	1933

Appointed by the Board

DISTRICT NO. 12 X-7061-a

LOS ANGELES BRANCH of the FEDERAL RESERVE BANK OF SAN FRANCISCO
(Established January 2, 1920)
OFFICERS AND DIRECTORS, 1932

OFFICERS

W. N. Ambrose, Managing Director
M. McRitchie, Assistant Manager
Fred C. Bold, Assistant Cashier
L. C. Meyer, Assistant Cashier

DIRECTORS

		Term Expires Dec. 31
W. N. Ambrose	Los Angeles, Cal.	1932
Jesse B. Alexander # Chrm.	V. P., Globe Grain & Milling Co., Los Angeles, Cal.	1932
A. J. Cruickshank	Pres., First National Bank, Santa Ana, Cal.	1932
Charles B. Voorhis #	Retired, Pasadena, Cal.	1933
F. J. Belcher, Jr.	Pres., The First Nat'l.Tr.& Sav.Bk., San Diego, Cal.	1933

Appointed by the Board

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7083

February 4, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDASH" has been designated to cover a new issue of Treasury Bills, dated February 8, 1932, and maturing May 11, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDAPPER" 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-7084

February 10, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDATED" has been designated to cover a new issue of Treasury Bills, dated February 15, 1932, and maturing May 18, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDASH" on Page 172.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

February 10, 1932.

C. S. Hamlin.

Proposed Substitute for Section 3 of the Glass Bill: -

Strike out Secs. 3 and 9, and substitute the following:

Section 3:

In order to secure a more effective supervision of banking in the interest of bank depositors and of the public, the Federal Reserve Board may prescribe regulations defining and regulating the use of the credit facilities of the Federal Reserve System within the limitations of this Act as amended.

Each Federal reserve bank shall keep itself informed of the loan and investment policies of its member banks, and for this purpose may call upon such banks from time to time for reports.

The Chairman of the Board of each Federal reserve bank shall report to his bank and to the Federal Reserve Board any use made by a member bank of Federal reserve facilities, directly or indirectly, in connection with any loans made by it, whether commercial, speculative, real estate, or otherwise, which is undue or excessive under this Act as amended, and the regulations of the Federal Reserve Board.

Each Federal reserve bank may, in its discretion, after due warning, suspend from the further use of Federal reserve privileges any member bank abusing said facilities, as above provided.

If, in the judgment of the Federal Reserve Board, any Federal reserve bank fails to take proper action under this provision, the Board may, by an affirmative vote of not less than five of its members, enforce this provision against any offending member bank or banks.

X-7085

February 10, 1932.

C. S. Hamlin.

Proposed Amendment Giving the Federal Reserve Banks and the Federal Reserve Board Power to Suspend Member Banks from Federal Reserve Bank Privileges:

In reviewing the period of speculative activity, beginning in the fall of 1927 and continuing up to the crash of October, 1929, - one fact stands out in bold relief, - the complete inability of the member banks, of their own accord, to restrain the wave of speculation which swept over the country.

As regards the Federal Reserve System, even the sale of 400 millions of Government securities, coupled with 3 increases of discount rates up to July 13, 1928, failed to stem the tide.

Between July, 1928, and January, 1929, a tidal wave of loans "for others" swept over the country providing fuel for the speculative fire. This wave would have overcome the influence of any discount rate increase, unless of such a drastic nature that it would be impossible to borrow money on any terms, which, of itself, would probably have turned speculative confidence into fear, and would have precipitated in May or June the crisis which finally came in October.

The Federal Reserve Bank of New York, however, believed that the whole question was a rate question, and asked the Board to agree upon an affirmative rate increase policy which, carried to the extreme, as above stated, would probably have brought on in May or June the crisis which took place in October, 1929.

The Federal Reserve Board insisted on keeping the discount rate at 5% - where it had been placed in July, 1928, - and issued a warning to the banks

to restrain the growth of speculative activity. In other words, the Board took the position that the only effective way to restrain speculation was to cut off speculative credit, or at least to stop its growth, leaving the discount rate where it was, in order to protect business, agriculture, and commerce, which was even then suffering under existing rates, as pointed out by Governor Harrison in his letter of April 9, 1929, to the Federal Reserve Board.

That the question was not in essence a rate question, was shown clearly by the fact that during the period of direct pressure, from February 7 to about June 1, 1929, the total earning assets of the Federal Reserve Bank of New York steadily declined, while its reserve ratio, at the same time, steadily increased. Under ordinary canons of banking, this condition would have suggested a reduction rather than an increase of discount rates.

The claim is often made, however, that the direct pressure exercised by the Federal Reserve Board under the 5% rate, was a failure.

How can this be said, when, during its operation, total earning assets declined, and reserve ratios increased, total Federal reserve credit outstanding having been reduced 193 millions?

The fact is, that direct pressure went very far in eliminating the seepage of Federal reserve credit into speculative activities. It certainly succeeded so far as brokers loans were concerned, which were reduced 649 millions. On the other hand, customers' security loans, as distinguished from brokers loans, increased during that period from 4,971 to 5,267 millions, - an increase of 296 millions. Brokers loans and customers loans together, however, showed a net decrease of about 361 millions during this

period.

If the member banks of the country had restrained the growth of their customers security loans, as well as brokers loans, the result would have been far better.

It is often stated that it is impossible to know whether a customer's security loan is one for speculative purposes or not. In this connection, it is interesting to note that Governor Harrison, in his letter to the Board of April 9, 1929, used the following language:

> "A rate increase will have a direct effect upon the possible use of Federal reserve credit for speculative purposes, because a large part of the credit now granted on the basis of securities consists of loans by banks directly to their customers, as distinguished from loans to brokers on the open call money market. Recent increases for credit for security operations have been almost entirely in this form of loan. In this district, many such loans are being made at rates between 5½ and 6%."

The member banks, however, were not willing to impose restraints on customers seeking to borrow for speculative purposes. On the contrary, it seems to have been an established banking practice, that when a customer maintaining a good balance, and offering good security, applied for accommodation for speculative purposes, he was given all he wanted, provided only he was willing to pay the discount rate fixed by the bank.

In times of speculative craze, however, rapidly increasing stock prices and even increased discount rates seem to whet, rather than to reduce, wild speculation.

The above practice of bankers is not in accord with sound banking practice. It disregards the rights of depositors, and is against the public interest.

If the Federal reserve banks had power, explicitly stated, to insist

on reduction of member bank customers speculative loans, and had used that power, the result would have been a much better control of speculative activity.

Even with this limitation, however, direct pressure was so successful that, as above stated, during its operation Federal reserve credit was reduced 193 millions, although during this period discounts of paper, largely commercial, increased 444 millions, the resulting gain being brought about largely by the reduction of total security loans, brokers and customers loans, of 361 millions of dollars.

Direct pressure under the 5% rate during this period was, in fact, so successful that about June 1, the Federal Reserve Bank of New York said that the banks needed credit for commercial purposes, but were afraid to borrow, and they begged the Board to consider a policy of easier money.

There seems to be little doubt that, but for the loans "for others" the direct pressure exercised under the 5% rate, would have brought about such a material liquidation of speculative credit that the crash which came in October, 1929, might have been at least greatly minimized in its effect.

Such would assuredly have been the result, had the Federal reserve banks been given express power to suspend from the privileges of the Federal reserve bank, member banks making undue use or abuse of its facilities for speculative purposes.

The Federal reserve banks, to be sure, have this power now, as we have been advised by Counsel, but it is not explicitly stated, and it would be far better to have this power stated in express terms, so that there can no longer be a doubt as to it.

The Federal Reserve Bank of New York, at the hearings before the Glass Sub-committee, denied its power to examine into the loan practices of member banks, especially customers loans, except possibly where one bank might be out of line with other banks of the same class. The duty of knowing the loan policies and practices of the member banks should be directly imposed upon the Federal reserve banks, and they should be explicitly directed, in case of abuse, to suspend the member bank from Federal reserve facilities, so long as the abuse continues.

It is interesting in this connection to note that the Federal Advisory Council, on February 17, 1931, unanimously passed the following resolution:

> "There should be imposed upon the Federal reserve banks the requirement to keep themselves informed of the quality of the investments and loans, and the policy of the management of all member banks."

In this connection, also, it is interesting to note that Mr. Owen D. Young, in his testimony before the Glass Sub-committee, as contained in the New York Times of February 5, 1931, stated unequivocally that the Federal Reserve System should have certain powers to see that banking practices inimical to the safety of depositors should not be indulged in by member banks; that the Federal Reserve should have power to examine and discipline all its member banks; that the Federal reserve banks should have the power to limit or refuse rediscounts even if the paper is eligible, or suspend other privileges of membership, if the banking practices of any particular bank were, in its judgment, unsound, and therefore subjected its depositors to unreasonable risk, either as to liquidity or security; that in case the reserve bank exercises such power unfairly, an appeal might be taken to the Federal Reserve Board; that if the unsound practices were persisted in,

the Federal Reserve Board, on complaint of any Federal reserve bank, might expel the bank from membership.

Section 3 of the proposed Glass bill, if literally construed, would bar a member bank from rediscount privileges if it had at the time a single loan outstanding based on stock exchange collateral.

Such was not the intent of the Federal Reserve Act as originally enacted. The intent of that Act was that banks should confine themselves primarily to commercial transactions, but there was nothing in the Act forbidding a reasonable use of Federal reserve rediscounts for building up reserves against deposit liabilities growing out in part from loans for purposes other than those strictly commercial or agricultural.

The whole question devolved upon a reasonable as opposed to an undue and unreasonable use of Federal reserve facilities for so-called speculative purposes.

That reasonable, as opposed to undue use, is the real question, will clearly appear from the following taken from articles and addresses of Dr. H. P. Willis, who presumably was the author of that part of Section 3 of the Glass bill above referred to:

Annalist, Nov. 26, 1926:

We long ago came to the conclusion that the amount of funds advanced for stock market use should not be excessive. 28.

The measure of that excess has been found in the degree to which such loans infringe upon the reserve funds of the actual deposit banks of the country. 28.

Federal reserve credit represents the ultimate reservoir of credit in the United States, the source from which banking credit must eventually be drawn. 31.

Magazine of Wall Street, May 7, 1927:

Speculation or margin trading should be recognized, legitimatized, by every proper means, and liberally provided with funds. 36.

It is an essential adjunct to modern business, which is in itself speculative in many of its branches. 36.

The central bank function is to determine exactly where the line should be drawn in granting of credit to various types of business. 37.

Duty of every central banking system to see to it that its policy prevents an undue amount of the country's liquid funds from being absorbed in speculation. 37.

Federal Reserve System should exercise its authority through a satisfactory control of the money market. 37.

District of Columbia Bankers Association.
Address. Jan. 24, 1929. (187-50 scrap book).

Immediate problem is to bring about a readjustment in our use of credit, which shall restore some portion of it now diverted, to the channels where it is needed, at the same time making a proper provision for the legitimate requirements of security operations. 51.

The principal bankers must undertake definitely to reduce their commitments in purely speculative or trading accounts to some figure taken as basic or normal. 51.

New York World. Article. Feb. 17, 1929:

An undue share of the country's resources had been involved in supporting speculative transactions, which, though beneficial when kept within limits, may be exaggerated and rendered dangerous. 55.

Necessary to obtain an agreement that no greater amount of credit should be used for stock exchange purposes than is now employed. 56.

The suggestion that Federal reserve banks should refuse further credit to borrower banks who are lending in the stock market would merely bring on a crash which would aggravate existing conditions. 57.

In this connection it is interesting to read what Governor Harrison stated during the hearings before the Glass Sub-Committee:

Testimony of Governor Harrison.

Hearings - Glass Sub-Committee.

January 20, 1931:

Governor Harrison:

I think the Committee may wish to consider . . . whether the Federal Reserve System can do something short of expelling a bank from membership in the System. Of course the actual expulsion, which becomes public notice, will, of itself, precipitate the very thing you want to avoid - closing the bank. Page 46.

Query:

Whether it would be possible and proper - and I throw this out as a suggestion to the Committee, - to give to the Federal Reserve Board or to the Federal reserve banks, the right to suspend a member bank from any or all of the privileges of membership during a given period in the event that the bank has not, in our judgment, conducted itself in the safest way for the depositors.

If that could be done in some fashion that would not involve publicity, and would not then necessarily invite what you are trying to avoid by expelling the bank from membership, which necessarily becomes public, it would give us a very much stronger hand in dealing with a recalcitrant bank than we now have.

The Chairman:

You are speaking of member banks?

Governor Harrison:

Yes, of course, only member banks, - and by recalcitrant banks, I do not mean a bank violating the law, which is in a category of its own, but one which we believe is getting itself into a position demanding more and more, or a bigger and bigger proportion of our assets in loans.

It has been asserted that we have the authority of denying borrowing privileges.

The Chairman:

You have that authority complete.

Governor Harrison:

I think that myself. I agree with you that legally we have. The only difficulty with the exercise of that sort of power, is this, that a bank borrows from the Federal reserve bank not for the purpose of taking the money and applying it to a particular loan, or to a particular purpose, but rather to make good an already existing deficiency in its reserves.

Governor Harrison then explained the matter of reserves against deposit liabilities, and stated the case of a bank which at the end of the day finds itself with a deficiency of 10 million dollars, and that the bank comes with perfectly eligible paper and asks the Federal reserve bank to give them 10 million dollars.

We have two alternatives: - We can say, 'Yes, you can have that at our discount rate because you have eligible paper and need it to repair your reserves' or, if we exercise the authority to refuse to make that loan, which right has been questioned by many people, the only thing that happens is that they are deficient in reserves, and they borrow the money in a way, by having a shortage in their reserves, rather than by a straight loan.

It is true that the shortage carries with it a higher rate, because they have to pay a penalty on the deficiency, but that is not the sound way of trying to correct the bank in its management, even if we thought it was wise, - that is, force them to be deficient. 47.

My thought was that if the Committee could consider the possibility and propriety of giving to the reserve bank, subject to the approval of the Federal Reserve Board, the right of suspension from any or all of the privileges of membership so that we can have the decision, in given circumstances, of what privileges we will deprive them, there would be no question about that, and it could be handled with such dexterity that it would avoid certain undesirable consequences that we might otherwise precipitate. 47, 48.

The Chairman:
We can't conceive why you should say or think that you have not complete authority to refuse the rediscount privilege.

Governor Harrison:
When I was Counsel for the Federal Reserve Board, I gave an opinion to the effect that we had complete authority, and I have not changed my mind about it. 48.

The Chairman:
I understood you to suggest that there was good reason to oppose that view.

Governor Harrison:
No. I merely meant to suggest that I saw the points that some on the opposite side raised. I do not agree with them. 48.

X-7086

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

January 4 to 30, 1932.

	$5	$10	$20	Total Sheets	Amount
Boston.....	38,000	32,000	-	70,000	$6,475.00
New York.....	156,000	64,000	-	220,000	20,350.00
Philadelphia.....	56,000	24,000	14,000	94,000	8,695.00
Cleveland.....	38,000	40,000	10,000	88,000	8,140.00
Atlanta.....	34,000	18,000	10,000	62,000	5,735.00
St. Louis.....	211,000	102,000	102,000	415,000	38,387.50
Kansas City.....	18,000	-	-	18,000	1,665.00
Dallas.....	-	20,000	-	20,000	1,850.00
San Francisco....	22,000	-	-	22,000	2,035.00
	573,000	300,000	136,000	1,009,000	$93,332.50

1,009,000 sheets, @ $92.50 per M, . . .$93,332.50

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7088

February 12, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, January, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7088-a and X-7088-b, covering in detail operations of the main lines, Leased Wire System, during the month of January, 1932.

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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	30,315	3,665	33,980	3.49
New York	172,943	-	172,943	17.79
Philadelphia	36,805	3,170	39,975	4.11
Cleveland	69,222	2,883	72,105	7.42
Richmond	63,839	3,416	67,255	6.92
Atlanta	59.030	8,041	67,071	6.90
Chicago	101,740	3,981	105,721	10.87
St. Louis	82,188	3,285	85,473	8.79
Minneapolis	38,239	6,067	44,306	4.56
Kansas City	84,886	3,698	88,584	9.11
Dallas	68,325	17,076	85,401	8.78
San Francisco	103,986	5,471	109,457	11.26
Total	911,518	60,753	972,271	100.00

F. R. Board business	278,973	1,251,244
Treasury Department business Incoming and Outgoing		157,994
Total words transmitted over main lines		1,409,238

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statements(X-7088-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, JANUARY, 1932.

Name of bank	Operators' salaries	Operators' overtime	Wire rental	Total expenses	Pro rata share of total expenses	Credits	Payable to Federal Reserve Board
Boston	$260.00	$2.00	$ -	$262.00	$720.58	$262.00	$458.58
New York	1,134.46	2.00	-	1,136.46	3,673.12	1,136.46	2,536.66
Philadelphia	225.00	-	-	225.00	848.60	225.00	623.60
Cleveland	306.66	-	-	306.66	1,532.02	306.66	1,225.36
Richmond	190.00	-	230.00 (&)	420.00	1,428.78	420.00	1,008.78
Atlanta	270.00	-	-	270.00	1,424.65	270.00	1,154.65
Chicago	3,690.51 (#)	2.00	-	3,692.51	2,244.34	3,692.51	1,448.17 (*)
St. Louis	195.00	1.00	-	196.00	1,814.88	196.00	1,618.88
Minneapolis	200.00	-	-	200.00	941.51	200.00	741.51
Kansas City	287.50	-	-	287.50	1,880.95	287.50	1,593.45
Dallas	251.00	-	-	251.00	1,812.82	251.00	1,561.82
San Francisco	380.00	-	-	380.00	2,324.87	380.00	1,944.87
Federal Reserve Board	-	-	15,627.09	15,627.09	-	-	-
Total	$7,390.13	$7.00	$15,857.09	$23,254.22	$20,647.12	$7,627.13	$14,468.16
				2,607.10(a)			1,448.17 (b)
				$20,647.12			$13,019.99

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Received $2,507.68 from Treasury Department, $35.69 from Federal Farm Loan Bureau and $63.73 from Federal Farm Board covering business for the month of January, 1932.
(b) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7089

February 13, 1932.

Dear Sir:

There is attached hereto copy of a self-explanatory letter which the Federal Reserve Board has addressed to the Federal Reserve Agent at Kansas City, with regard to furnishing the Federal Farm Board, for its confidential use, information concerning the condition of state member banks.

Very truly yours,

Chester Morrill,
Secretary.

Enclosure.

LETTER TO ALL F. R. AGENTS, EXCEPT KANSAS CITY

C O P Y

X-7089-a

February 13, 1932.

Mr. M. L. McClure,
Federal Reserve Agent,
Federal Reserve Bank,
Kansas City, Missouri.

Dear Mr. McClure:

Receipt is acknowledged of your letter of January 23, 1932, with regard to a request which you received from the Treasurer of the Federal Farm Board for such current information as you might feel free to give, for the confidential use of that Board, concerning the condition of one of the state member banks in your district. It is noted that in your reply you suggested that the inquiry be addressed to the Federal Reserve Board and that you would like to be advised whether, in the opinion of the Board, it would be desirable for you to reply direct to any future inquiries that may be received from the Federal Farm Board.

The Federal Reserve Board is in agreement with the position taken in your letter to Mr. Burklin that information concerning the condition of member banks of the Federal Reserve System, which is made available to the Board and the Federal Reserve Banks under the Federal Reserve Act, is intended for the confidential use of the Board and the banks in the discharge of their official duties, and feels that extreme caution should be exercised in making any other use of this information. In the event of the receipt of any further inquiries of a similar nature from the Federal Farm Board, it is believed that it would be a proper pre-

caution, in line with the spirit of the Act, for you to suggest to the Federal Farm Board that it endeavor to secure the consent of the member bank itself, either to your furnishing a copy of the last report of examination of the bank or otherwise conveying such information concerning its condition as may be in your possession. If in any case it does not appear to be possible to obtain the permission of the member bank, the question should be considered in the light of the particular circumstances at the time it arises. In any event, it is assumed, of course, that attention will be called to the fact that your reply is solely for the confidential use of the Federal Farm Board, that special care will be exercised as to the character of any comments that may be made upon the bank's condition, and that you will assume no responsibility for any opinions that may be expressed.

Very truly yours,

Chester Morrill,
Secretary.

X-7090

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

WASHINGTON, D. C.

February 20, 1932.

N O T I C E

Delivery by messenger of the Federal Reserve Bulletin and the monthly Summary of General Business and Financial Conditions to the local representatives of the press will be discontinued.

Hereafter advance copies of the Summary and the Bulletin may be obtained by the representatives of the press from the following points:

The National Press Club,

Room 214, Treasury Building,

Press Room, Treasury Building,

Press table, 15th Street entrance to Treasury Building.

COPY

X-7091

FEDERAL ADVISORY COUNCIL

Washington, February 15, 1932.

Mr. Eugene Meyer, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Meyer:

Enclosed please find the recommendations of the Federal Advisory Council in reference to bill S. 3616, as reported to the Senate, with amendments, by Mr. Glass on February 12, 1932. These recommendations were adopted unanimously by the eleven members of the Council present.

In view of the existing situation, we request that you submit these recommendations to the proper committees of the Congress for their consideration.

Very truly yours,

(signed) Walter W. Smith
President.

(signed) Walter Lichtenstein
Secretary.

The Federal Advisory Council has studied bill S. 3616 as reported by Mr. Glass, with amendments, to the Senate on February 12, 1932. The Federal Advisory Council approves of the aims designed to be accomplished by this measure, but it urges the following changes:

(1) Wherever in the proposed act it is specified that an affirmative vote of "not less than six members of the Federal Reserve Board" be required to permit any given action, substitute "not less than a majority of the members of the Federal Reserve Board holding office at the time, such majority in no case to consist of less than four members".

(2) In section 1 on page 2 in line 1, in place of the requirement that groups shall consist of five or more banks, substitute three or more banks, and in lines 10 to 14 inclusive, omit the phrase permitting loans to groups containing a lesser number of banks and omit the requirement as to the aggregate amount of their deposit liabilities.

(3) In section 1 on page 2, omit the language of the committee amendment beginning on line 3 and running to the period in line 6, reading as follows: "provided such banks have no adequate amounts of eligible and acceptable assets to obtain sufficient accommodation through rediscounting at the Federal reserve bank".

(4) In section 1 on page 2, line 17, substitute the word "require" for the word "request".

(5) In sections 2 and 3 the period within which the authority granted may be exercised should be increased to two years.

(6) In section 2 on page 3, line 18, delete the words in italics "having a capital of $500,000 or less".

FEDERAL RESERVE BOARD X-7092

STATEMENT FOR THE PRESS

For immediate release. February 16, 1932.

The first meeting of the Federal Advisory Council for 1932 was held on Tuesday, February 16. The members of the Council are:

Federal Reserve District No. 1: Thomas M. Steele, of New Haven, Conn.
No. 2. Robert H. Treman, of Ithaca, New York.
No. 3. Howard A. Loeb, of Philadelphia, Pa.
No. 4. J. A. House, of Cleveland, Ohio.
No. 5. Howard Bruce, of Baltimore, Md.
No. 6. John K. Ottley, of Atlanta, Ga.
No. 7. Melvin A. Traylor, of Chicago, Ill.
No. 8. Walter W. Smith, of St. Louis, Mo.
No. 9. Theodore Wold, of Minneapolis, Minn.
No. 10. Walter S. McLucas, of Kansas City, Mo.
No. 11. Joseph H. Frost, of San Antonio, Texas.
No. 12. Henry M. Robinson, of Los Angeles, Calif.

Walter W. Smith was elected President and Melvin A. Traylor was elected Vice President. These officers as ex-officio members and Messrs. Treman, Loeb, Ottley and McLucas will comprise the Executive Committee. Walter Lichtenstein was appointed Secretary of the Council.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7093

February 16, 1932.

SUBJECT: Holidays during March, 1932.

Dear Sir:

On Wednesday, March 2nd, the Federal Reserve Bank of Dallas and its Branches at El Paso, Houston and San Antonio will be closed in observance of Texas Independence Day.

On Friday, March 25th, Good Friday, the Federal reserve banks and branches listed below will be closed:

Philadelphia	Jacksonville
Pittsburgh	Havana Agency
Baltimore	Memphis
New Orleans	Minneapolis
Nashville	

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 affected.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL ADVISORY COUNCIL

1932

Officers:

Walter W. Smith, President
Melvin A. Traylor, Vice President
Walter Lichtenstein, Secretary

Executive Committee:

Walter W. Smith	Howard A. Loeb
Melvin A. Traylor	John K. Ottley
Robert H. Treman	Walter S. McLucas

MEMBERS

District		
No. 1	Thomas M. Steele	Pres., First National Bank and Trust Co., New Haven, Connecticut.
No. 2	Robert H. Treman	Pres., The Tompkins County National Bank, Ithaca, New York.
No. 3	Howard A. Loeb	Chrm., Tradesmens National Bank & Tr. Co., Philadelphia, Pennsylvania.
No. 4	J. A. House	Pres., Guardian Trust Company, Cleveland, Ohio.
No. 5	Howard Bruce	Chrm., Baltimore Trust Company, Baltimore, Maryland.
No. 6	John K. Ottley	Pres., First National Bank, Atlanta, Georgia.
No. 7	Melvin A. Traylor	Pres., First National Bank, Chicago, Illinois.
No. 8	Walter W. Smith	Pres., First National Bank, St. Louis, Missouri.
No. 9	Theodore Wold	V. P., Northwestern Nat'l.Bk.of Minneapolis Minneapolis, Minnesota.
No. 10	Walter S. McLucas	Chrm., Commerce Trust Company, Kansas City, Missouri.
No. 11	Joseph H. Frost	Pres., Frost National Bank, San Antonio, Texas.
No. 12	Henry M. Robinson	Chrm., Security-First National Bank, Los Angeles, California.

Address of Mr. Lichtenstein, 38 South Dearborn Street, Chicago, Illinois.

February 16, 1932.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7095

February 17, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDAWDLE" has been designated to cover a new issue of Treasury Bills, dated February 24, 1932, and maturing May 25, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDATED" on page 172.

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-7097

February 18, 1932.

SUBJECT: Necessity for the approval of the Federal Reserve Board in purchasing municipal warrants.

Dear Sir:

For your information there is enclosed herewith a copy of a letter recently received by the Federal Reserve Board from one of the Federal reserve banks, together with a copy of the Board's reply thereto, with regard to the question whether it is necessary that a Federal reserve bank obtain the special approval of the Federal Reserve Board before purchasing from a member bank municipal warrants, which bear the indorsement of such member bank, in accordance with the provisions of Section V (d) of the Board's Regulation E.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

COPY X-7097-a

February 18, 1932.

Mr. W. B. Geery, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Governor Geery:

Reference is made to your letter of January 19, 1932, in which you inquire whether it is necessary to obtain the special approval of the Federal Reserve Board before purchasing the warrants of municipalities having a population of less than 10,000 inhabitants, when such warrants are purchased from and indorsed by a member bank in accordance with the provisions of Section V (d) of the Board's Regulation E.

While the language of the regulation is not clear, it was the intention that the purchase from a member bank of warrants which bear the indorsement of such bank and comply in other respects with the provisions of Section V (d) should be exempt from the requirements contained in Sections V(a), V(c) and VI, of the regulation. You are advised, therefore, that warrants may be purchased by a Federal reserve bank in accordance with the provisions of Section V (d) without obtaining the special approval of the Federal Reserve Board, even though (1) such warrants are issued by a municipality having a population of 10,000 inhabitants or less, (2) the amount of warrants of a single municipality so purchased exceeds 25 per cent of the total

amount of warrants issued and sold by such municipality or (3) the amount invested in warrants of a single municipality exceeds the percentages prescribed in Section V(c).

Your attention is invited to the fact, however, that, under the provisions of Section 5136 of the Revised Statutes, a national bank is permitted to sell investment securities only "without recourse" and, therefore, may not sell warrants of municipalities with its indorsement.

Very truly yours,

Chester Morrill,
Secretary.

COPY X-7097-b

FEDERAL RESERVE BANK

OF MINNEAPOLIS

January 19, 1932

Federal Reserve Board,
Washington, D. C.

Gentlemen:

We are at the present time being examined by your examiners, and one question has come up which has never arisen before because it has so happened that we had never been carrying warrants at the time the Examiners were here.

Our Northern Michigan and Northern Wisconsin banks use us every year through the months of November, December and January for the purpose of carrying borrowings of their cities, counties and school districts in anticipation of the tax payments which are due January 10th in Michigan and February 28 in Wisconsin. Section V(d) of Regulation E provides that any Federal reserve bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice and protest if such warrants comply with Sections III and V (b) of these regulations. Section VI provides that warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Federal Reserve Board.

We have considered V(d) as waiving the requirement regarding the special approval of the Federal Reserve Board. The Examiners question this, and I would appreciate it if you will make a ruling on this for our benefit.

Yours very truly,

(S) W. B. Geery
Governor

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7098

February 23, 1932.

SUBJECT: Visit of Mr. Luis Montes de Oca.

Dear Sir:

There are attached hereto, for your information, copies of letters exchanged by the Governor of the Federal Reserve Board with the Department of State, relative to the forthcoming visit to this country of Mr. Luis Montes de Oca, who has been commissioned by the President of Mexico to make a study of the Federal Reserve System and the functioning of the Federal reserve banks. In the event of a visit by Mr. Montes de Oca to your bank, the Board would appreciate your extending to him all proper assistance in connection with his study.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures.

TO CHAIRMEN OF ALL F. R. BANKS.

C O P Y

X-7098-a

February 23, 1932.

The Honorable,
The Secretary of State,
Washington, D. C.

Sir:

The Secretary of the Treasury has referred to the Federal Reserve Board the Department's letter of February 15, 1932, (DP 033.1211 Montes de Oca, Luis /1). The Federal Reserve Board will gladly be of all possible assistance to Mr. Luis Montes de Oca should he call at its offices during the visit to this country which he is to make for the purpose of studying the Federal Reserve System and the functioning of the Federal reserve banks.

As Mr. Montes de Oca will in all probability wish to visit some, if not all, of the Federal reserve banks, a copy of the Department's letter is being forwarded to the Chairman of the Board of Directors of each Federal reserve bank, with the request that they be as helpful as possible to Mr. Montes de Oca in the conduct of his studies.

Respectfully,

(Signed) Eugene Meyer

Governor.

EMM/rkt

C O P Y X-7098-b

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
DP 033.1211 Montes de Oca, Luis/1 February 15, 1932

The Honorable

The Secretary of the Treasury.

Sir:

The Department is in receipt of a note from the Mexican Ambassador in Washington in which he states that the President of Mexico has commissioned Mr. Luis Montes de Oca, until very recently Secretary of the Treasury and Public Credit, to visit this country for the purpose of studying our Federal Reserve System and the functioning of our Federal Reserve Banks.

Feeling confident that your Department will extend every courtesy to Mr. Montes de Oca in the carrying out of his mission, I would be obliged if I might be able to assure the Mexican Ambassador that every facility will be afforded Mr. Montes de Oca by the proper Departments in his study of American banking systems.

It

X-7098-b

It may be remembered that in 1927 Mr. Montes de Oca, then Comptroller General of Mexico, visited the United States as the head of a commission to study a number of administrative departments of the United States of America in connection with the safeguarding of the funds and property of the Federal and State Governments.

Very truly yours,

For the Secretary of State:

(S) James Grafton Rogers

Assistant Secretary.

C O P Y

TEXT OF GLASS-STEAGALL BILL AS PASSED BY SENATE ON FEBRUARY 19th, 1932.

72d Congress
1st Session

H. R. 9203

A bill to improve the facilities of the Federal reserve system for the service of commerce, industry, and agriculture, to provide means for meeting the needs of member banks in exceptional circumstances, 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 Federal Reserve Act, as amended, is further amended by inserting, between sections 10 and 11 thereof, a new section reading as follows:

"SEC. 10. (a) Upon receiving the consent of not less than six members of the Federal Reserve Board, any Federal reserve bank may make advances, in such amount as the board of directors of such Federal reserve bank may determine, to groups of five or more member banks a majority of them independently owned and controlled within its district upon their time or demand promissory notes, provided the bank or banks which receive the proceeds of such advances as herein provided have no adequate amounts of eligible or acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal reserve bank through rediscounts or advances other than as provided in section 10 (b). The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group, but such advances may be made to a lesser number of such member banks if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district. Such banks shall be authorized to distribute the proceeds of such loans to such of their number and in such amount as they may agree upon, but

before so doing they shall require such recipient banks to deposit with a suitable trustee, representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon. Any Federal reserve bank making such advance shall charge interest thereon at a rate not less than 1 per centum above its discount rate in effect at the time of making such advance. No such note upon which advances are made by a Federal reserve bank under this section shall be eligible under section 16 of this Act as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

"Member banks are authorized to obligate themselves in accordance with the provisions of this section."

SEC. 2. The Federal Reserve Act, as amended, is further amended by adding, immediately after such new section 10 (a), an additional new section reading as follows:

"SEC. 10. (b) Until March 3, 1934, and in exceptional and exigent circumstances, and when any member bank, having a capital of $2,000,000 or less, has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by Section 10 (a), any Federal reserve bank, subject in each case to affirmative action by not less than six members of the Federal Reserve Board may make advances to such member bank on its time or demand promissory notes secured to the satisfaction of such Federal reserve bank; PROVIDED, That (1) each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note; (2) the Federal Reserve Board may by regulation limit and define the classes of assets which may be accepted as security for advances made under authority of this

section; and (3) no note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

"No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section."

SEC. 3. The second paragraph of section 16 of the Federal Reserve Act, as amended, is amended to read as follows:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold or gold certificates: PROVIDED, HOWEVER, That, until March 3, 1934, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as such collateral security, direct obligations of the United States. On March 3, 1934, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal reserve notes. In no event shall such collateral security be less than the amount of Federal reserve notes applied for. The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7100

February 24, 1932.

SUBJECT: Change in Monthly Report of Leased Wire Operations.

Dear Sir:

Reference is made to the Board's letter of March 27, 1928, (X-6005), with regard to the monthly telegraphic report made to the Board by the Federal reserve banks of main line leased wire operations.

For some time past, arrangements have been in effect for a word count of all telegrams received in and dispatched from Washington for account of the Treasury, the Federal Farm Loan Bureau and the Federal Farm Board. This has been necessary in order to apportion the charge made against the Treasury Department among the several appropriations chargeable for the various classes of telegrams.

With the addition of the Reconstruction Finance Corporation to the organizations using the leased wires, arrangements have been made to render a monthly statement against that corporation. A count of incoming, as well as outgoing, messages for account of the Reconstruction Finance Corporation will also be made in Washington. As a check, however, on the Washington count,

it is requested that item 3 of the monthly telegraphic report be changed to "Total number of words contained in all messages sent to Washington on reimbursable business" and that there be reported thereunder, beginning with the month of February, the aggregate number of words contained in messages sent to Washington for account of the Treasury Department, Federal Farm Loan Bureau, Federal Farm Board and Reconstruction Finance Corporation.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7103

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

STATEMENT FOR THE PRESS

For immediate release. February 25, 1932.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 3 per cent on all classes of paper of all maturities, effective February 26, 1932.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Monday, February 29, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of January and February, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

In January production of manufactures increased by about the usual seasonal amount, while output of minerals and value of building contracts awarded continued to decline. Wholesale prices declined further during January and early February, but more recently prices of certain leading commodities showed an advance.

Production and employment - Volume of industrial production, which includes both manufactures and minerals, increased from December to January by an amount somewhat smaller than is usual at this time of year, and the Board's seasonally adjusted index declined from 71 per cent of the 1923-1925 average to 70 per cent. In the steel industry there was a seasonal increase in activity during January, followed by a slight decline during the first three weeks of February. Production of automobiles, which usually increases considerably at this season, showed little change in January, following an increase in December. Activity at textile mills increased by more than the usual seasonal amount and at shoe factories there was a seasonal increase in production. Output of coal and petroleum was substantially reduced.

Volume of factory employment declined by more than the usual seasonal amount between the middle of December and the middle of January. Number employed at foundries, car-building shops, clothing factories, and establishments producing building materials declined substantially, while employment in the tobacco

industry decreased less than is usual at this season, and employment in the woolen goods industry increased, contrary to seasonal tendency.

Total value of building contracts awarded in 37 Eastern States, as reported by the F. W. Dodge Corporation, declined sharply in January, and for the three-month period ending in that month was about one-half of the amount awarded in the corresponding period a year ago. Approximately one-fourth of the decrease was in residential building, and three-fourths in other types of construction.

Distribution - Total freight-car loadings decreased in January, contrary to seasonal tendency, reflecting chiefly smaller shipments of merchandise, miscellaneous freight, and coal. Department store sales declined by about the usual seasonal amount.

Wholesale prices - The general level of wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, declined 2 per cent further from December to January, although prices of some important commodities, such as wheat, showed little change and the price of cotton advanced. During early February prices of certain leading commodities including grains and cotton declined, but later in the month there was some advance in the prices of these commodities.

Bank credit - Volume of reserve bank credit outstanding declined in January and the first half of February. This decrease has reflected a return flow of currency from circulation, which has been smaller than usual this year, together with a continued reduction in member bank reserve balances, offset in part by a demand for reserve bank credit caused by an outward movement of gold amounting to $100,000,000 since the turn of the year. A decline in money in circulation after the first few days in February reflected some return of hoarded currency, accompanying a decrease in bank failures.

At member banks in leading cities volume of credit continued to decline during January and the first half of February. Between January 13 and February 17, total loans and investments decreased by $550,000,000, representing declines in loans on securities, in other loans and in investments. Deposits of these banks also declined substantially during this period.

Money rates in the open market showed little change. On February 26 the discount rate of the Federal Reserve Bank of New York was reduced from 3½ to 3 per cent, and buying rates on bankers' acceptances of short maturities were reduced from 2 3/4 to 2 5/8 per cent.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7105

February 27, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEALER" has been designated to cover a new issue of Treasury Bills, dated March 2, 1932, and maturing June 1, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDAWDLE" on page 172.

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-7107

March 4, 1932.

SUBJECT: Right of National Banks to sell Municipal Warrants with their Indorsement.

Dear Sir:

There are inclosed for your information copies of letters on the above subject addressed to the Board by Governor Young on February 20, 1932, to the Comptroller of the Currency by the Board on February 29, 1932 and to the Board by the Comptroller of the Currency on March 1, 1932.

The position taken in the last paragraph of the Board's letter of February 18, 1932, to Governor Geery (X-7097-a), was based upon informal advice from the office of the Comptroller of the Currency and should be considered to be modified by the advice contained in the Comptroller's letter of March 1, 1932, in so far as the two are in conflict.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

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

COPY

FEDERAL RESERVE BANK

OF BOSTON

February 20, 1932.

Mr. Chester Morrill
Secretary
Federal Reserve Board
Washington, D. C.

Dear Mr. Morrill:-

This will acknowledge receipt of your letters of February 18, 1932, Nos. X-7097 and X-7097-a, in reference to Federal Reserve Banks purchasing municipal warrants. The last paragraph of your letter to Governor Geery, No. X-7097-a, reads as follows:-

> "Your attention is invited to the fact, however, that, under the provisions of Section 5136 of the Revised Statutes, a national bank is permitted to sell investment securities only 'without recourse' and, therefore, may not sell warrants of municipalities with its indorsement".

Are we to assume from this that the Comptroller of the Currency and the Federal Reserve Board are classifying a six months note of a municipality issued in anticipation of the collection of taxes and conforming to all the regulations of the Federal Reserve Board in reference to such a note to be an investment security? It appears to us that this is a self-liquidating loan and should not by any possible line of reasoning be classified as an investment security. In any event, we have always considered such an obligation a loan and not an investment security and we are prompted to inquire if the paragraph quoted is in accord with the regulations and instructions of the Comptroller.

Very truly yours,

(Signed) R. A. Young

R. A. Young
Governor

X-7107-b

COPY

February 29, 1932.

Honorable J. W. Pole,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Pole :

The Federal Reserve Board recently addressed a letter to one of the Federal reserve banks which contained a statement that a national bank is permitted to sell investment securities only "without recourse" and, therefore, may not sell warrants of municipalities with its indorsement. A copy of this letter was sent by the Board to the Governors of all Federal reserve banks, and the Board has now received a letter from Governor Young of the Federal Reserve Bank of Boston inquiring whether this statement is in accord with the regulations and instructions of the Comptroller of the Currency.

In order that the Board may make a proper reply to Governor Young's inquiry, it will be appreciated if you will advise as to the position of your office on this point. Copies of the letters referred to are inclosed herewith for your information.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

COPY

TREASURY DEPARTMENT

WASHINGTON

March 1, 1932.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I have a letter from your Secretary under date of February 29, enclosing copies of a letter addressed to the Governors of the Federal Reserve Banks and a letter from Governor Young with respect thereto.

The information desired is the position of this office with respect to whether a national bank is permitted to sell warrants of municipalities with its endorsements. This office holds that the discounting or negotiating of promissory notes, drafts, bills of exchange and other evidences of debt by a national bank must either involve the granting of a loan or the purchase of an investment security. The circumstances surrounding each transaction must determine whether it results in the making of a loan subject to all the provisions of the law with respect to loans or the making of an investment which must conform to the requirements of Section 5136, U.S.R.S., as amended, and to the regulations of the Comptroller in connection therewith.

If, therefore, a bank holds an obligation of a municipality representing an advance of funds made directly to the municipality, the transaction would appear to be a loan and not an investment, and would not be subject to the provisions of Section 5136, U.S.R.S., which requires purchase and sale "without recourse".

It is also held that the intent of the law places municipal loans on the same basis as other government loans. Governments are not held to be corporations within the meaning of Section 5200, U.S. R.S., and in consequence loans thereto are not subject to the limit prescribed by this section.

Very truly yours,

(Signed) J. W. Pole

J. W. POLE,
Comptroller.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7108

May 27, 1932.

Dear Sir:

Since my letter of December 14, 1931, I have received the following additional letters from some of the counsel to the Federal reserve banks commenting further upon the legal and practical problems arising under the bank collection code, and copies are inclosed for your information:

1. Letter of November 9, 1931, from Mr. Robert S. Parker, Counsel to the Federal Reserve Bank of Atlanta (X-7108-f);

2. Letter of December 30, 1931, and nine inclosures from Mr. M. G. Wallace, Counsel to the Federal Reserve Bank of Richmond (X-7108-a and X-7108-a-1 to X-7108-a-9, inclusive);

3. Letter of December 16, 1931, from Mr. H. G. Leedy, Counsel to the Federal Reserve Bank of Kansas City (X-7108-b); and

4. Three letters, one with an inclosure, from Mr. A. C. Agnew, Counsel to the Federal Reserve Bank of San Francisco, dated December 22, 1931, January 5, 1932, and January 22, 1932 (X-7108-e, X-7108-d, X-7108-c and X-7108-c-1).

I regret that the pressure of other and more urgent matters has been so great that it has been impossible for me to reply to these letters and I am not yet able to find time to comment upon them in detail. I hope, however, that each of the counsel who has written to me on this subject will consider this

circular letter as an acknowledgment of his letter and will pardon my failure to reply separately and in detail.

Some of the counsel who have written to me and some of the others with whom I have discussed the subject from time to time have expressed the view that this subject should be considered at a conference of counsel for all Federal reserve banks, and I concur in this view; but I do not believe that we can conveniently hold such a conference until some time after Congress adjourns. I am writing you a separate letter with reference to the possibility of holding a conference some time this summer for the purpose of considering with the Standing Committee on Collections and the officials of the Treasury Department certain matters pertaining to the cashing of Government warrants and checks by Federal reserve banks under the provisions of Treasury Department Circular No. 176, as requested by the Conference of Governors of all Federal reserve banks; and we can consider the legal and practical problems arising under the Uniform Bank Collection Code at the same time.

With kindest personal regards and all best wishes, I am

Cordially yours,

Walter Wyatt,
General Counsel.

Inclosures.

(FOR ALL COUNSEL - HEAD OFFICES ONLY)

C O P Y

X-7108-a 197

FEDERAL RESERVE BANK

OF RICHMOND

December 30, 1931.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Walter Wyatt, General Counsel.

Dear Mr. Wyatt:

I refer to your letter of December 14th with reference to the handling of checks in unpaid cash letters to national banks in states in which the Bank Collection Code is in force.

I enclose you herewith a draft of a letter which was sent by Mr. R. H. Broaddus, Deputy Governor of this bank, under date of November 10th to the Federal reserve banks of all districts in which the Bank Collection Code was in force in some states of the district, excepting the Federal Reserve Bank of Chicago. We had already had some correspondence with the latter Federal reserve bank and with his Counsel. I also enclose copies of all replies which we have received. Our letter was written before the telegram sent by Mr. G. F. Awalt, Deputy Comptroller, under date of December 2nd, so that the enclosed file is not of great value.

You will see, however, that practices and methods of Federal reserve banks have differed materially and the situation has created so much difficulty that I have no very clear idea as to what is the best method to follow. In the correspondence to which I referred the Federal Reserve Bank of Chicago had advised that they would prove a claim unless instructed to the contrary and proceeded as they had done before the statute except they asked for the return of the check when specifically so requested by the endorser. They did not give any definite notice to the receiver as to their election except by filing claim.

As you know, we have endeavored to give to our endorsers the benefit of the election. Our experience was that it was almost impossible to secure prompt replies from the endorsers and many of the endorsers replied instructing us to treat their checks as dishonored but failed to give the names of the drawers. As you know, when checks are charged to the accounts of the drawers they are filed alphabetically under the name of the drawers. It is, therefore, extremely difficult to find a check in any particular cash letter unless all cancelled checks in the bank are examined and the dates of the endorsements on them inspected. Even then it is difficult because the endorsements are made with rubber stamps and frequently blurred or one endorsement is superimposed upon another so that they are almost illegible.

Since receivers usually return to depositors a statement of their account with cancelled checks many checks were naturally returned to depositors before our demand for the return of the checks was made on the receiver. The statute expressly provides that the check returned to the

drawer does not release the drawer, but it is extremely difficult to have any satisfactory settlement if the check is not returned to the holder. For example: The drawer may know that he is liable to someone but it does not follow that he is liable to the original payee as the payee may not have reimbursed the subsequent endorser and the drawer's liability is to the holder.

Since Mr. Awalt's telegram was sent we have altered our method. We now notify endorsing banks that we will elect to treat their items as dishonored unless definite instructions to the contrary to prove a claim are in our hands on a date mentioned. We write to the receiver immediately stating that we will advise him of our election on or before a particular date and ask him to withdraw from his files all checks in our unpaid cash letter and send them to us so that we may have photostatic copies made. Then on the day upon which we have previously named we return to endorsing banks all checks except those upon which we have been instructed to prove a claim and return the latter to the receiver.

I have had but one actual case under the latter system. The receiver was able to identify and return to us all checks but three small ones and so this system has worked very well to date. The one failure, however, involved only a comparatively small bank. In the case of a large bank I am afraid the receiver will find it difficult to locate and return the checks upon which we are unable to give the names of the drawers.

Mr. Walden recently informed me that the Conference of Governors referred to the Collection Committee and the Conference of Counsels certain questions relating to the revision of treasurer circular No. 176. If such a conference is held I believe it will be advisable to include on the agenda a full discussion of the problems arising out of the operation of the Bank Collection Code, and it might be advisable to have the Collection Committee and Conference of Counsels consider the problems jointly and also with representatives of the Comptroller's office. I doubt if it will be advisable to hold such a conference immediately as I believe it will be better to wait until we have had more experience in operation under the Code, and I imagine that our friends in the Comptroller's office and most of the Collection Committee are like myself, so swamped with immediate and pressing problems that they will have little time to give to a rather complicated subject.

Very truly yours,

(Signed) M. G. Wallace,
Counsel.

MGW/gr

I am informed that the Uniform Bank Collection Code is in force in at least one state in your district, and I would like to have you write me giving me your experience in handling unpaid cash letters in states where this code is in force.

The code appears to give us a right to elect to treat checks in unpaid cash letters to drawee banks as dishonored or to elect to prove a claim on behalf of the owners against the failed bank. The code provides that this latter claim is a preferred one, but our counsel has advised us that in his opinion the section of the code which gives the agent collecting bank the option to treat the checks as dishonored or to file a claim is probably applicable to national banks, but that the section which declares that the claim when established shall be preferred is probably not applicable to national banks.

In the case of state banks we have exercised the right of election vested in us and have proceeded as under the former law; that is to say, we notify our endorsing banks that we will prove a claim unless instructed to the contrary, except that in the case of Federal reserve banks who have directed us not to prove such claims without express instructions we advise them that we will await instructions, but in no case do we demand or attempt to secure the return of checks.

In the case of national banks, thinking that since we could not secure the allowance of the claims as preferred, we considered that it would be wiser to consult our endorsing banks before making an election. We have, therefore, in all such cases immediately notified all endorsing banks and asked for instructions as to whether we should elect to file a claim upon their items or treat them as dishonored. We find that our endorsing banks do not give a prompt reply to our requests for instructions and in many cases it is almost impossible to obtain replies.

When instructions to that effect are received, we demand from the receivers the return of the checks which our endorsing banks request us to treat as dishonored. We understand the Comptroller of the Currency has instructed the receivers not to return the checks themselves but to have photostatic copies made if we are willing to bear the expense of making such copies and to send such copies to us.

Our counsel has advised us that under the code failure to obtain possession of the check does not impair the right of the holder to proceed on the drawer and endorsers, but naturally in practice our failure to obtain the checks causes much confusion among our endorsing banks and the large number of inquiries received makes the correspondence exceedingly burdensome.

I would be greatly obliged if you would write me telling me how you proceed in such cases and what your experience has been. I should especially like to know:

Do you exercise the right of election without consulting endorsing banks and, if so, do you elect to treat the checks as dishonored or to establish claims?

Do you make a distinction between state and national banks in making your election to establish a claim or to treat the checks as dishonored?

If you consult your endorsing banks before making your election, do you in your advice set any time in which a reply must be received by you, and, if so, what course do you follow if no reply is received within that time?

If you elect to treat any checks as dishonored, have you been able to secure the return of the checks, or, if not, do you take any steps to require the receivers to return them?

Very truly yours,

C O P Y

FEDERAL RESERVE BANK OF PHILADELPHIA

November 14, 1931

MR. R. H. BROADDUS, Deputy Governor,
Federal Reserve Bank,
Richmond, Virginia.

Dear Mr. Broaddus:

I am extremely sorry that your letter of November 10 has not been acknowledged before this, and trust that you will accept my apology for the delay.

The subject of your letter, the Uniform Bank Collection Code of 1931, has been receiving the consideration of the officers of this bank, and we have been in conference with our counsel. Your letter embodies the questions upon which we have been concentrating our study, and at this stage of the analysis, we would not feel justified in venturing any decisions until we receive further word from counsel. There are so many angles to be considered with regards to the provision of Section 11 (Election to Treat as Dishonored Items Presented by Mail) and our experience in the collection of checks under our present arrangements, that we feel any opinions we might offer in the absence of specific experience, would be more or less conjectural.

Assuring you of our willingness to confer with you as soon as we are in possession of sufficient data, and appreciating your inquiry in this matter, I am

Very truly yours,

(Signed) James M. Toy
Assistant Cashier.

JMT:G

COPY

Federal Reserve Bank

of Cleveland

November 19, 1931

Mr. R. H. Broaddus, Deputy Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Broaddus:

I am in receipt of your letter of November 10th with respect to the operation of the Uniform Collection Code which is in force in a number of the states, and asking for our experience in the method of handling items involved in bank failures in this district.

The Uniform Bank Collection Code has been adopted by Kentucky, West Virginia and Pennsylvania in this district. It was before the Legislature of Ohio two years ago, but was not enacted. In the three states in which it has been enacted in this district, it has not been in force a sufficient time to properly judge its merits or to permit the development of a definite scheme of handling items involved in bank failures. It has been our view from the beginning that Section 13 of the Uniform Bank Collection Code providing for preferences on behalf of the owners of unremitted for collection items upon a failed bank, is not applicable to national banks and the state banking officials of Pennsylvania and Kentucky have not as yet committed themselves to recognize the Section in dealing with insolvent state banks under their jurisdiction. We are confident, however, that in due course the state banking officials of these states will recognize the right to a preference under the circumstances recited in Section 13 of the Code.

We have had a very similar provision in the Ohio General Code for a number of years which has greatly facilitated the settlement of collection items in the liquidation of an insolvent bank's assets, and we believe that when Section 13 is fully recognized by the state banking officials of the various states in which the Code has been enacted, that it will be of considerable benefit in simplifying the handling of collection items which have been drawn on a state bank which becomes insolvent before paying the items and will be resorted to generally by the owners of such items rather than seeking the remedy prescribed in Section 11.

Section 11 of the Uniform Collection Code, which provides an election on the part of the agent collecting bank to treat items as dishonored which have been sent to a drawee bank for collection but which are unremitted for at the time of failure, is we believe, applicable to national as well as state banks.

Since the adoption of the Uniform Bank Collection Code in the

three states in this district referred to, we have followed the practice of immediately notifying the receiver or examiner in charge of the failed bank that all unpaid items received from us for collection shall be held by him and not returned to the makers until we have advised him whether or not we elect to treat any of said items as dishonored. Upon receipt of such instructions on any check we immediately notify the receiver or examiner in charge of our intention to treat the item as dishonored and demand its return.

At the same time we charge the items back to our endorsers and request their instructions as to whether we should treat the items as dishonored, or file claim against the insolvent bank.

Upon receipt of their replies or in the event no reply is received and a sufficient length of time has elapsed in which the endorsers could have notified us, claim is prepared against the insolvent bank for all items except those upon which we have been specifically instructed to elect to treat as dishonored. In notifying our endorsers no time limit is fixed for their replies. We do, however, call their attention to the statutory provision requiring "reasonable diligence".

Up to the present date we have not had sufficient experience to determine the exact effect of the treatment of items as dishonored. The legislation being new, apparently the state banking officials, including the receivers of failed banks, have no definite policy with respect to the operation of Section 11 as in some cases the Receivers have returned the dishonored items to us while in other instances they have either refused to return the items or have advised us that the matter will be taken under consideration.

In the case of failed national banks we have not been able to secure the return of any items nor any evidence that the Comptroller of the Currency or the Receiver or Examiner in Charge of the bank recognized any controlling effect of the Uniform Bank Collection Code other than an offer to furnish us with photostatic copies of items which we elected to treat as dishonored, provided we were willing to pay for such copies.

Prior to the adoption of the Uniform Bank Collection Code, practically all of our endorsers were content to file claims against the insolvent bank, but since the adoption of the Code a very considerable percentage of our endorsers have been instructing us to treat their items as dishonored when the bank upon which they are drawn fails before payment. We have felt that there was a possibility of incurring liability to the owners of collection items where we did not seek instructions from them before presenting claim, so as to give them an opportunity to have the items dishonored if it were to their advantage to have the items so treated. Consequently, the correspondence incident to this procedure has been immeasurably increased over the situation as it existed prior to the enactment of the Code.

With respect to failed state banks in this district we have felt justified in discouraging the practice of dishonoring the unpaid items and have tried to point out to our endorsers the more desirable course of establishing a preference in the assets of the failed bank through the filing of claim against the bank. As to national banks, we have likewise discouraged the dishonoring of unpaid checks, by pointing out to the endorsers that the controlling effect of the Uniform Collection Code has not been recognized by the Comptroller of the Currency and their rights to proceed thereunder will very likely be contested by the Comptroller. The right to treat such items as dishonored appears to appeal to a great many of our endorsers, both as to state and national banks and we have no doubt that before many months the scope and effect of Section 11 of the Uniform Collection Code will have to be determined by litigation, either in this or some other district.

Very truly yours,

(Signed) M. J. Fleming
Deputy Governor

MJF:H

COPY

FEDERAL RESERVE BANK OF

ST. LOUIS

November 13, 1931.

Mr. R. H. Broaddus, Deputy Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Broaddus:

The legislatures of the States of Missouri, Illinois, Indiana and Kentucky in the Eighth District have passed what is termed the "Uniform Bank Collection Code" as fostered by the American Bankers Association.

Several questions present themselves for interpretation when the various phases of the code are considered. The American Bankers Association explanation of the code indicates all banks are affected which would include National banks. There is a question in our opinion, whether it will be so upheld as the obtaining of preference against National banks on claims covering involved transit checks is a question which has already been decided by the Supreme Court and as you know it has always been denied, except in those cases where checks on other than the closed bank are involved and the claim is divided into two parts, one of which covers checks drawn on the other banks collected through the defunct National bank which items it is the custom for the Comptroller of the Currency to allow as preferred, provided the assets of the closed bank were augmented by such collection. Therefore, that part of Section 13 which defines claims under a certain state of facts as preferred would seem to be in conflict with past decisions insofar as it relates in a general way to National banks and will no doubt have to be further tested in order that a definite course of procedure may be adopted in respect to those states that have passed the code.

Another fact to be considered is the blanket authorizations which were interchanged by the Federal reserve banks in 1922. They were founded upon the then prevailing conditions, which under the new codes, appear to be changed. Therefore it is possible that the blanket authorizations may have to be redrafted so as to contemplate the effect of the new codes.

The Missouri Code does not give the endorsing bank or holder the option of treating a check as dishonored or the election to file claim but provides that

> (Section 11-Paragraph 2) "When a drawee or payor bank has presented to it for payment an item or items drawn on or payable by or at such bank and at the time has on deposit to the credit of the maker or drawer, an amount equal to such item or items and such drawee or payor shall fail or close for business as above (under circumstances as outlined in paragraph 1, section 11) after having charged such item or items to the account of the maker or drawer thereof.

Mr. R. H. Broaddus, Deputy Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

> or otherwise discharged his liability thereon, but without such item or items having been paid or settled for by the drawee or payor, either in money or by an unconditional credit given on its books or on the books of any other bank which has been requested or accepted so as to constitute such drawee or payor, or any other bank debtor therefor, the assets of such drawee or payor shall be impressed with a trust in favor of the owner or owners of such item or items for the amount thereof or for the balance payable upon a number of items which have been exchanged and such owner or owners shall be entitled to a preferred claim upon such assets, irrespective of whether the funds representing such item or items can be traced and identified as part of such assets or has been intermingled with or converted into other assets of such failed bank." (Underscoring is ours).

Since the passage of the code some two and one-half years ago, every claim we have filed against State banks in Missouri have been given preference.

In the case of the Illinois Act, Section 11 establishes the right of the agent collecting bank to treat as dishonored checks which are presented by mail to the drawee or payor and not finally settled for in any one of four methods outlined in that section and in Section 13, it is provided that a preferred claim exists under certain conditions. Section 11 of the code is worded as follows:

> "Where an item is duly presented by mail to the drawee or payor whether or not the item has been charged to the account of the maker or drawer thereof or returned to such maker or drawer, the agent collecting bank so presenting may at its election exercised with reasonable diligence, treat such item as dishonored by nonpayment and recourse may be had upon prior parties thereto in any of the following cases:
>
> (1) Where the check or draft of the drawee or payor bank upon another bank received in payment therefor shall not be paid in due course;
>
> (2) Where the drawee or payor bank shall without request or authority tender as payment its own check or draft upon itself or other instrument upon which it is primarily liable;
>
> (3) Where the drawee or payor bank shall give an unrequested or unauthorized credit therefor on its books or the books of another bank; or

Mr. R. H. Broaddus, Deputy Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

> (4) Where the drawee or payor shall retain such items without remitting therefor on the date of receipt or on the day of maturity if payable otherwise than on demand and received by it prior to or on such date of maturity.
>
> Provided, however, that in any case where the drawee or payor bank shall return any such item unpaid not later than the date of receipt or of maturity as aforesaid in the exercise of its right to make payment only at its own counter, such items cannot be treated as dishonored by nonpayment and the delay caused thereby shall not relieve prior parties from liability.
>
> Provided further that no agent collecting bank shall be liable to the owner of an item where in the exercise of ordinary care in the interest of such owner it makes or does not make the election above provided or takes such steps as it may deem necessary in cases (2), (3) and (4) above."

Our experience since the passage of the code in Illinois has been rather limited due to the few number of banks that have closed on which claims have been filed. We expect to have more experience in that state as time goes on. Section 13 of the Illinois code provides that:

> "Except in cases where an item or items is dishonored by nonpayment, as provided in Section 11 **** such owner or owners shall be entitled to a preferred claim upon such assets, irrespective of whether the funds representing such item or items can be traced and identified as part of such assets or has been intermingled with or converted into other assets of such failed bank."

The codes, as passed by the Indiana and Kentucky legislatures, are practically similar to that passed in the State of Illinois, as outlined above and several claims filed recently against State banks in those states have been taken up by receivers and paid promptly.

We have not up to this time changed our method of procedure in the charging back and filing claim on involved checks, which briefly is as follows:

When any bank located in the Eighth District, State or National, closes the outstanding checks that are not finally paid, whether draft has been remitted

or not, are charged back to the endorsing banks and they are requested to notify us whether or not they desire claim filed. In the case of our own members we furnish an authorization to file claim covering their respective items and ask that it be completed for such checks as they want included. A sample of the authorization is enclosed.

The blanket authorizations as exchanged by the Federal reserve banks in 1922 govern such checks as were deposited by them or their direct sending members.

We hope the above information will be of some value to you and are pleased to make the following comment in specific answer to the questions mentioned in the seventh paragraph of your letter:

(1) We do not make any election as to whether checks are to be treated as dishonored or claim filed and merely request the endorsing bank to notify us whether or not they desire claim filed in their behalf.

(2) Answer No. 1 we believe will also answer Question No. 2.

(3) We do not establish a time limit in which to receive instructions from the endorsing banks unless the time limit of filing claims as furnished by the Examiners of Receivers is drawing near, in which event we endeavor to expedite the receipt of instructions.

(4) We have not up to this time made any effort to have the Examiners or Receivers return checks which have been stamped or cancelled paid and charged to the accounts of the drawers with the exception of banks located in the State of Arkansas which operate under a statute that requires Receivers or Examiners when taking charge of a closed bank to return to the last endorser all checks which have not been finally paid or settled for by the closed bank, irrespective or whether the checks have been charged to the accounts of the makers, provided they are still on the bank premises. If they have been cancelled paid, charged to the accounts of and delivered to the makers, the Receivers or Examiners are not required to reverse entry or return them.

We shall be very glad to have the benefit of your further experience in the

5
Mr. R. H. Broaddus, Deputy,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

collection of your data, assuming that you are obtaining it from the other Federal reserve banks also, as it is possible that laws as recently passed in this district will require a change in our procedure.

If we can be of any further service to you insofar as the Eighth District is concerned, please do not hesitate to call on us.

Yours very truly,

(Signed) O. M. Attebery,
Deputy Governor.

COPY

210

FEDERAL RESERVE BANK OF

MINNEAPOLIS

December 2, 1931

Mr. R. H. Broaddus, Deputy Governor,
Federal Reserve Bank,
Richmond, Virginia.

My dear Mr. Broaddus:

I do not know just why reply to your letter of November 10th has been delayed and I ask you to pardon me for not giving the matter earlier attention.

The only state in the Ninth Federal Reserve District which has adopted the bank collection code is Michigan. The upper peninsula of Michigan is within our district. The act was adopted this year and is found at #240 Michigan Public Acts 1931.

This bank has had no experience at all in making claims against Michigan banks and particularly none since this act was adopted May 29, 1931.

When this code was first prepared by the attorney for the American Bankers Association we presented the same to our counsel who was of opinion that numerous embarrassing questions would arise if adopted. Our counsel without having gone very deeply into the matter is of the opinion that this legislation would not have the effect of giving a preferred claim in the liquidation of a national bank under circumstances where no preferred claim would be allowed in the absence of such legislation.

As to state banks the act gives a preference under certain circumstances to the "owner or owners" of items not finally remitted for. In view of this language there is serious question in the mind of our counsel whether our bank should assume the burden of attempting to establish a preferred claim in any case. To counsel and to ourselves it seems more in accordance with the theories indicated by Regulation J that our bank, where final remittance is not received, should treat the items as dishonored in all cases except where we are able to receive prompt instructions from our endorsers to the contrary.

In the light of the foregoing I cannot specifically answer any of your questions.

It would seem from your letter that you have probably written other Federal Reserve Banks along the same lines. If so, and you have had replies from them, we would much appreciate copies thereof.

Very truly yours,

(Signed) Harry Yaeger,
Deputy Governor.

HY:EO

C O P Y

FEDERAL RESERVE BANK OF KANSAS CITY

December 1, 1931.

Mr. R. H. Broaddus, Deputy Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Broaddus:

Your letter of November 10, with reference to our policy in connection with the handling of transit claims in states where the Uniform Bank Collection Code has been adopted, was referred to our Counsel with the request that he let me have a memorandum thereon and in some way it became sidetracked and has just come to light

Up to this time, we have not formulated any definite policy in this matter for the reason that we have been awaiting the ruling of the Comptroller of the Currency. There has been considerable discussion as to whether or not the provisions of the Uniform Bank Collection code apply to national banks and the Comptroller, as I understand it, has not yet agreed that they have any application. Our last information was to the effect that he was giving thorough consideration to the matter and, if he concludes that the statute is applicable, it is the opinion of our attorney that it will then be proper for us to ascertain from the endorsers of items involved in recent national bank failures in Nebraska whether or not they desire the items to be treated as dishonored. It is also our opinion that, even though the Comptroller's conclusion may be adverse, we may, nevertheless, conclude that we should treat the items as dishonored if our endorsers so desire. Until such time as the Comptroller has determined his position, however, we see no necessity for taking the matter up with our endorsers. The code was only recently enacted in Wyoming and New Mexico, and while it was enacted a year ago in Nebraska, there have been only three or four national bank failures in that state since its enactment and all of these have occurred within the last couple of months. In these cases, we have notified the receivers that we may later determine to elect to treat the items as dishonored, and that we will indicate our position as soon as the Comptroller has reached a decision.

In all the states in this district, with the exception of Oklahoma, the state laws provide that we are entitled to preferred claims on transit items. Our method of procedure in the filing of claims up to this time is outlined in a memorandum from our Transit Manager as follows:

"Whenever either a state or a national bank closes, items involved in drafts on which payment has been refused are immediately charged back to endorsers, the advice of such action being given through the medium of our form letter 817, a copy of which is attached. This letter, you will note, is accompanied by Form 214, which is the authority to be signed by the endorser or owner of the item in the event they wish us to represent them in filing claim. The endorser is advised that if they desire we will represent them in filing claim, and that if they desire us to represent them the enclosed form of authority should be signed in duplicate and returned to us not later than sixty days from the date of the insolvency. Shortly after that time, while our letter states that we will not file claim unless the authorization is received by such time, we trace any outstanding items on which we have not received authorization, giving our endorsers a further opportunity to handle the matter through us. After a lapse of a week or ten days from the date of tracing, unless replies are received, we proceed to prepare and file our claim, omitting items not authorized.

"The claim is in all cases filed for preference, although in the case of national banks we, of course, have never been able as yet to obtain preference and must accept a common claim."

I realize that this is a rather poor and belated answer to your inquiry, but since we have not yet established a definite policy, based on the new collection code, it seems to be the best I can do at this time. Our attorney advises that he has had some correspondence with your Mr. Wallace on the subject and that it has been suggested that there should be an effort made to have these matters handled in a uniform manner in all districts and in all states where the uniform code has been adopted. If, after you have completed your study of this question, you have any suggestions which you think would be of value to us, I will appreciate hearing from you at your convenience.

With kind personal regards, I am

Very truly yours,

(Signed) C. A. Worthington
L.

Deputy Governor.

CAW:L

COPY

FEDERAL RESERVE BANK OF KANSAS CITY

December 1, 1931.

Mr. R. H. Broaddus,
Deputy Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Broaddus:

Since writing to you on November 17th, relative to our procedure in regard to filing claims pertaining to checks on banks which have failed, Deputy Comptroller of the Currency Awalt wired the General Counsels of all Federal Reserve Banks submitting a proposal under date of November 20th, of which no doubt you have seen a copy.

On November 23d, the Twin Falls National Bank, Twin Falls, Idaho, failed to open for business. We wired Deputy Comptroller Awalt to request the Examiner in charge to surrender to the Federal Reserve Bank of San Francisco checks contained in a cash letter for which we held a dishonored remittance draft. The Examiner promptly received such instructions, and the checks are being returned to endorsers as dishonored.

This procedure we shall follow in the future, in the case of suspended National banks in Washington, Oregon and Idaho, which States have adopted the Uniform Collection Code.

Yours very truly,

(Signed) N. Clerk

Deputy Governor.

(C O P Y)

FEDERAL RESERVE BANK
OF DALLAS

December 9, 1931

Mr. R. H. Broaddus, Deputy Governor
Federal Reserve Bank
Richmond, Virginia

Dear Mr. Broaddus:

We have delayed replying to your letter of November 10 until this time for the reason that it was handed to our Counsel for attention and he has been away from the city until now.

Our Counsel advises us that the State of New Mexico has adopted the Uniform Bank Collection Code. Thus far, however, we have had no experience in connection with the same except in the case of one failed national bank in the State of New Mexico, which was subsequently reopened.

As an actual case has not yet presented itself to us, we have not as yet formulated a definite policy to be pursued. It has always been our practice in connection with the filing of claims against insolvent banks to just notify our endorser banks and then upon receipt of authority to proceed accordingly to file claim against the insolvent bank.

We are inclined to the view that in the case of state banks located in the states where the uniform bank collection code has been adopted our usual practice should be followed, with additional advice to our endorsers of the fact that such state has adopted the Uniform Bank Collection Code, with due reference to the provisions of the code in respect to the establishment of a preferred claim.

In the case of national banks, we feel as you do that the claim could not be established as a preferred one. While, as we have stated, we have had no experience in connection with such matters, we anticipate the same trouble which you have experienced in the endorsing banks failing to reply promptly to our requests for instructions. In this connection we are considering the advisability of providing in such notice that a failure to reply will constitute authority to treat the item as dishonored, and to accordingly authorize us to demand the return of such checks from the receivers.

While we have received no definite advice, we now understand that the Comptroller of the Currency has reversed his former ruling concerning the return of the checks themselves and now instructs the receivers to make return.

However, in any event, at present we feel that in the case of national banks, in the absence of authority to the contrary, our action should be to treat the items as dishonored.

Yours very truly,

(Signed) R. R. Gilbert
Deputy Governor

(C O P Y)

FEDERAL RESERVE BANK OF SAN FRANCISCO

November 17, 1931.

Mr. R. H. Broaddus,
Deputy Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Broaddus:

In your letter of November 10th, inquiry was made relative to the status of the Uniform Bank Collection Code in the Twelfth District, and also as to our procedure in regard to filing claims pertaining to checks sent for collection to banks which suspended without making settlement.

The Uniform Bank Collection Code is in effect in the States of Washington, Oregon and Idaho, and, in addition, the State of Utah has a code granting a preference on drafts issued for the settlement of checks and other collection items. We have experienced no difficulty in Oregon or Utah in establishing preferred claims for dishonored drafts.

Our first effort to file a claim under the amended code in the State of Washington met with some opposition. It did not take long, however, to convince the Bank Commissioner of our right to a preference. The Spokane Clearing House and the Washington State Bankers Association were very much exercised over the dispute which arose between ourselves and the State Banking Department, and were anxious that the Federal Reserve Bank make a test case. The position was taken, however, that the Federal Reserve Bank was not interested in prosecuting any cases excepting those which might become necessary to defend its rights under Regulation J and its own circular governing check-collecting operations. Our endorsers were notified that a preference would be asked and, in the event of its refusal, our claim would be assigned to whomsoever the endorsers might elect, thus giving the State Banking Department or the Clearing House Association an opportunity for testing the law.

We now have in the course of filing in Idaho our first claim under the Uniform Bank Collection Code. It is our opinion that we have a preference. However, the question is before the Banking Department and will be decided in the near future. Should the preference be not granted, we shall follow the same course we suggested in Washington, that is, the endorsers will be given an opportunity to arrange among themselves the appointment of an assignee who will receive our claim and prosecute it to a conclusion.

As to National banks, it is our opinion that the Uniform Bank Collection Code does not apply, inasmuch as the provisions of the National Bank Act specifically set forth the manner in which claims against insolvent National banks shall be filed.

During the year, a National bank failed in the State of Washington, and our endorsers were quite insistent that we should file for a preference under the Uniform Bank Collection Code. The question was submitted to the Comptroller who rejected the idea of a preference; consequently, we again informed our endorsers that if they desired to test the case our claim would be assigned to whomsoever they elected.

We have taken the position in the States of Idaho, Oregon and Washington that we should not demand the return of items whenever a draft has been issued, but should stand on the advantage of a preference based on the unpaid draft. In following this course, we assume a minor risk if it later should be found that the suspended bank had insufficient good assets out of which to meet the preferred claim. Under such a circumstance, we might have done better to treat the items as dishonored, because the holder of such check may have had a better opportunity to recover from the makers than from the trust. There is no way of determining these matters in advance, so we place our reliance upon the preference and assume the very remote risk of having an endorser claim that the Reserve Bank had selected the course least beneficial to him.

When charging our endorsers for unpaid checks involving collection through State banks in Idaho, Utah, Oregon and Washington, we notify them that it is our opinion a preference will be granted (see Form Mis. 108H enclosed); and, in the case of items involving the suspension of National banks and State banks in Arizona, California and Nevada, we say that claims will be filed unless we are notified to the contrary before a specified date (not later than fifty days after suspension). See Form Mis. 108K enclosed. Also, see our letter to you dated October 28, 1931.

Answering your questions seriatim:

We exercise the right of election without consulting endorsing banks. Where an option is given (Washington, Oregon and Idaho) to file preferred claim on the basis of the dishonored draft, or to regard the items covered by the draft as dishonored, the former course is adopted.

A distinction is made between State and National banks in making election to establish claims or to treat the checks as dishonored. In the case of National banks and State banks in Arizona, California and Nevada, where no preference for a dishonored remittance draft is given, we make a demand for the return of checks merely to show that the Reserve Bank has exhausted its efforts on behalf of endorsers. As the request is invariably denied, our efforts stop at that point, and we do not ask for copies of the checks.

It is our practice to enclose with cash letters sent to member and non-member clearing banks, a form of settlement draft, which may or may not be used by the remitting bank. In the event of a suspension of

the drawer of such a draft, we charge it to the bank's account provided the bank is in funds and the draft is in our possession before we have official notice of the suspension of the bank. If the draft comes into our possession after we have official notice of suspension, it is dishonored. We have felt that the position of the Federal Reserve Bank should be unequivocal when a draft drawn against sufficient funds is presented to it for payment. In other words, the draft either should be paid or dishonored on presentation, depending upon the status of the drawer. This has the same effect as though the settlement draft were drawn on a correspondent bank.

For your information, the following is a list of copies of correspondence herein enclosed, which may be of interest to you:

Letter to Spokane Branch, March 23, 1931.
Letter to All Branches, June 10, 1931.
Letter to Spokane Branch, June 11, 1931.
Telegram to Comptroller of the Currency, May 27, 1931.
Telegram from Comptroller, May 28, 1931.
Telegram to Comptroller, June 2, 1931.
Telegram from Comptroller, June 4, 1931.
Telegram to Comptroller, June 4, 1931.
Telegram from Comptroller, June 5, 1931.
Letter to Mr. Thomas B. Paton, Oct. 15, 1931.
Letter to Federal Reserve Bank of Richmond, Oct. 28, 1931.

Yours very truly,

(signed) Ira Clerk

Deputy Governor

C O P Y

X-7108-b

FEDERAL RESERVE BANK
OF
KANSAS CITY

December 16, 1931.

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

My dear Mr. Wyatt:

I am just in receipt of your letter of December 14, with which you sent me copy of letter quoting a telegram which Mr. Awalt, Deputy Comptroller of the Currency, sent to the Receiver of the Peoples National Bank of Pulaski, New York, on December 2, 1931, which sets forth the attitude of his Department with reference to the right of forwarding banks to exercise an election to treat items dishonored pursuant to the provisions of Section 11 of the Uniform Collection Code in those instances in which a finally collected remittance has not been made by the drawee banks.

It seems to me highly desirable that all of the Federal reserve banks follow a uniform practice in exercising the election which is given under the Code, and I consider your suggestion a good one that the check collection circulars of all of the banks be amended by adding a recital of the kind that you mention.

Yours very truly,

(Signed) H. G. Leedy

HGL:FH

C O P Y

X-7108-c

FEDERAL RESERVE BANK OF SAN FRANCISCO

January 22, 1932.

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

Dear Mr. Wyatt:

As an example of the kinds of practices which are creeping into the Federal Reserve System, resulting from the various methods being pursued under the so-called "Bank Collection Code", I hand you herewith copy of a letter addressed to this bank by the Federal Reserve Bank of St. Louis which recently happened to come to my attention.

You will note that the check was drawn on a state bank located in Indiana, which state has adopted the Bank Collection Code. You will also observe that the St. Louis Bank, in spite of the fact that a preference could undoubtedly be obtained, requests instructions from us as its endorser whether or not to file for a preference or to treat the item as dishonored pursuant to the provisions of Section 11.

I cannot see any reason for this procedure and its pursuit, it seems to me, will result in great confusion.

Let us suppose, in this instance, that part of the endorsers on the items involved decide that they prefer to treat the checks as dishonored and pass the responsibility back through the chain of endorsers, while others of the parties in interest determine that they would prefer to file for a preference. The receiver of the insolvent bank, if the same course is pursued as in some of the states in this district, would refuse to acknowledge the claim because it was not predicated on the draft but only on certain items embraced therein. Moreover, there is a serious risk that by the delay necessary in order to obtain definite instructions from the endorsers the Federal Reserve Bank of St. Louis will be unable to obtain the return of the checks, they having been handed back by the officers in charge of the insolvent bank to the makers thereof. There is the further risk that a delay of two or three weeks, during which instructions are being obtained, will be treated as an unreasonable delay and the return of the items refused.

I cannot for the life of me see why, under circumstances such as this, the Federal Reserve Bank should hesitate, without any instructions whatever, to file for and accept a preferred claim, excepting extraordinary cases where even preferred claims would not be paid in full.

Of course, in the instance under discussion, the Federal Reserve Bank of St. Louis asks for instructions from its endorser and that endorser probably asks for instructions from its customer and so on ad lib.

I become more strongly convinced all the time that the procedure under the Check Collection Code should be uniform throughout the System and that the various courses which will be pursued by the Federal Reserve Banks, under given conditions, in those states where the Bank Collection Code has been adopted, should be clearly set forth in a uniform circular. Otherwise, confusion, delay and litigation are inevitable.

I would like very much to have your observations in regard to this matter.

Cordially yours,

(Signed) Albert C. Agnew
Counsel.

Enclosure.

ACA:MA

C
O
P
Y

X-7108-c-1

FEDERAL RESERVE BANK OF ST. LOUIS

January 12, 1932

Federal Reserve Bank,
San Francisco,
California.

Gentlemen:

On 1-11-32 we sent our advice of no return regarding items on Evansville, Indiana listed in cash letters as follows:

Sending Bank	Date & Total Cash Letter		Amount
Yourselves	1-4-32	$42.32	17.32

The check was listed in regular cash letter to the Central Union Bank, Evansville, Indiana and draft was remitted but remains unpaid and protested due to the closing of the Central Union Bank, Evansville, Indiana.

Since all checks are credited subject to final payment we have deducted from your credits $17.32 to cover. We are informed that under the Bank Collection Code which is in force in the state of Indiana, we have an option to treat such checks as dishonored or to file a claim against the failed bank.

January 12, 1932

If you desire to treat the checks as dishonored, you should give notice of dishonor to all prior endorsers and the drawers and look to them for payment; and if you request, we will demand and endeavor to obtain the return of the checks. If claim is filed against the failed bank, you will probably release the drawers from any further liability and will receive dividends on the amount of the checks as declared by the Receiver. If you elect to file claim, it may be possible, according to Section 13 of the Bank Collection Code, to obtain a preferred classification of the claim.

As we must notify the Receiver promptly whether we elect to prove a claim against the failed bank or to treat the checks as dishonored, please notify us as soon as possible, but in any event not later than January 28, 1932, using the enclosed form and giving the name of the drawers of the checks if obtainable. If you desire our services in the matter of filing claim, please so indicate on the enclosed form and return to us as soon as possible, and claim will be filed under the terms of your General Authorization dated April, 12, 1922 as amended October 28, 1931.

If we do not receive your instructions to the contrary on or before the date mentioned in the foregoing paragraph, the checks will be treated as dishonored and a demand made upon the Receiver for the return of them. Whether or not the checks are subsequently obtained, no claim will be filed by us after the demand for the return of the checks is made.

Kindly acknowledge receipt of this letter.

Very truly yours

F. N. Hall

F. N. Hall
Controller

C O P Y

X-7108-d

FEDERAL RESERVE BANK OF SAN FRANCISCO

January 5, 1932.

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

SUBJECT: Legal and Practical Problems arising under the Bank Collection Code.

Dear Mr. Wyatt:-

I have not replied earlier to your letter of November 6 transmitting copies of your correspondence with counsel to the Federal Reserve banks and with the Comptroller of the Currency relative to the above subject, for the reason that I wanted to first thoroughly discuss the matter with the officers of this bank. This has been delayed, but I trust that my observations will be none the less of value to you.

I believe that the position taken by the Comptroller of the Currency to the effect that the provisions of the Uniform Check Collection Code providing for preference on dishonored drafts given in purported settlement of cash letters do not apply to National Banks, is sound. I do not believe that Section 13 of the Uniform Code is applicable to National Banks.

I am further of the opinion that the procedure now adopted by the Comptroller's office whereby, upon demand made with reasonable promptness, the checks involved in a dishonored remittance draft are returned to the collecting Federal Reserve bank so that they may be returned to the indorsers of the Federal Reserve bank and treated as dishonored, will in the great majority of cases work out to the benefit of the owners of such items.

I am firmly of the opinion that it is highly expedient that some uniform procedure be evolved in connection with the handling of transactions of this character by all the Federal Reserve banks. I am informed that it is the present practice of some of the Federal reserve banks, before requesting the return of the original items, to communicate with their indorsers and ask instructions as to whether or not a general claim shall be filed or whether the return of the item shall be demanded. This it seems to me will inevitably result in considerable delay and in many instances in delay to a point where the return of the item will not be demanded "with reasonable promptness". It also

seems to me that pursuing this policy will result in confusion in that in a given case some of the indorsers of the Federal Reserve bank will desire the return of the items while others will prefer that a general claim be filed. If such a situation were presented it might occur that the receiver of the insolvent national bank would refuse to accept a claim predicated upon the unpaid remittance draft if part of the items embraced within that draft were not to be made the subject of a claim but were to be returned.

Moreover, in matters of this character the pursuit of one method of operations by some of the Federal Reserve banks and the pursuit of another by other such banks, results in confusion within the system. Items which come to a Federal Reserve bank from another district should be treated in the same manner as the treatment accorded them in the district from which they come. Otherwise, dissatisfaction, misunderstanding and endless confusion is bound to result.

I feel very strongly that it may be advisable to consider an amendment to Regulation "J" in relation to the manner in which items involved in unpaid remittance drafts drawn upon national banks located in those states which have adopted the Uniform Code, will be treated. Personally, I feel that a uniform practice should be either incorporated in Regulation "J" or in the Uniform Check Collection circulars, and I am of the opinion that every Federal Reserve bank should state in its check collection circular, among the terms and conditions upon which items will be received for collection, that in every instance where items drawn on a national bank in a state which has adopted the Uniform Code become involved in an unpaid remittance draft, the Federal Reserve bank will pursue the uniform policy of demanding the return of the items immediately, treating the same as dishonored and charging the amounts thereof back to the indorsers of the Federal Reserve bank. In the great majority of cases I believe that such uniform practice would result in a greater recovery to the owner of the item than would result through filing a claim as a general creditor.

As long as there is any contrariety of procedure as between Federal Reserve banks, or as long as the Federal Reserve banks concerned adopt a policy of asking for advice from their indorsers, confusion will result and I fear in some instances, litigation.

To the end that this matter be thoroughly discussed and settled both as between the Federal Reserve banks and the Board and as between the banks and the Comptroller's office, I think that a conference is advisable. If no such conference is held, it seems to me that it will be a long time before the uniform practice will be adopted.

With kindest personal regards,

Very truly yours,

(Signed) Albert C. Agnew
Counsel

C O P Y

X-7108-e

FEDERAL RESERVE BANK OF SAN FRANCISCO

December 22, 1931.

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

Dear Mr. Wyatt:

I have received and discussed with the officers of this bank your letter of December 14, transmitting copy of a telegram which Mr. Awalt sent to the Receiver of the Peoples National Bank, Pulaski, New York, and copy of a letter addressed to you by Mr. Wallace, Counsel to the Federal Reserve Bank of Richmond, under date of November 21, 1931.

We agree with you that any practice involving delay in an election to treat checks involved in unpaid remittance drafts as dishonored until after the owners thereof have been consulted as to their desires will not only be unduly burdensome to the Federal Reserve Banks, but will lead to endless disputes over the question of whether Federal Reserve Banks have notified the receivers of their election "within a reasonable time". We also feel that any practice in handling such checks, under which the owners thereof are given the opportunity of instructing the Federal Reserve Banks not to demand the return of the items, will result in endless confusion.

We think it is essential that a uniform practice similar to that already established with reference to the protesting of checks be adopted and incorporated in the check collection circulars. This could easily be done by including in such circulars a statement to the effect that the Federal Reserve Bank will elect to treat as dishonored all checks on insolvent national banks in states which have adopted Section 11 of the Uniform Bank Collection Code, and which have been functioned by the drawee banks without final payment therefor having been made. We have adopted this practice in this district and have so notified all other Federal Reserve Banks.

It seems to us that the policy adopted by the Office of the Comptroller of the Currency, as outlined in Mr. Awalt's telegram of December 2 (X-7043), is fair and offers to the Federal Reserve Banks a clear and expeditious method of handling such transactions. It may also be advisable to amend Regulation J in this regard, provided a uniform policy can be agreed upon as among all Federal Reserve Banks. No one can claim that his interest has been jeopardized by treating the items as dishonored, as the rights of all prior parties are preserved.

Uniformity of action among all the Federal Reserve Banks seems quite essential in order to avoid confusion and possible disputes leading to litigation. We, therefore, feel that such a uniform policy involving either the amendment of Regulation J or the check collection circulars should be adopted at the earliest practicable date. I do not agree with Mr. Wallace that a conference of counsel, together with the operating officers of the banks involved, to discuss and settle this matter would be amiss.

Yours very truly,

(Signed) Albert C. Agnew
Counsel.

ACA:MA

X-7109

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

February 1 to 29, 1932.

	$5	$10	$20	$50	$100	$500	$1000	Total Sheets	Amount
Boston.....	38,000	32,000	-	-	-	-	-	70,000	$ 6,475.00
New York.....	156,000	90,000	-	-	-	4,200	2,100	252,300	23,337.75
Philadelphia...	56,000	24,000	14,000	-	-	-	-	94,000	8,695.00
Cleveland.....	38,000	40,000	10,000	-	-	-	-	88,000	8,140.00
Atlanta.....	34,000	18,000	10,000	-	-	-	-	62,000	5,735.00
St. Louis.....	81,000	24,000	24,000	9,000	9,000	1,700	850	149,550	13,833.38
Kansas City....	10,000	83,000	41,000	-	-	-	-	134,000	12,395.00
Dallas.....	-	10,000	-	-	-	-	-	10,000	925.00
San Francisco..	258,000	59,000	71,000	7,000	9,000	-	-	404,000	37,370.00
	671,000	380,000	170,000	16,000	18,000	5,900	2,950	1,263,850	$116,906.13

1,263,850 sheets, @ $92.50 per M, $116,906.13

1227

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7110

March 8, 1932.

SUBJECT: New Issues of Treasury Certificates of Indebtedness.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Certificates of Indebtedness:

"NOWHITCH" Treasury Certificates of Indebtedness, Series TO-1932 - 3 1/8%, to be dated March 15, 1932, maturing October 15, 1932.

"NOWHOARD" Treasury Certificates of Indebtedness, Series TM-1933 - 3 3/4%, to be dated March 15, 1932, maturing March 15, 1933.

These code words should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOWHITAL" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

SUMMARY OF THE PROVISIONS OF H.R. 10241.

The provisions of this bill divide themselves conveniently into three portions: (a) amendments to the National Banking Laws; (b) amendments to the Federal Reserve Act; and (c) provisions establishing a Federal Guaranty Fund for depositors in member banks of the Federal Reserve System.

AMENDMENTS TO NATIONAL BANKING LAWS.

The amendments to the National Banking Laws, which are contained in Section 1, 2, 3 and 4 of the bill, refer in all cases only to national banks which may be organized hereafter. These amendments contain three important changes in the law: (1) The authority for the organization of a national bank with a minimum capital of $25,000 in places of not exceeding 3,000 inhabitants is eliminated from the law; (2) no national bank may be organized unless it has a surplus of not less than 10% of its capital stock, and (3) provisions for the double liability of shareholders of national banks are eliminated, except as to banks having branches.

Section 1 of the bill eliminates from Section 5138 of the Revised Statutes the provision that national banks may be organized in places of not exceeding 3,000 inhabitants with a minimum capital stock of $25,000.

Section 2 of the bill amends Section 5138 of the Revised Statutes so as to provide that no national bank shall be organized except with an initial surplus equal to 10% of its capital stock,

and provides a number of corresponding amendments to other provisions of the national banking laws in order to make them conform to this requirement. Thus, for this purpose:

Section 5168 (erroneously referred to as Section 5618) of the Revised Statutes, which requires the Comptroller of the Currency to examine into the condition of a national bank, and especially whether 50% of its capital stock has been paid in, in order to determine whether the bank is lawfully entitled to commence business, is amended to require the Comptroller to ascertain also whether 50% of the required initial surplus has been paid in.

The Act of November 7, 1918, as amended, providing for the consolidation of national banks, and for the consolidation of a State bank with a national bank, is amended to require that the consolidated institution in each such case shall have an initial surplus, as well as a capital stock, in the amount required for the organization of a national bank in the place in which it is located.

Section 5154 of the Revised Statutes, providing for the conversion of a State bank into a national bank, is amended to require that the converted institution have an initial surplus

not less than that required for the organization of a national bank in the place in which it is located.

Section 5140 of the Revised Statutes, requiring at least 50% of the capital stock of a national bank to be paid in before it is authorized to commence business and the remainder to be paid in in 10% monthly installments is amended to make similar requirements with regard to the required initial surplus.

Section 5141 of the Revised Statutes, which authorizes the sale of the stock of any shareholder who fails to pay any installment on his stock as required by law, is amended so as to give the same authority in the case of a failure to pay any installment of the initial surplus.

Section 5205 of the Revised Statutes, which provides for assessments upon stockholders of a national bank in case its capital stock is not paid up or in case of an impairment therein and for the appointment of a receiver when the deficiency is not made up within three months after notice, is amended to provide for such assessments where the initial surplus is not paid up and for the appointment of a receiver where the deficiency in initial surplus is not met within the three months' period. Apparently an impairment in initial surplus would not be grounds for such an assessment. The provision of Section 5205 authorizing the sale of the stock of a share-

holder who fails to pay such assessment against him would be omitted by this amendment, apparently by mistake. Section 5143 of the Revised Statutes, which authorizes reductions in capital stock of national banks, is amended so as to include surplus in its provisions. While not clear, apparently all the present requirements for a reduction of capital, including two-thirds' vote of shareholders and approval of the Federal Reserve Board and of the Comptroller of the Currency, would be applicable as to every reduction in surplus.

Section 3 of the bill amends Section 5151 of the Revised Statutes and Section 23 of the Federal Reserve Act so as to eliminate the provision for the double liability of shareholders as to national banks hereafter organized, except as to any bank which operates or establishes a branch.

Section 4 of the bill provides that the provisions of Sections 1, 2 and 3 shall apply only to national banks organized after the date of the enactment of this Act.

AMENDMENTS TO THE FEDERAL RESERVE ACT.

Sections 5, 6 and 7 of the bill contain amendments to the Federal Reserve Act with regard to the distribution of earnings of Federal reserve banks, the charges which may be made by member banks for the collection or payment of checks and drafts, and the giving of immediate credit by Federal reserve banks for items received for collection.

Section 5 would amend the first paragraph of Section 7 of the Federal Reserve Act so as to provide that the net earnings of each Federal reserve bank shall be distributed as follows: After the payment to member banks of the 6% dividend now provided for and the payment of 10% of the net earnings to surplus, one-half of the remainder of the net earnings shall be paid to the Federal Guaranty Fund for depositors of member banks, (provided for in later sections of this bill) and the remaining one-half shall be paid to the member banks in proportion to the amount of their capital stock. The payment of the franchise tax by Federal reserve banks to the United States would thus be eliminated. The second paragraph of Section 7, with regard to the manner in which funds paid to the United States either as a franchise tax or upon dissolution of the Federal reserve bank are to be used, is amended to make the necessary corresponding changes.

Section 6 would amend the first paragraph of Section 13 of the Federal Reserve Act with regard to the charges which may be made by banks for collection or payment of checks and drafts so as to eliminate the clause "but no such charges shall be made against the Federal reserve banks" and the provision for the determination and regulation of such charges by the Federal Reserve Board; thus authorizing a bank to make a reasonable charge for collection or payment of checks and drafts, but not exceeding 10¢ per $100 or fraction thereof on the total of checks and drafts received at any one time, whether such checks and drafts are presented by or through a Federal reserve bank or otherwise.

Section 7 would also amend Section 13 of the Federal Reserve Act by adding at the end of the first paragraph a new paragraph requiring a Federal reserve bank upon application of "a sending bank" to give immediate credit for checks and drafts received from such bank for collection and authorizing the Federal reserve bank to charge interest on the amount of the credit at the current redis - count rate pending the collection of the item or, with the approval of the Federal Reserve Board, to establish a time schedule for this purpose.

PROVISIONS FOR GUARANTY FUND FOR DEPOSITORS OF MEMBER BANKS.

The remaining sections of the bill, designated Sections 201 to 209, and comprising what is known as Title II of the bill, provide for the establishment of a Federal Bank Liquidating Board and for the guaranty of the deposits of member banks.

Section 201 of the bill establishes a Federal Bank Liquidating Board consisting of the Secretary of the Treasury, the Comptroller of the Currency, and three citizens of the United States appointed by the President by and with the advice and consent of the Senate. The appointive members, not more than one of whom shall be of the same political party as the President, are to hold office for four years and each is to receive a salary of $10,000 per annum. The appointive members are ineligible during the time they are in office, and for one year thereafter, to hold office or employment in any member bank or in or on the Federal Reserve Board. The Liquidating Board shall elect its own chairman and other officers and may employ and fix the compensation of its officers and employees, but the compensation is not to exceed $10,000 per annum in any case.

Section 202 establishes a Federal guaranty fund for depositors in member banks of the Federal reserve system. This fund is to be created by payments from three sources: (a) The entire amount heretofore paid to the United States as a franchise tax by the Federal reserve banks shall be paid, presumably by the United States,

to the guaranty fund; (b) The Federal reserve banks are to pay to the fund $150,000,000, the amount required of each to be determined pro rata according to the amount of its surplus on December 31, 1931; and (c) The board shall require the member banks to pay to the fund (1) such an amount as it may fix, not exceeding $130,000,000, the amount required of each member bank to be determined pro rata according to its average deposits, other than time deposits, during the preceding calendar year, and (2) such an amount as the board may fix not to exceed $70,000,000, pro rated among such banks according to their average time deposits during the preceding calendar year. At any time after one year subsequent to the payment of the above amounts, the board may, if in its judgment the amount of the fund is inadequate, require the member banks to pay annually to the fund not more than $100,000,000 pro rated among them according to their net earnings for the preceding calendar year. All sums payable either by a Federal reserve bank or by a member bank are subject to the call of the Liquidating Board; and, if in its judgment at any time the amount in the fund is in excess of the amount adequate for the purposes of the law, the board shall make a refund to each Federal reserve bank and to each national bank, the amount of the refund to be pro rated according to the amount of their contributions. Apparently State member banks would not share in any return of contributions.

Sums in the guaranty fund may be invested by the board in interest bearing obligations of the United States or deposited in member banks without interest.

Section 203 provides that whenever a national bank is insolvent, the Comptroller of the Currency shall so certify to the Liquidating Board, which shall proceed to wind up the bank in accordance with the law. Within thirty days after the receipt of the certificate of insolvency by the board, a committee consisting of one person appointed by the board, one appointed by the owners of a majority of the stock of the bank and one appointed by the depositors of more than 50 per cent of the outstanding deposits of the bank shall estimate the value of the assets and the amount of the liabilities of the bank and make a statement of the amount of the outstanding deposit of each depositor.

Section 204 provides that, on the basis of this estimate, as modified by the board, and not less than sixty days after the certification of insolvency, the board shall pay to each depositor whose outstanding deposit is not more than $1,000 not less than fifty per cent thereof, and to each other depositor not less than twenty-five per cent of his outstanding deposit, or $500, whichever is greater. Within six months after such payment the board is to pay each depositor of the former class the remaining amount due him (and it is apparently the intention to provide that other depositors shall,

within this six months' period, be paid an additional twenty-five per cent of their deposits, but no such provision is contained in the bill.) Within the next six months period an additional twenty-five per cent shall be paid to all depositors not yet paid and within six months thereafter full payment shall be made to all depositors.

Section 205 provides that the board, or a liquidating agent duly authorized by the board, may borrow money on the security of the assets of any insolvent national bank for the purpose of paying its depositors and creditors.

Section 206 provides that in case of insolvency of a State member bank, the board shall request its receiver or liquidating agent to submit a report and estimate such as that required of the Committee in the case of a national bank; and the board upon approval of such report and estimate shall pay the receiver or liquidating agent in trust for the depositors the same amounts, and at the same times, as in the case of national banks.

Section 207 makes it mandatory upon the Federal Reserve Board, after hearing, to forfeit the membership of any member bank failing to comply with the requirements of the bill with respect to the Guaranty Fund or any regulation of the Liquidating Board; and a national bank failing to comply with such provisions of the bill shall, in addition, forfeit all rights and franchises granted to it by the law (apparently without any court proceeding, but upon the basis of the hearing conducted by the Federal Reserve Board.)

Section 208 authorizes the Liquidating Board to make regulations necessary to carry out the provisions with respect to the Guaranty Fund.

Section 209 authorizes appropriations of such sums as may be necessary to carry out the provisions of this act.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7112

March 9, 1932.

SUBJECT: Procedure under Section 8 of Reconstruction Finance Corporation Act.

Dear Sir:

There is enclosed herewith, for your information, a copy of the Federal Reserve Board's reply to a letter received from the Federal Reserve Agent at the Federal Reserve Bank of Atlanta, inquiring whether the Board has prescribed any regulations under Section 8 of the Reconstruction Finance Corporation Act, which authorizes the Board, under such conditions as it may prescribe, to furnish to the Reconstruction Finance Corporation confidential information regarding the condition of state member banks.

Very truly yours,

Chester Morrill,
Secretary.

Enclosure.

TO ALL FEDERAL RESERVE AGENTS.

COPY X-7112-a

March 5, 1932

Mr. Oscar Newton,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Newton:

As you indicate in your letter of February 25, section 8 of the Reconstruction Finance Corporation Act authorizes among others the Federal Reserve Board, under such conditions as it may prescribe, to make available to the corporation, in confidence, such reports, records and other information as it may have available relating to the condition of financial institutions and others with respect to which the corporation has had or contemplates having transactions under the Act or relating to individuals, associations, partnerships or corporations whose obligations are offered to or held by the corporation as security for loans. The Federal Reserve Board has not prescribed any regulations for the reason that it is felt that the conditions under which information might be disclosed to the corporation would develop only through practical experience. It has been assumed, for example, that, in the case of information under your control, the safeguards under which

it might properly be disclosed to the corporation would be worked out from time to time through informal understandings with the local managers of the loan agencies of the corporation in such a manner as to be helpful to the corporation, and at the same time protect the confidential character of the information.

Very truly yours,

(Signed) Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7113

March 9, 1932.

SUBJECT: Applications of State Banks and Trust Companies for Membership.

Dear Sir:

There is attached hereto, for your information and guidance, a copy of a letter to the Federal Reserve Agent at the Federal Reserve Bank of Richmond, with regard to the treatment of depreciation in the investment accounts of state banks and trust companies applying for membership in the Federal Reserve System.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures.

TO ALL F. R. AGENTS EXCEPT RICHMOND.

C O P Y

X-7113-a

March 7, 1932.

Mr. W. W. Hoxton,
Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Hoxton:

Receipt is acknowledged of your letter of February 24, 1932, with regard to the treatment of bond depreciation of a state bank in the Fifth Federal Reserve District which contemplates making an application for membership in the Federal Reserve System.

You refer to the Board's letter of June 19, 1931 (X-6914), advising of the adoption by the Board of a policy of requiring that at the time of admission of a state bank or trust company to membership in the Federal Reserve System, it shall be free from all known losses and depreciation, so that, on the date its membership becomes effective, its statement will reflect as nearly as possible the value of its assets; and also to the Board's letter of January 18, 1932 (X-7062), advising that, in connection with the examination of state member banks of the Federal Reserve System, the amounts of depreciation on stocks and on defaulted bonds only should be shown as losses. You inquire whether the policy set forth in the letter of January 18, 1932, relative to state bank members of the Federal Reserve System is also applicable to banks applying for membership in the Federal Reserve System.

In the opinion of the Federal Reserve Board, there is justifi-

cation, under present conditions, for differentiating in the treatment of bond depreciation which may exist in banks already members of the Federal Reserve System and that which may exist in the case of banks which are applying for admission to the System. However, in some recent cases the Board has not insisted upon strict observance of the policy outlined in its letter of June 19, 1931, and has approved applications for membership in the System made by banks whose managements were competent and whose affairs otherwise were in generally satisfactory shape, upon condition that they should, prior to admission to the System, charge off all known losses and all depreciation on bonds other than those classified in the four highest grades by a recognized investment service organization regularly engaged in the business of rating or grading bonds. Therefore, while no definite statement can be made in advance, it is probable that the Board would be disposed to extend similar treatment to the bond depreciation of other banks applying for membership in the System if their managements and condition were generally satisfactory in all other respects. It is suggested that you consider these aspects of the matter carefully and advise the Board fully with regard to them in connection with any recommendation that you may submit in any case in which you feel that the Board would be justified in making similar allowance for bond depreciation.

Very truly yours,

Chester Morrill,
Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7115

March 10, 1932.

SUBJECT: Advances to member banks under Sections 10(a) and 10(b) of the Federal Reserve Act, as amended February 27, 1932.

Dear Sir:

In view of the fact that advances to member banks under the provisions of Sections 10(a) and 10(b) of the Federal Reserve Act, as amended by the Act of February 27, 1932, will be limited to cases where there are conditions of an unusual and temporary character, the Federal Reserve Board has not prescribed any regulations governing such advances but will consider each case separately and will decide, on the basis of the facts and circumstances in each particular case, whether or not to permit the Federal reserve bank to make the advance applied for.

However, in order that the member banks may be informed of the provisions of these sections and of the procedure contemplated thereunder, a committee of officers of Federal reserve banks appointed pursuant to action taken by the Conference of Governors of Federal reserve banks held in Washington on February 24 and 25, 1932, has prepared, with the assistance of counsel, a circular

letter to be sent by the Federal reserve banks to all member banks as soon as possible.

While it would seem that the law would permit the Board to grant blanket consent for Federal reserve banks to make loans under the provisions of Section 10(a), the Board prefers for the present at least to consider each case separately; and the law requires separate action by the Board in the case of each specific loan under the terms of Section 10(b). Before making any loan or any renewal or extension thereof under the provisions of either section, therefore, the Federal reserve bank should obtain the Board's consent.

The Board is prepared to give prompt consideration to any application received under these sections. Each request for its permission to make such an advance must include a recommendation of the Federal reserve bank and should contain the following information:

A. Name and location of borrowing bank.

B. Capital stock.

C. Surplus and undivided profits.

D. Whether the bank which is to receive the proceeds of the loan has an adequate amount of eligible and acceptable assets to enable it to obtain sufficient credit accommodations from the Federal reserve bank under other provisions of the Federal Reserve Act.

E. Amount of the loan applied for.

F. Maturity of loan applied for.

G. Proposed rate.

H. Nature and face amount of security offered.

I. Total deposits of borrowing bank.

J. Total amount of rediscounts and other borrowings (including repurchase agreements) from Federal reserve bank, exclusive of this loan.

K. Amount of rediscounts and borrowings (including repurchase agreements) from others.

L. Concise statement of exceptional and exigent circumstances which occasioned the application, together with any other facts having a bearing upon the case.

M. Whether the application is for a loan under Section 10(a) or Section 10(b).

N. In the case of loans applied for under Section 10(a), name and address of each participating bank and the amount of liability assumed by it, together with the nature and face amount of additional security, if any, required of it.

When the information is transmitted by telegraph, each item listed above may be indicated by using the letter preceding such item, in lieu of stating the text of the question.

The Board has not prescribed any limitation on the aggregate amount of such loans which may be made by any Federal reserve bank; but, in acting upon requests for its permission to make such loans, will give consideration, among other things, to the aggregate amount of such loans which the Federal reserve bank has outstanding.

In making loans to groups of banks under Section 10(a), the Federal reserve bank should require the trustee representing the group of banks to pledge with the Federal reserve bank

the note of each bank which is to receive the proceeds of the loan and the security therefor. The Federal reserve bank should assure itself that the trustee has been properly authorized to pledge such note and security to the Federal reserve bank. In addition to the note of the borrowing bank and such security as it may provide, the Federal reserve bank may, if it deems it advisable, require the other members of the group to give such other security as the Federal reserve bank may consider necessary for its protection.

In the absence of regulations and in order to insure uniformity of procedure, the Federal Reserve Board has approved the inclosed circular for use by the Federal reserve banks. It will be observed that the Board has made certain modifications in the proposed circular which was transmitted to the Governors with the Committee's report of March 6, 1932. If any Federal reserve bank desires to make any further changes, in order to conform to local conditions or practices, it should communicate with the Federal Reserve Board and obtain its approval before transmitting the circular to member banks. The Board will give prompt consideration to such changes.

This letter is solely for the information and guidance of the Federal reserve banks.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.

X-7115-a

CIRCULAR LETTER FROM
FEDERAL RESERVE BANKS TO THEIR MEMBER BANKS

Subject: Amendment to Federal Reserve Act by Act of Congress approved February 27, 1932.

The Act of February 27, 1932, adds two new sections to the Federal Reserve Act, Section 10(a) and Section 10(b). Section 10(a) authorizes the making of loans to groups of member banks and is a permanent provision, whereas Section 10(b) authorizes until March 3, 1933, advances to individual member banks having a capital stock not exceeding $5,000,000 each. Under both sections, the banks receiving the proceeds of such advances must be without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient credit accommodations from the Federal Reserve Banks under other provisions of the Federal Reserve Act.

The full text of these two sections of the Federal Reserve Act is printed at the end of this circular.

In view of the fact that it is contemplated that applications for such advances will be made only in unusual circumstances, the Federal Reserve Board has not prescribed any regulations governing such advances, but, for the information of all member banks, the principal requirements of the law are analyzed and the general procedure contemplated thereunder is outlined below.

SECTION 10(a)
ADVANCES TO GROUPS OF MEMBER BANKS

This section provides in effect that, upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal Reserve Bank may make advances, in such amount as the board of

directors of such Federal Reserve Bank may determine, upon the following conditions:

(a) Advances may be made on the promissory notes of groups of five or more member banks within the district of the loaning Federal Reserve Bank, a majority of them independently owned and controlled; except that advances may be made to a lesser number of such member banks (but not less than two) if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district.

(b) Advances may be made only if the bank or banks which receive the proceeds thereof have no adequate amounts of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal Reserve Bank through rediscounts or advances other than as provided in Section 10(b) of the Act.

(c) The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group. (The liability of each individual bank on the note of a group under this provision of the law should be determined on the basis of its gross deposit liabilities at the opening of business on the date of the written application by the group to the Federal reserve bank for the advance, computed by adding together, (1) in the case of national banks, the figures corresponding to those called for by items 21, 22, 23 and 24 on the Comptroller of the Currency's call report form No. 2130, as revised in November, 1931, or, (2) in the case of State member banks, the figures corresponding to those called for by items 19, 20, 21 and 22 on the Federal Reserve Board's call report form No. 105, as revised in November, 1931.)

(d) The proceeds of an advance to a group may be distributed only to banks which are members of such group, and before receiving such proceeds such banks must deposit with a suitable trustee, designated by and representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon.

(e) No obligations of any foreign government, individual, partnership, association or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

(f) No note upon which such advances are made will be eligible as collateral security for Federal Reserve notes.

The rate at which advances may be made under the provisions of this section will be fixed from time to time, subject to the approval of the Federal Reserve Board and the condition specified in the law.

The maturities of notes accepted under this section must be satisfactory to the Federal Reserve Bank. There must be deposited and pledged with the Federal Reserve Bank, as security for any advance made by the Federal Reserve Bank to a group of banks under the provisions of Section 10(a), the note or notes of the bank or banks to which the proceeds of such advance are distributed by the group, together with all the security for such note or notes. Such security must, of course, be acceptable to the Federal Reserve Bank, which may require the group or any member thereof to provide such additional security as may be deemed necessary.

For the convenience of member banks desiring to apply for loans under Section 10(a), the following suggested forms are being prepared.

1. Resolution to be adopted by board of directors of each of the banks desiring to form a group, authorizing their officers to sign an agreement with other banks for this purpose.

2. Agreement to be entered into by banks desiring to form a group. This form of agreement includes the designation of a trustee for the group.

3. Resolution to be adopted by board of directors of individual borrowing bank authorizing it to borrow from the group and to pledge security therefor.

4. Application to be used by individual borrowing bank in requesting loan from the group. This must include a certificate to the effect that such bank has no adequate amount of eligible and acceptable assets available to enable it to obtain sufficient credit accommodations from the Federal Reserve Bank through rediscounts or advances other than as provided in Section 10(b).

5. Note to be used by the individual borrowing bank in borrowing from the group.

6. Resolution to be adopted by the board of directors of each of the banks in the group, authorizing the group to borrow from the Federal Reserve Bank upon the note of the group and to pledge the note or notes of the individual borrowing bank or banks and the security therefor.

7. Application to be used by group in requesting advance from the Federal Reserve Bank.

8. Note to be used by the group in borrowing from the Federal Reserve Bank. This form contemplates that the group shall give to the Federal Reserve Bank a single note for the full amount of the advance, such note, or counterparts thereof, being signed by all members of the group and stating on the face thereof the dollar amount of the proportion of the principal of such note for which each bank in the group is liable.

Banks desiring to form groups, or contemplating the possibility of forming groups at some future time, should so advise this bank, which will be glad to furnish them with copies of the suggested forms. It is suggested that each group be formed under the name "Member Bank Loan Group No. _____ of the _____ Federal Reserve District." In order to prevent possible duplication of numbers in the names of groups this bank will assign numbers when advised of the desire to form groups.

The forms used in different cases may vary to some extent to meet the needs and desires of the banks forming the particular group, but all forms used in connection with any advance made by this bank must, of course, be satisfactory to it.

SECTION 10(b)
ADVANCES TO INDIVIDUAL MEMBER BANKS

Under the terms of this section Federal Reserve Banks may, until March 3, 1933, and in exceptional and exigent circumstances, and subject in each case to affirmative action by not less than five members of the Federal Reserve Board, make advances to individual member banks upon the following conditions:

(a) Advances may be made only to member banks having capital stock of not exceeding $5,000,000 each.

(b) Advances may be made only to banks which have no further eligible and acceptable assets available to enable them to obtain adequate credit accommodations through rediscounting at the Federal Reserve Bank or any other method provided by the Federal Reserve Act other than that provided by Section 10(a).

(c) No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.

(d) Advances under this section may be made only upon the promissory notes of member banks secured to the satisfaction of the lending Federal Reserve Bank.

(e) No note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

The rate at which advances may be made under the provisions of this section will be fixed from time to time, subject to the approval of the Federal Reserve Board and the condition specified in the law.

A special form of application is being prepared for the use of member banks desiring to apply for loans under Section 10(b). Copies will be provided upon request.

Each such application must include a certificate to the effect that the applying bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal Reserve Bank or any other method provided by the Federal Reserve Act other than that provided by Section 10(a); and it must also be supported by a statement of facts sufficient to satisfy the Federal Reserve Bank and the Federal Reserve Board that there are exceptional and exigent circumstances which would justify the making of such loan under the provisions of Section 10(b).

The regular form of member bank promissory note may be used for advances made under this section. Maturities must be satisfactory to the Federal Reserve Bank.

GENERAL

In conformity with the purposes of this legislation, advances under Sections 10(a) and 10(b) of the Federal Reserve Act will be limited to cases where there are conditions of an unusual and temporary character which appear to justify such action and when the member banks receiving the proceeds lack adequate amounts of eligible and acceptable assets with which to secure sufficient credit accommodations from the Federal Reserve Bank under other provisions of the Federal Reserve Act. When and if such circumstances exist it is hoped that this bank may be able to render helpful service for temporary periods. It is suggested, however, that before making applications for such advances member banks should communicate with this bank and ascertain its views as to the collateral or other security which should be offered and as to the other conditions upon which this bank would be disposed to give favorable consideration to the application.

APPENDIX

(Here print title and first two sections of Act.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7116

March 16, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, February, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7116-a and X-7116-b, covering in detail operations of the main lines, Leased Wire System, during the month of February, 1932.

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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY, 1932.

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	26,111	3,601	29,712	3.51
New York	152,568	-	152,568	18.04
Philadelphia	29,094	2,619	31,713	3.75
Cleveland	60,326	2,278	62,604	7.40
Richmond	57,218	3,932	61,150	7.23
Atlanta	53,357	9,277	62,634	7.41
Chicago	88,614	4,629	93,243	11.02
St. Louis	67,639	3,546	71,185	8.42
Minneapolis	29,555	5,293	34,848	4.12
Kansas City	67,108	3,550	70,658	8.35
Dallas	63,836	14,311	78,147	9.24
San Francisco	92,092	5,299	97,391	11.51
Total	787,518	58,335	845,853	100.00

F. R. Board business	258,384	1,104,237
Treasury Department business Incoming and Outgoing		278,069
Total words transmitted over main lines		1,382,306

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7116-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, FEBRUARY, 1932.

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	$650.24	$260.00	$390.24
New York	1,133.84	-	-	1,133.84	3,341.99	1,133.84	2,208.15
Philadelphia	225.00	-	-	225.00	694.71	225.00	469.71
Cleveland	306.66	-	-	306.66	1,370.88	306.66	1,064.22
Richmond	190.00	-	230.00 (&)	420.00	1,339.39	420.00	919.39
Atlanta	270.00	-	-	270.00	1,372.74	270.00	1,102.74
Chicago	3,666.91 (#)	12.00	-	3,678.91	2,041.51	3,678.91	1,637.40 (*)
St.Louis	195.00	-	-	195.00	1,559.84	195.00	1,364.84
Minneapolis	200.00	-	-	200.00	763.25	200.00	563.25
Kansas City	287.50	-	-	287.50	1,546.88	287.50	1,259.38
Dallas	251.00	.75	-	251.75	1,711.75	251.75	1,460.00
San Francisco	380.00	-	-	380.00	2,132.28	380.00	1,752.28
Federal Reserve Board	-	-	15,581.88	15,581.88	-	-	-
Total	$7,365.91	$12.75	$15,811.88	$23,190.54	$18,525.46	$7,608.66	$12,554.20
Less reimbursable charges:							1,637.40 (a)
							$10,916.80

Treasury Department	2,452.99
Reconstruction Finance Corporation	2,106.87
Federal Farm Loan Board	42.48
Federal Farm Board	62.74
Total reimbursable charges	$4,665.08
Total	$18,525.46

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers,
Monday, March 28, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of February and March, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Volume of industrial production and factory employment increased from January to February by an amount smaller than is usual at this season. Improvement in the banking situation during February and the first three weeks of March was reflected in a decline in bank suspensions and a return flow of currency from the public to the banks.

Production and employment - Output of industrial products increased less than seasonally in February and the Board's index, which makes allowance for the usual seasonal variations, declined from 71 per cent of the 1923-1925 average to 70 per cent. Activity in the steel industry during February and the first three weeks of March showed little change from the January rate, although ordinarily substantial increases are reported at this time of year. Automobile production continued in small volume, showing none of the usual seasonal expansion, and the number of cars produced in the three-month period ending in February was about 35 per cent less than in the corresponding period a year ago. In the lumber industry, output declined further, contrary to seasonal tendency. Activity at cotton mills and shoe factories increased by more than the seasonal amount and was at about the same level as in the corresponding month last year.

Volume of employment at factories increased in February by somewhat less

than the usual seasonal amount. In the iron and steel, automobile and machinery industries the number employed showed an increase smaller than is usual in this month, and at lumber mills a continued decline in employment was reported. At establishments producing fabrics, wearing apparel, and shoes volume of employment increased by more than the seasonal amount.

Daily average value of total building contracts awarded, as reported by the F. W. Dodge Corporation, showed little change in February and the first half of March, and for the period between the first of January and the middle of March the value of contracts was 65 per cent less than a year ago, reflecting continued declines in residential building as well as in other types of construction; part of the decrease in the value of awards reflects reductions in building costs.

Distribution - Carloadings of merchandise and of miscellaneous freight showed none of the usual seasonal increase in February, while sales at department stores remained unchanged, as is usual at this season.

Wholesale prices - Wholesale commodity prices, as measured by the index of the Bureau of Labor Statistics, declined further from 67 per cent of the 1926 average for January to 66 per cent for February. Between the first week of February and the third week of March, there were increases in the prices of cotton, livestock, and meats, while prices of grains, nonferrous metals and imported raw materials including silk, sugar, and rubber declined considerably.

Bank credit - In the banking situation the important developments in February and the first half of March were a considerable reduction in the number of bank suspensions and a return flow of currency from the public to

the banks. The country's stock of monetary gold declined in February but increased somewhat in the first half of March. Member bank reserve balances, after decreasing almost continuously since last summer, showed a slight increase for the first two weeks in March. Purchases of United States Government obligations by the Federal reserve banks beginning in March were accompanied by a considerable decline in member bank indebtedness to the reserve banks.

Loans and investments of member banks in leading cities continued to decline until the middle of March when there was a substantial increase, owing largely to the banks' purchases of United States Government securities, issued on March 15. Demand and time deposits of these banks decreased further during February but showed little change in the first half of March.

Open market rates on acceptances and commercial paper declined during February and the first half of March. During this period yields on Treasury and other high grade bonds decreased to the lowest point since early December, but after the middle of the month yields on high grade corporate bonds increased somewhat.

FEDERAL RESERVE BOARD

X-7123

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 28, 1932.

SUBJECT: Holidays during April, 1932.

Dear Sir:

The Federal reserve banks and branches listed below will be closed on the dates specified, during April, 1932, account holidays:

Tuesday	April 12	Charlotte	Halifax Day
Wednesday	April 13	Birmingham	Birthday of Thomas Jefferson
Tuesday	April 19	Salt Lake City	Arbor Day
Tuesday	April 19	Boston	Patriots' Day
Thursday	April 21	Dallas El Paso Houston San Antonio	San Jacinto Day
Friday	April 22	Omaha	Arbor Day
Tuesday	April 26	Atlanta Birmingham Jacksonville	Southern Memorial Day

On the dates indicated, the offices affected will not participate in either the Gold Fund or the Federal reserve note clearing.

Please include credits for the banks affected on each holiday 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 affected on the holidays mentioned.

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-7124

March 28, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEBARK" has been designated to cover a new issue of Treasury Bills, dated March 30, 1932, and maturing June 29, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEALER" 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-7126

April 4, 1932.

SUBJECT: Change in Inter-District Time Schedule.

Dear Sir:

In accordance with a request of the Federal Reserve Bank of St. Louis, the Federal Reserve Bank of Atlanta having agreed thereto, the Federal Reserve Board has approved a change in the inter-district time schedule of availability items from Louisville to Birmingham, from two days to one day.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7128

April 8, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDECREE" has been designated to cover a new issue of Treasury Bills, dated April 13, 1932, and maturing July 13, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEBARK" 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-7129

April 13, 1932.

SUBJECT: Daylight Saving Schedule, 1932.

Dear Sir:

Beginning Monday, April 25th, and ending Saturday, September 24th, the following Federal reserve banks and branches will operate under daylight saving schedule:

Boston
New York
Buffalo
Philadelphia
Pittsburgh
Chicago

The Federal reserve branch banks listed below will observe special banking hours:

Helena Branch from May 2nd to August 31st, inclusive, 9:30 a.m. to 2:00 p.m., except Saturday, when the hours will be 9:00 a.m. to 12:00 noon, mountain time.

Salt Lake City Branch from May 2nd to September 30th, inclusive, 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.

X-7130

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

March 1 to 24, 1932.

	$5	$10	$20	Total Sheets	Amount
Boston	38,000	32,000	-	70,000	$6,475.00
New York	156,000	90,000	-	246,000	22,755.00
Philadelphia	56,000	24,000	14,000	94,000	8,695.00
Cleveland	38,000	40,000	10,000	88,000	8,140.00
Atlanta	34,000	18,000	10,000	62,000	5,735.00
Kansas City	3,000	23,000	-	26,000	2,405.00
Dallas	-	10,000	-	10,000	925.00
San Francisco	48,000	-	-	48,000	4,440.00
	373,000	237,000	34,000	644,000	$59,570.00

644,000 sheets, @ $92.50 per M, $59,570.00

April 14, 1932.

C.S. Hamlin.

THE GLASS BILL.

Reply to the Memorandum of Governor Harrison, and letters of February 6, and April 7, 1932.

On April 7, 1932, Governor Harrison sent to the Banking and Currency Committee of the Senate, a memorandum commenting on each section of the original Glass bill, - Senate 4115 - and on the amendments suggested by the Federal Reserve Board.

He also enclosed a copy of a letter sent by him to Senator Glass dated February 6, 1932.

In the letter of February 6, Governor Harrison stated that he would withhold detailed comments on the bill pending the report thereon of Dr. Goldenweiser and Dr. Burgess.

He did, however, discuss the provisions as to open market operations and some others, and strongly attacked the increased power given to the Federal Reserve Board, referring to it as a politically appointed body.

He stressed the necessity for autonomy in the Federal reserve banks and made three suggestions as to the amendments to the Federal Reserve Act.

These suggestions were:

1. To reduce the number of directors of each bank so as to concentrate responsibility and to encourage supervision and management through the experienced directors. (Italics mine).

2. A grant of power for removal of incompetent bank officers.

3. Restriction upon borrowing by bank officers except with approval of a committee of directors.

The first suggestion will be taken up later.

As to the second suggestion, it will suffice now to state that in the memorandum, Governor Harrison states that this should not be done at the present time.

II.

In the letter of April 7, 1932, accompanying the memorandum, Governor Harrison admits "certain past defects, and the need for provision for possible future abuses," but in another part of the letter states that "there do not appear to be any parts of the Glass bill for which there is an imperative need for immediate passage."

The only exceptions made to this sweeping condemnation are the Federal Liquidating Corporation and the branch banking provision; the former, he states, might be helpful and the latter he states would be helpful.

He reaffirms the position taken by the Federal Reserve Bank in 1929 that only the discount rate and open market operations can effectively regulate the price and total volume of credit.

He severely criticises the attempt of the Federal Reserve Board to control through direct action the loan or investment policies of individual banks.

He admits, however, that direct action has its uses in dealing with individual banks using more than their share of Federal reserve credit, but he asserts that it is neither an effective nor suitable method for general control of credit or the uses to which credit may be put, involving as it does an assumption of responsibility for the management of individual banks which could not be effectively fulfilled.

I shall not undertake in this connection to go over the arguments for

or against direct pressure. It will be sufficient to point out that the Federal Reserve Bank of New York, in 1929, wished to increase discount rates to prevent a runaway market which it believed was imminent; that the Board refused to increase the discount rate but kept in the 5% rate, exercising direct pressure upon the member banks to control their speculative loans, thus taking back part of the Federal reserve credit which had seeped into speculative markets; that the runaway market feared by the Federal Reserve Bank did not eventuate; that on the contrary, during the period of direct pressure, - from early in February to early in June, 1929, - the total bills and security holdings of the Federal Reserve Bank of New York steadily declined, while its reserve ratio steadily increased; that for the whole System, Federal reserve credit declined 193 millions during this period; that the large gold imports were kept by this direct pressure from swelling the member bank reserves and were used to take down acceptances, thus avoiding a tremendous further expansion of member bank credit; that member bank reserves in fact declined 68 millions during this period.

The fact is that direct pressure under the 5% rate was so successful that about the first of June, 1929, the Federal Reserve Bank informed the Federal Reserve Board that there was shortly to be expected a commercial need for expansion of Federal reserve credit; that the member banks were afraid to increase their borrowings, and that an easing policy would soon be essential.

Governor Harrison, in his letter, criticises Section 3 of the Glass bill, as amended by the Federal Reserve Board, perhaps more severely than any other Section of the bill. He absolutely opposes the grant of power in

this Section to close the discount window to banks abusing the discount privileges and to suspend such banks from further use of Federal reserve facilities.

He also objects to the duty imposed by this Section on Federal reserve banks to keep themselves informed as to the loan and investment policies of the member banks, (the imposition of which duty it may be parenthetically stated was strongly recommended by the Federal Advisory Council in February, 1931.)

He states that the powers granted and the duties imposed by this Section would be ineffective, would involve responsibilities which neither the Federal reserve bank nor the Federal Reserve Board could fulfill, and that the assumption of such powers would be harmful to the member banks and to the Federal Reserve System as a whole.

In this connection, I would point out that both Governor Harrison and Mr. Owen D. Young, who signed the memorandum stating the above objections, took a very different view of the matter in their testimony before the Sub-committee of the Senate.

On January 20, 1931, Governor Harrison suggested to the Sub-committee that power should be given to the Federal reserve banks, or the Federal Reserve Board, to suspend a member bank from any or all of the privileges of membership, during a given period, in the event that the bank has not conducted itself in the safest way for the depositors. (Testimony, p. 46).

On February 4, 1931, Mr. Owen D. Young stated to the Sub-committee that the Federal reserve bank should have the power to limit or refuse rediscount even of eligible paper, and to suspend other privileges of membership, if the banking practices of any particular bank were, in its judgment, unsound, and

therefore subjected its depositors to unreasonable risk, either as to liquidity or security, with a right of appeal on the part of the member bank in case the Federal Reserve Bank exercised its power unfairly, and that if the unsound practices were persisted in, the Federal Reserve Board, on complaint of any Federal reserve bank, might expel the bank from membership. (Testimony, p. 356).

Both Governor Harrison and Mr. Young were asked by the Chairman of the Sub-committee whether under existing law the Federal reserve banks had not the right to refuse to discount eligible paper.

Governor Harrison replied that that had always been his opinion, and that he had so advised the Federal Reserve Board when he was its Counsel, but that this right had been denied. (Testimony, pps. 47, 48.)

Mr. Young told the Sub-committee that the directors had never been able to agree that the power was clearly enough expressed to warrant such action by the Board of Directors; that he believed the power now existed but that such an extraordinary power and the obligation to execute it, should be made clear. (Testimony, p. 363).

The Glass bill, as amended, makes explicit these grants of powers, and yet the memorandum, signed by both Governor Harrison and by Mr. Young, positively objects to such power as harmful both to the member banks and to the Federal Reserve System!

It is possible that the Federal reserve bank may claim that it desired this power only over individual banks borrowing more than other banks of their class. This, however, would be tantamount to saying that if any one

bank loses its head in the way of speculative loans, they want power to correct it, but if all banks are infected with the speculative mania, they desire no power except their existing powers over the discount rates on commercial paper.

The power vested in the Federal Reserve Board by Section 3 of the Glass bill, would, of course, be exercised only on individual banks, but it is a power which could not be defeated by proof that not one but all banks are possessed by the speculative mania.

III.

Analysis of Memorandum.

The memorandum comments on each section of the bill in detail.

It opposes every section of the original bill except Section 16, relating to a larger capital for future national banks, which it states it prefers to the draft submitted by the Federal Reserve Board.

It approves in general the Federal Reserve Board's recommendations as to 22 sections of the original bill, but states that of these 22, 13 are not now necessary, and should be postponed for future consideration. Among these latter were:

Most of the recommendations as to affiliates, and especially the divorce of affiliates.

The 90-day clause for member bank collateral notes secured by eligible paper.

Supervision of holding companies.

Removal of officers and directors of member banks.

The memorandum opposes the following recommendations of the Board:

The power to suspend member banks for abuse of Federal reserve facilities.

The Board's bill covering new reserve provisions.

The separation of bank and affiliate stock.

The divorce of affiliates, "the desirability of which at any time is doubtful".

IV.

The Glass bill, with the amendments of the Federal Reserve Board, is designed to give some assurance to depositors and the public that the speculative excesses culminating in the crash of 1929 will not be repeated.

The speculative craze which swept over the country will take its place in history along with the tulip mania and the South Sea bubble.

The crash of 1929 was probably one of the worst in the world's history.

It represented a successful raid of the speculating public upon the banks of the country.

The banks were unable to stem this raid. On the contrary, they permitted it to increase by undue and excessive loans to their customers.

The final crash brought ruin to thousands and thousands of our people and was felt over the whole world.

The Glass bill offers a remedy by giving the Federal Reserve Board the right and duty to protect the public interest against any such future mania of speculation.

The Federal Reserve Bank of New York admits past defects and the need for some provision for future possible abuses. It suggests, as

stated before, that the directors of each bank be reduced in numbers "so as to concentrate the responsibility and to encourage supervision and management through the experienced directors".

"Through the experienced directors"! To what directors does this refer?

At first blush it would seem to refer to the Federal reserve bank directors. Such a change, however, would disrupt the Federal Reserve System by removing all directors representing the public interest, as distinct from the member banks.

I assume, however, that the reference is to the directors of the member banks.

Coupled with this recommendation is a recommendation limiting borrowings by bank officers, and also giving power of removal of incompetent bank officers.

The memorandum, however, states that the latter suggestion should not be considered at the present time and, presumably, the same suggestion would apply to the other recommendations.

V.

To sum up:-

The Federal reserve bank admits abuses in the past, and admits the necessity for provision against possible future abuses, but it opposes the present bill, and in effect takes the position that practically no legislation is imperatively demanded at the present time.

The correspondence contains the statement that the business in the United States is more dependent upon the securities market (called in the correspondence the "capital market") than upon the banks, and that business recovery is dependent upon the proper functioning of the capital market. There may be an element of truth in this statement as regards what is popularly known as "Big Business", but it is certainly not true as to that large volume of business which is absolutely dependent upon short term credit extended by banks under the auspices of the Federal Reserve System.

It should not be forgotten that it was the secession of "Big Business" from the banks, and the issue of their own securities on specially favorable terms beginning in 1927, and later their action in pouring the funds thus obtained into the maelstrom of speculation, that was a major cause in the final collapse of 1929. Yet the attempt of the Glass bill to prevent a recurrence of these practices, is condemned as being injurious to the capital market, upon the prosperity of which the revival of business activity is stated to depend.

The conclusion irresistibly to be drawn from the correspondence and memorandum is that the need for changes in the Federal Reserve System must yield and give precedence to the needs of the capital market, and that any changes in the Federal Reserve System which might affect the capital market would be most unfortunate.

The Glass bill as amended by the Board by placing restraint upon future mad speculation, will ultimately place the securities market upon a much sounder foundation than exists today, and the argument that

legislation bringing about this ultimate result should be postponed, seems to be not sound. It is a customary objection to all remedial legislation that it should be postponed, and the time will never come when all will agree that the task should be then undertaken.

The Federal Reserve Bank, as before stated, denies that there is a necessity for legislation on any subject in the Glass bill, except possibly the Liquidating Corporation and branch banks. It takes the position squarely that when legislation is enacted, it should give the Federal reserve banks more complete autonomy, free from all but very general supervision by the Federal Reserve Board, but it makes clear that if given this autonomy, it will use it in meeting another speculative mania solely by the exercise of the discount rate and open market operations, and that too even though all of the member banks are feeding the fire of unbridled speculation by undue and excessive loans to their customers on stock exchange collateral.

I venture to express the view that the public demands something more than this, and that if such a wave of speculation should sweep over the country again, it will find the Federal Reserve Board charged with such power that its future warnings in the public interest will be received with respect and carried out with promptness.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7133

April 15, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDECUR" has been designated to cover a new issue of Treasury Bills, dated April 20, 1932, and maturing July 20, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDECREE" 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-7134

April 16, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, March, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7134-a and X-7134-b, covering in detail operations of the main lines, Leased Wire System, during the month of March, 1932.

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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH, 1932.

From	Business reported by banks	Words sent by New York chargeable to other F. R. Banks (1)	Net Federal reserve bank business	Percent of total bank business (*)
Boston	30,090	1,812	31,902	3.52
New York	170,072	-	170,072	18.78
Philadelphia	31,219	2,155	33,374	3.69
Cleveland	65,622	2,010	67,632	7.47
Richmond	60,084	2,217	62,301	6.88
Atlanta	56,477	7,216	63,693	7.03
Chicago	99,314	3,378	102,692	11.34
St. Louis	74,286	2,400	76,686	8.47
Minneapolis	31,498	2,232	33,730	3.72
Kansas City	73,479	2,507	75,986	8.39
Dallas	64,936	8,536	73,472	8.11
San Francisco	110,748	3,381	114,129	12.60
Total	867,825	37,844	905,669	100.00

F. R. Board business	310,323	1,215,992
Treasury Department business Incoming and Outgoing		524,167
Total words transmitted over main lines		1,740,159

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7134-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, MARCH, 1932.

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	$577.23	$260.00	$317.23
New York	1,134.15	2.00	-	1,136.15	3,079.65	1,136.15	1,943.50
Philadelphia	225.00	-	-	225.00	605.11	225.00	380.11
Cleveland	306.66	-	-	306.66	1,224.97	306.66	918.31
Richmond	190.00	-	230.00 (&)	420.00	1,128.22	420.00	708.22
Atlanta	270.00	-	-	270.00	1,152.82	270.00	882.82
Chicago	3,792.52 (#)	14.00	-	3,806.52	1,859.60	3,806.52	1,946.92 (*)
St. Louis	195.00	2.00	-	197.00	1,388.96	197.00	1,191.96
Minneapolis	203.75	-	-	203.75	610.03	203.75	406.28
Kansas City	287.50	-	-	287.50	1,375.84	287.50	1,088.34
Dallas	251.00	-	-	251.00	1,329.93	251.00	1,078.93
San Francisco	380.00	-	-	380.00	2,066.22	380.00	1,686.22
Federal Reserve Board	-	-	15,723.79	15,723.79	-	-	-
Total	$7,495.58	$18.00	$15,953.79	$23,467.37	$16,398.58	$7,743.58	$10,601.92
							1,946.92 (a)
							$ 8,655.00

Less reimbursable charges:	
Treasury Department	3,119.49
Reconstruction Finance Corporation	3,881.93
Federal Farm Loan Board	27.90
Federal Farm Board	39.47
Total reimbursable charges	$7,068.79
Total	$16,398.58

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7135

April 18, 1932.

SUBJECT: Addresses on Banking and Credit.

Dear Sir:

In order that the Federal Reserve Board may be advised currently with regard to addresses on banking and credit made by persons connected with the Federal Reserve System, it will be appreciated if you will furnish the Board with copies of all addresses on these subjects delivered by officers and employees of your bank.

Copies of such addresses need not be furnished the Board in advance of their delivery but it will be appreciated if they are sent to the Board promptly.

Very truly yours,

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

PRINCIPAL DIFFERENCES BETWEEN H.R. 11362 and H.R. 10241.

On March 7, 1932, Mr. Steagall introduced H.R. 10241, a bill "to amend the National Banking Act and the Federal Reserve Act, and to provide a guaranty fund for depositors in national banks." On April 14, 1932, he introduced H.R. 11362, a bill having generally the same purposes. In the following paragraphs, there are set forth the more important differences between the two bills, (H.R. 10241 being referred to as the old bill and H.R. 11362 as the new bill.)

The old bill contained a provision eliminating the existing authority for the organization of a national bank with a minimum capital of $25,000 in a city of less than 3,000 inhabitants. The provision eliminating this authority is retained in the new bill which provides, however, that a national bank may be organized with a capital of not less than $25,000 for the purpose of succeeding to the business of an existing bank.

Whereas the old bill would have eliminated the double liability of shareholders of national banks hereafter organized except those banks which have branches, the new bill omits the exception as to national banks having branches, thus making the exemption from double liability apply in the case of all national banks hereafter organized.

The old bill contained a provision eliminating from the Federal Reserve Act the prohibition upon making collection or exchange charges against Federal reserve banks, but the new bill would not change the law on this subject.

The new bill contains certain additional provisions regarding national and member banks: (a) a limit upon the rate of interest which may be paid upon deposits, (b) provisions making the rate of dividend

which may be paid by a member bank dependent upon the amount of its surplus, and (c) provisions for the removal of an officer or director of a national bank where his service is detrimental to its operation.

The provisions of the old bill with reference to the Federal Banking Liquidating Board and the Guaranty Fund are also amended in certain particulars. The old bill provided for a total initial payment by member banks of $200,000,000 (in addition to the payments by the United States and the Federal Reserve Banks) based partly upon demand deposits and partly upon time deposits, whereas the new bill provides for an initial payment by member banks of only $100,000,000, based on all deposits. The new bill also permits nonmember banks to become contributors to the guaranty fund and to share in its benefits under certain conditions, one of which is that the contribution of a nonmember bank shall be twice the amount required of a member bank having the same amount of deposits. Authority is also given by the new bill for borrowing by the Liquidating Board from the Reconstruction Finance Corporation until January 22, 1934, up to the maximum of $500,000,000.

SUMMARY OF THE PROVISIONS OF H.R. 11362.

The provisions of this bill divide themselves conveniently into four portions: (a) amendments to the National Banking Laws; (b) amendments to the Federal Reserve Act; (c) provisions affecting member banks but not amending any specific provisions of law; and (d) provisions establishing a Federal Guaranty Fund for depositors in member banks of the Federal Reserve System.

AMENDMENTS TO NATIONAL BANKING LAWS.

The amendments to the National Banking Laws, which are contained in Sections 1, 2, 3 and 4 of the bill, refer in all cases only to national banks which may be organized hereafter. These amendments contain three important changes in the law: (1) The existing authority for the organization of a national bank with a minimum capital of $25,000 in places of not exceeding 3,000 inhabitants would be replaced by a provision authorizing the formation of a national bank with a minimum capital of $25,000 for the purpose of succeeding to the business of an existing bank, (2) no national bank may be organized unless it has a surplus of not less than 10% of its capital stock, and (3) provisions for the double liability of shareholders of national banks are eliminated.

Section 1 of the bill eliminates from Section 5138 of the Revised Statutes the provision that national banks may be organized in places of not exceeding 3,000 inhabitants with a minimum capital of $25,000, and inserts a provision in lieu thereof which would permit the

formation of a national bank for the purpose of succeeding to the business of an existing bank, in the discretion of the Comptroller of the Currency, with a minimum capital of $25,000.

Section 2 of the bill amends Section 5138 of the Revised Statutes so as to provide that no national bank shall be organized except with an initial surplus equal to 10% of its capital stock, and provides a number of corresponding amendments to other provisions of the national banking laws in order to make them conform to this requirement. Thus, for this purpose:

Section 5168 of the Revised Statutes, which requires the Comptroller of the Currency to examine into the condition of a national bank, and especially whether 50% of its capital stock has been paid in, in order to determine whether the bank is lawfully entitled to commence business, is amended to require the Comptroller to ascertain also whether 50% of the required initial surplus has been paid in.

The Act of November 7, 1918, as amended, providing for the consolidation of national banks, and for the consolidation of a State bank with a national bank, is amended to require that the consolidated institution in each such case shall have an initial surplus, as well as a capital stock, in the amount required for the organization of a national bank in the place in which it is located.

Section 5154 of the Revised Statutes, providing for the conversion of a State bank into a national bank, is amended to require that the converted institution have an initial surplus

not less than that required for the organization of a national bank in the place in which it is located.

Section 5140 of the Revised Statutes, requiring at least 50% of the capital stock of a national bank to be paid in before it is authorized to commence business and the remainder to be paid in in 10% monthly installments is amended to make similar requirements with regard to the required initial surplus.

Section 5141 of the Revised Statutes, which authorizes the sale of the stock of any shareholder who fails to pay any installment on his stock as required by law, is amended so as to give the same authority in the case of a failure to pay any installment of the initial surplus.

Section 5205 of the Revised Statutes, which provides for assessments upon stockholders of a national bank in case its capital stock is not paid up or in case of an impairment therein and for the appointment of a receiver when the deficiency is not made up within three months after notice, is amended to provide for such assessments where the initial surplus is not paid up and for the appointment of a receiver where the deficiency in initial surplus is not met within the three months' period. Apparently an impairment in initial surplus would not be grounds for such an assessment. The provision of Section 5205 authorizing the sale of the stock of a share-

holder who fails to pay such assessment against him would be omitted by this amendment, apparently by mistake. Section 5143 of the Revised Statutes, which authorizes reductions in capital stock of national banks, is amended so as to include surplus in its provisions. The amendment is ambiguous, but apparently all the present requirements for a reduction of capital, including two-thirds' vote of shareholders and approval of the Federal Reserve Board and of the Comptroller of the Currency, would be applicable as to every reduction in surplus.

Section 3 of the bill amends Section 5151 of the Revised Statutes and Section 23 of the Federal Reserve Act so as to eliminate the provision for the double liability of shareholders as to national banks hereafter organized.

Section 4 of the bill provides that the provisions of Sections 1, 2 and 3 shall apply only to national banks organized after the date of the enactment of this Act, stipulating, however, that the provisions of law amended by such sections shall apply, in their now existing form, to all national banks organized prior to the enactment of this act.

AMENDMENTS TO THE FEDERAL RESERVE ACT.

Sections 5 and 6 of the bill contain amendments to the Federal Reserve Act with regard to the distribution of earnings of Federal reserve banks, and the giving of immediate credit by Federal reserve banks for items received for collection.

Section 5 would amend the first paragraph of Section 7 of the Federal Reserve Act so as to provide that the net earnings of each Federal reserve bank shall be distributed as follows: After the payment to member banks of the 6% dividend now provided for and the payment of 10% of the net earnings to surplus, one-half of the remainder of the net earnings shall be paid to the Federal Guaranty Fund for depositors of member banks, (provided for in later sections of this bill) and the remaining one-half shall be paid to the member banks in proportion to the amount of their capital stock. The payment of the franchise tax by Federal reserve banks to the United States would thus be eliminated. The second paragraph of Section 7, with regard to the manner in which funds paid to the United States either as a franchise tax or upon dissolution of the Federal reserve bank are to be used, is amended to make the necessary corresponding changes.

Section 6 would amend Section 13 of the Federal Reserve Act by adding at the end of the first paragraph a new paragraph requiring a Federal reserve bank upon application of "a sending bank" to give immediate credit for checks and drafts received from such bank for collection and authorizing the Federal reserve bank to charge interest on the amount of the

credit at the current rediscount rate pending the collection of the item or, with the approval of the Federal Reserve Board, to establish a time schedule for this purpose.

MISCELLANEOUS PROVISIONS NOT AMENDING ANY SPECIFIC PROVISION OF LAW.

Sections 7, 8 and 9 of the bill contain certain provisions which affect national banks and member banks of the Federal Reserve System but which do not in terms amend any specific provision of the National Banking Act, the Federal Reserve Act or any other statute.

Section 7 would prohibit the payment of interest at a rate in excess of 4% per annum by any member bank of the Federal Reserve System upon any deposit made after the enactment of the act.

Section 8 would prohibit a member bank (a) to pay any dividend unless its surplus is more than 25% of its paid-in capital stock, (b) to pay any dividend at a rate in excess of 6% per annum unless its surplus is more than 50% of its paid-in capital stock, or (c) to pay any dividend in excess of 8%, unless its surplus is more than 100% of its paid-in capital stock. Where its surplus is more than 100% of its paid-in capital stock, the rate of dividend would not be limited.

Section 9 would require the Comptroller of the Currency, whenever he finds that the continued service of any officer or director of a national bank is detrimental to its safe operation, to certify this fact to the Federal Bank Liquidating Board (provided for in a later section of the bill). Within thirty days thereafter the board would be required to hold a hearing at which such officer or director would have the right to be heard and be represented by counsel. If the board affirms the finding

of the Comptroller, it would be required to order the removal of the officer or director and to notify the bank involved, which must thereupon take such action as may be necessary to remove the officer or director.

PROVISIONS FOR GUARANTY FUND FOR DEPOSITORS OF MEMBER BANKS.

The remaining sections of the bill, designated Sections 201 to 211, and comprising what is known as Title II of the bill, provide for the establishment of a Federal Bank Liquidating Board and for the guaranty of the deposits of member banks.

Section 201 of the bill establishes a Federal Bank Liquidating Board consisting of the Secretary of the Treasury, the Comptroller of the Currency, and three citizens of the United States appointed by the President by and with the advice and consent of the Senate. The appointive members, not more than one of whom shall be of the same political party as the President, are to hold office for four years and each is to receive a salary of $10,000 per annum. The appointive members are ineligible during the time they are in office, and for one year thereafter, to hold office or employment in any member bank or in or on the Federal Reserve Board. The Liquidating Board shall elect its own chairman and other officers and may employ and fix the compensation of its officers, attorneys, agents, examiners and employees, but the compensation shall not be at a rate in excess of $10,000 per annum in any case. Expenses are to be paid out of the guaranty fund herein provided for.

Section 202 establishes a Federal guaranty fund for depositors in member banks of the Federal reserve system. This fund is to be created by payments from three sources; (a) The entire amount heretofore paid to the United States as a franchise tax by the Federal reserve

banks shall be paid by the United States to the guaranty fund; (b) The Federal reserve banks are to pay to the fund $150,000,000, the amount required of each to be determined pro rata according to the amount of its surplus on December 31, 1931; and (c) The board shall require the member banks to pay to the fund such an amount as it may fix, not exceeding $100,000,000, the amount required of each member bank to be determined pro rata according to its average deposits during the preceding calendar year. At any time after one year subsequent to the payment of the above amounts, the board may, if in its judgment the amount of the fund is inadequate, require the member banks to pay annually to the fund not more than $100,000,000 pro rated among them according to their average deposits for the preceding calendar year. All sums payable either by a Federal reserve bank or by a member bank are subject to the call of the Liquidating Board, except that amounts assessed against member banks shall be payable in installments of not more than 25% of the assessment. If at any time the amount of the fund exceeds $500,000,000, and in the judgment of the Board is in excess of the amount required for the purposes of the law, the Board shall make a refund of the excess amount to the contributing banks, the amount of the refund to any bank being pro rated according to its contribution to the last annual contribution of all banks. Sums in the guaranty fund may be invested by the board in interest bearing obligations of the United States or deposited in member banks without interest.

Section 203 provides that whenever a national bank which has contributed to the fund has been closed by its directors or by the Comptroller of the Currency, or has become insolvent in the judgment of the Comptroller, he shall so certify to the liquidating board, which shall proceed to take over and wind up the bank in accordance with the law. The Board is to have the same powers and duties and is to be subject to the same limitations as the Comptroller in winding up such a national bank. Within thirty days after the receipt of the certificate of insolvency by the board, a committee consisting of one person appointed by the board, one appointed by the owners of a majority of the stock of the bank and one appointed by the depositors of more than 50 per cent of the outstanding deposits of the bank shall estimate the value of the assets and the amount of the liabilities of the bank and make a statement of the amount of the outstanding deposit of each depositor.

Section 204 provides that, on the basis of this estimate, as modified by the board, and not less than ninety days after the certification of insolvency, the board shall pay to each depositor whose outstanding deposit is not more than $1,000 not less than fifty per cent thereof, and to each other depositor not less than twenty-five per cent of his outstanding deposit, or $500, whichever is greater. Within six months after such payment the board is to pay each depositor of the former class the remaining amount due him (and it would seem to be the intention to provide that other depositors shall, within this six months' period, be paid an additional twenty-five per cent of their deposits, but no such provision is contained

in the bill.) Within the next six months period an additional twenty-five per cent shall be paid to all depositors not yet paid and within six months thereafter full payment shall be made to all depositors.

Section 205 provides that the board, or a liquidating agent duly authorized by the board, may borrow money on the security of the assets of any insolvent national bank for the purpose of paying its depositors and creditors.

Section 206 provides that in case of insolvency of a State member bank, the board shall request its receiver or liquidating agent to submit a report and estimate such as that required of the Committee in the case of a national bank; and the board upon approval of such report and estimate shall pay the receiver or liquidating agent in trust for the depositors the same amounts, and at the same times, as in the case of national banks. For this purpose, the board is given the power of examination of such an insolvent State member bank.

Section 207 makes it mandatory upon the Federal Reserve Board, after hearing, to forfeit the membership of any member bank failing to comply with the requirements of the bill with respect to the Guaranty Fund or any regulation of the Liquidating Board; and a national bank failing to comply with such provisions of the bill shall, in addition, forfeit all rights and franchises granted to it by the law (apparently without any court proceeding, but upon the basis of the hearing conducted by the Federal Reserve Board.)

Section 208 provides that any bank, which is not a member of the Federal Reserve System, with a capital and surplus of not less than $25,000, may with the approval of the Liquidating Board, contribute to the guaranty fund and upon insolvency the depositors of such bank shall be entitled to the same benefits as those of an insolvent State member bank under section 206 above. No nonmember bank may contribute to the guaranty fund, however, until after examination of the bank and determination by the Liquidating Board that the bank is in sound financial condition and, as a condition to the privilege of contributing to the fund, the bank must submit to examination by the Board at any time; with a proviso, however, that for a period of not exceeding three years after the passage of the Act, a nonmember bank may share in the benefits of the guaranty fund upon certificate of the State examining authorities that such bank is in sound financial condition. The amount of the initial contributions and annual contributions of nonmember banks shall be twice the amount of those required of member banks. Sums payable by nonmember banks shall be subject to call of the Liquidating Board but the amount of any assessment shall be payable in installments of not more than 25% each. The Liquidating Board may require a nonmember bank to withdraw from participation in the benefits of the guaranty fund or require it "to go into liquidation and receive the benefits of such participation". Upon withdrawal from participation, the bank shall be paid a part of its last annual contribution, the amount to be repaid decreasing proportionately according to the

number of months which have elapsed since such last contribution.

Section 209 authorizes the Liquidating Board, until January 22, 1934, to borrow from the Reconstruction Finance Corporation such sums as may be deemed necessary to carry out the purposes of the law, but not in excess of $500,000,000 at any one time. The Reconstruction Finance Corporation "shall make such loans" as are applied for by the Liquidating Board and applications by the board shall be preferred above other applications and expedited in every way possible. No security shall be required for such loans and they shall bear interest at a rate agreed upon by the board and the corporation. Such a loan shall be repaid in installment payments out of the guaranty fund and all such loans shall be payable in full not later than January 22, 1942. The Reconstruction Finance Corporation is required to issue, in accordance with the provisions of the Reconstruction Finance Corporation Act, such notes, debentures, bonds and other obligations as may be necessary to carry out the purposes of this law.

Section 210 authorizes the Liquidating Board to make regulations necessary to carry out the provisions with respect to the Guaranty Fund.

Section 211 authorizes appropriations of such sums as may be necessary to carry out the provisions of this act.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7137

April 20, 1932.

SUBJECT: Holidays during May, 1932.

Dear Sir:

The Federal reserve banks and branches listed below will be closed on account of holidays on the dates specified, and therefore will not participate in either the Gold Settlement Fund or the Federal reserve note clearing:

Tuesday	May 3	San Francisco Los Angeles	Primary Election Day
Tuesday	May 10	Charlotte	Confederate Memorial Day
Friday	May 20	Charlotte	Mecklenburg Independence Day
Friday	May 20	Havana Agency	Cuban Independence Day
Friday	May 20	Portland	Primary Election Day

On Monday, 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 of all Federal reserve banks and branches with the exception of the following, will be closed on that day:

Charlotte	Atlanta	New Orleans	Birmingham
Nashville	Memphis	Little Rock	Havana Agency

Please include Gold Fund credits for the offices affected on each of these holidays with those for the following business day, and make no shipments of Federal reserve notes, fit or unfit, for account of the Federal Reserve Bank of San Francisco on May 3rd.

Please notify Branches.

Very truly yours,

J. C. Noell,

TO GOVERNORS OF ALL F.R. BANKS

S. 4412, INTRODUCED APRIL 18, 1932.

PROVISIONS OF THIS BILL COMPARED WITH S. 4115 WITH CHANGES RECOMMENDED BY FEDERAL RESERVE BOARD.

There is set forth below a comparison of the more important features of S. 4412, which was introduced in the Senate and reported by the Committee on Banking and Currency on April 18, 1932, and S. 4115 with the changes recommended by the Federal Reserve Board in its letter to Senator Norbeck of March 29, 1932.

S. 4115 is referred to herein as the "old bill" and S. 4412 as the "new bill". Section numbers and page numbers refer to the sections and pages of the new bill, unless otherwise indicated. Certain sections of the old bill which have been omitted entirely from the new bill are treated at the end of this memorandum.

SECTION 1.

Title. - (p. 1)

This section merely provides that the short title of the act shall be the "Banking Act of 1932."

SECTION 2.

Definitions. - (pp. 1, 2 and 3)

The definitions contained in section 2, including those of an affiliate and of a holding company affiliate, are, in the new bill, made applicable not only to the provisions of this act but to any pro-

visions of law amended by this act.

The several classes of institutions defined as affiliates in the old bill are subdivided in the new bill so as to make a distinction between "affiliates" generally and "holding company affiliates".

With these exceptions, the definitions contained in the new bill are substantially in the same form as in the old bill with the changes recommended by the Board.

SECTION 3.

(a) Control of Federal reserve bank credit by Federal Reserve Board.(pp.3,4)

On this subject the recommendation of the Federal Reserve Board is adopted in Section 3 (a) of the new bill.

(b) Voting by groups or chains in elections of Federal reserve bank directors. (p. 5)

Section 4 of the old bill prohibited banks that belong to a group or chain from voting for Federal reserve bank directors, and the Board recommended the omission of the provision. The new bill provides (in Section 3(b) that when two or more member banks are affiliated with the same holding company affiliate only one of such banks may participate in the nomination or election of Federal reserve bank directors.

SECTION 4.

Distribution of earnings of Federal reserve banks. (p. 5)

The old bill provided (in Section 5) that net earnings of Federal reserve banks after payment of dividends and expenses should be paid to the Federal Liquidating Corporation. The Board recommendedthat no

changes be made in the present method of the distribution of earnings of Federal reserve banks but that the Secretary of the Treasury be authorized in his discretion to use the franchise tax received from Federal reserve banks for investment in obligations of the Liquidating Corporation. The new bill provides (in Section 4) that all net earnings of a Federal reserve bank, after payment of dividend claims and expenses, shall be paid into the surplus fund of the Federal reserve bank.

SECTION 5.

(a) Branches of State member banks. (pp. 5, 6)

In connection with Section 21 of the old bill, the Board recommended a new provision to the effect that nothing contained in the bill shall prevent State member banks from establishing branches either in the United States or elsewhere upon the same terms and conditions as those applicable to branches of national banks. This provision as recommended is contained in Section 5(a) of the new bill.

(The provisions of the new bill with reference to branches of national banks are contained in Section 19.)

(b) Reports of affiliates of State member banks. (pp. 6, 7)

The old bill (in section 6) required each affiliate of a State member bank to make three complete reports of condition annually through the president of the bank to the Federal Reserve Board. The Board's recommendation was that such reports be required only when deemed necessary by the Federal Reserve Board. The new bill provides in Section 5(b) that a State member bank shall obtain from each of its affiliates and furnish to the Federal reserve bank and to the Federal Reserve Board not less than

three reports of condition each year and such additional reports as the reserve bank or the Board may deem necessary. The provision requiring such reports to be made is mandatory; but they are required to contain only such information as, in the judgment of the Federal Reserve Board, shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank.

(Substantially the same provisions are contained in Section 23 of the new bill with reference to reports of affiliates of national banks.)

Dealings in stocks and investment securities by State member banks. (p. 8)

Section 5(b) of the new bill contains a provision to the effect that State member banks shall be subject to the same limitations and conditions as are national banks with respect to the purchase, sale, underwriting and holding of investment securities and stock. There was no such provision in theold bill; and the Board recommended that Section 15 of the old bill, which restricted dealings in investment securities by national banks, be omitted entirely.

(The provisions on this subject regarding national banks are in Section 14 of the new bill.)

Divorce of stock of State member banks from stock of other corporations. (p. 8)

Section 5(b) of the new bill contains a provision to the effect that, after three years from the passage of the act, no certificate of stock of a State member bank shall represent the stock of any other corporation, except a member bank, nor shall the ownership or transfer of a stock cer-

tificate of such a bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation, except a member bank.

A similar provision regarding stock of national banks is found in Section 16 of the new bill.

The old bill contained no such provision regarding the stock of State member banks; but Section 17 contained a similar provision regarding the stock of national banks, which would have become effective immediately, and the Board recommended that it be retained but that it be made effective after three years.

Right of an affiliate of a State member bank to vote stock held by it in such bank. (pp. 8 and 9)

Section 5(b) of the new bill provides that the holding company affiliates of State member banks shall be subject to the provisions of Section 5144 of the Revised Statutes (which contains the conditions under which affiliates may vote stock held in national banks) and also provides for the forfeiture of the membership of a State member bank, in the discretion of the Federal Reserve Board, where a voting permit of a holding company affiliate of such a bank is revoked. Under the new bill, therefore, substantially the same provisions are applicable to holding company affiliates of national banks and holding company affiliates of State member banks.

The Board recommended that the provisions of the old bill with reference to the conditions under which holding company affiliates of national banks might obtain permits to vote stock owned by them in such

banks be revised in a number of particulars and also recommended that substantially the same provisions as those suggested for national banks be made applicable to affiliates of State member banks, suggesting a new section of the bill for this purpose. The provisions applicable to affiliates of national banks in this connection are contained in Section 17 of the new bill and are discussed hereafter with reference to that section; but it may be stated briefly at this point that the recommendations of the Board regarding affiliates of national banks have not been adopted in the new bill.

Examination of affiliates of State member banks. (p. 9)

The new bill in Section 5(b) requires such examinations of affiliates of State member banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of the bank; the expense of such examinations may, in the discretion of the Federal Reserve Board, be assessed against the bank examined, (instead of against the affiliates as recommended by the Board); and, in the event of the refusal of the affiliate to give information requested or to permit such an examination, or in the event of the failure of the bank to pay the expenses of such an examination, the membership of any State member bank affiliated with such an affiliate may be forfeited in the discretion of the Federal Reserve Board.

The old bill contained a provision (in Section 28) requiring examinations of affiliates of a State member bank. The Federal Reserve Board recommended that such examinations be authorized to be made only when deemed necessary.

(Provisions of a somewhat similar character are contained in Section

24 of the new bill with reference to examinations of affiliates of national banks.)

SECTION 6.

Membership of the Federal Reserve Board. (pp. 10-12)

The old bill (in Section 7) contained a provision omitting the Secretary of the Treasury from the membership of the Federal Reserve Board and omitting the provision of the Federal Reserve Act authorizing the Secretary to assign quarters to the Federal Reserve Board. The Board recommended certain minor amendments to this section and suggested that authority be given the Board to purchase or erect a building for its offices. In Section 6 of the new bill the provisions of the old bill are repeated with the minor changes recommended by the Board; but the authority for the Federal Reserve Board to purchase or erect a building is omitted.

SECTION 7.

Open Market Committee. (pp. 13, 14)

Section 7 of the new bill adds a new Section 12A to the Federal Reserve Act, which provides for a Federal Open Market Committee along the lines of the existing Open Market Policy Conference.

The Board recommended that the similar provisions of the old bill (Section 10) on this subject be stricken out, and that there be substituted certain amendments to Section 14 of the Federal Reserve Act clarifying the Board's powers over open market operations and containing in revised form one of the provisions of the old bill. The Board's recommendations were not adopted in the new bill.

The chief differences between the new bill and the old bill are: In lieu of the statement in the old bill that no Federal reserve bank may engage in open market operations "except after approval and authorization

by the Committee", there is a provision in the new bill that no Federal reserve bank shall engage in such operations "except in accordance with resolutions adopted by the Committee and approved by the Federal Reserve Board". This applies to all purchases and sales on the open market under Section 14 of the Federal Reserve Act, whether for system account or for the account of an individual Federal reserve bank. The old bill provided that the Governor of the Federal Reserve Board should be a member of the committee in addition to the twelve members appointed by the directors of the Federal reserve banks, but in the new bill the Governor is not made a member of the committee. The new bill also omits the provision of the old bill that the Board's annual report to Congress should include a review of the decisions of the committee with an explanation thereof.

Federal Liquidating Corporation. (pp. 14-27).

Section 7 of the new bill also contains the proposed new Section 12B of the Federal Reserve Act providing for a Federal Liquidating Corporation to expedite the payment of dividends to depositors and creditors of closed member banks. The provisions of the new bill on this subject are a compromise between the provisions of the old bill and the Board's proposed substitute.

The old bill provided (in Section 10) for the creation of a Federal Liquidating Corporation for the purpose of purchasing and liquidating the assets of closed member banks. The Board recommended a number of changes in the provisions with reference to this proposed corporation, and in the new bill some of these changes have been adopted and some have been omitted. Without setting forth all of the detailed differences between the old bill, the recommendations of the Board, and the new bill,

there are stated below the more important of these differences.

In accordance with the recommendation of the Federal Reserve Board, the new bill provides for a board of directors of five members, (the Comptroller of the Currency, a member of the Federal Reserve Board, and three members selected annually by the Governors of the Federal reserve banks), instead of a board of fourteen members (the Comptroller of the Currency and the 13 members of the Federal Open Market Committee) as provided in the old bill.

The old bill provided for two classes of capital stock of the corporation: class A stock, to be subscribed by member banks in an amount equal to one-half of one per cent of their deposits, and class B stock, to be subscribed by Federal reserve banks in an amount equal to one-fourth of their surplus; with an additional provision for annual subscriptions by Federal reserve banks in amounts equal to one-fourth of the annual increase in their surplus accounts. The Board recommended that the capital stock consist of $100,000,000 to be subscribed by the United States. The new bill provides for the appropriation by the United States to the corporation of the sum of $125,000,000, but also provides for two classes of stock: class A stock, to be subscribed by member banks in an amount equal to one-fourth of one per cent of their deposits, and class B stock to be subscribed by Federal reserve banks in an amount equal to one-fourth of their surplus. One-half of each class of stock is apparently to be paid in upon the organization of the corporation, and the remainder is subject to call. The new bill, however, omits the provision for additional annual subscriptions by the Federal reserve banks.

The old bill authorized the Liquidating Corporation to purchase

and liquidate the assets of closed nonmember State banks and to make loans to such banks, for a limited number of years; and also authorized an appropriation of $200,000,000 from the United States Treasury for this purpose. In accordance with the recommendation of the Board, this provision is omitted from the new bill and its provisions are limited to member banks.

The old bill provided for the issuance of debentures by the Liquidating Corporation in amounts aggregating not more than four times its capital. The Federal Reserve Board recommended that debentures be authorized up to twice the amount of capital and that Federal reserve banks be given authority to purchase these debentures up to one-fourth of their surplus. The new bill authorizes the issuance of debentures in an amount aggregating not more than twice the amount of the capital of the corporation and the $125,000,000 appropriation from the Treasury of the United States. The provision recommended by the Board, however, that such debentures be guaranteed by the United States is omitted from the new bill.

The new bill (p. 20, lines 24, 25; p. 21, lines 1-4) contains in a different form the provision for a valuation committee, the elimination of which was recommended by the Board. Loans on and purchases of, assets of closed member banks are to be made "on the basis of" valuations of such assets made by this committee, which includes the receiver, a representative of the insolvent bank, and a third member selected by those two, but does not include any representative of the corporation.

A number of provisions recommended by the Federal Reserve Board of a prohibitive or penal character in connection with the proposed Federal Liquidating Corporation and its operations have been adopted in the new bill and certain unnecessary steps regarding the organization of the corporation and increases and decreases in its capital have been eliminated.

SECTION 8.

Loans on member banks' collateral notes (pp. 27-28)

The old bill (Section 11) provided that the rate at which a Federal Reserve Bank might make advances to its member banks on their 15-day promissory notes should be at a rate 1% higher than the rediscount rate, and also provided that if a member bank, while indebted to a Federal reserve bank on such a 15-day note and despite a warning of the Federal reserve bank or the Federal Reserve Board, should increase its loans made for the purpose of purchasing or carrying investment securities (except obligations of the United States), the note should be immediately due and payable and the member bank should be ineligible to borrow on such 15-day notes for such periods as the Federal Reserve Board might determine. The old bill also provided that the Federal Reserve Board might suspend the provisions of law with reference to loans to member banks on their 15-day notes for periods of 90 days.

In lieu of these provisions of the old bill, the Federal Reserve Board recommended an amendment increasing the maximum maturity of advances to member banks on their promissory notes secured by eligible paper from 15 to 90 days.

Section 8 of the new bill (pp. 27,28) does not adopt the recommendation of the Board on this point and contains substantially the same provisions as those in the old bill, except that there have been omitted the discriminatory rate of 1% on such 15-day advances to member banks and the provisions for the suspension by the Board of the provisions of law on this subject.

SECTION 9.

Foreign transactions of Federal reserve banks (p. 29)

The Federal Reserve Board suggested certain changes in the provisions of Section 12 of the old bill with reference to the supervision of the Board over foreign transactions of Federal reserve banks, and the more important of these changes have been adopted in the corresponding provisions contained in Section 9 of the new bill. The provisions of the new bill on this subject, which are substantially those of the old bill with the Board's suggested changes, provide that all relationships and transactions by Federal reserve banks with foreign bankers shall be subject to special supervision and regulation by the Federal Reserve Board; that negotiations with foreign bankers shall not be conducted without the permission of the Board; that the Board may be represented in any such negotiations; and that a full report of all such negotiations shall be made to the Board in writing.

SECTION 10.

Reserves of member banks and restrictions on dealings in "Federal Funds" (p. 30).

Section 13 of the old bill contained a complete revision of Section 19 of the Federal Reserve Act with reference to the reserves required of member banks. Chief among its provisions was the requirement that the percentages of reserve against time deposits be increased over a period of years to the same percentages as those required against demand deposits. Another important provision of the old bill prohibited the transfer of balances with a Federal reserve bank from one bank to

another without the authority of the Federal Reserve Board and except upon payment of a fee for the privilege. The Board was also authorized to suspend all dealings in reserve balances for such periods as it might deem best.

The Federal Reserve Board recommended, in lieu of the provisions of the old bill on this subject, a revision of section 19 of the Federal Reserve Act in accordance with the recommendations of the System Committee on Reserves with some modifications; and recommended the omission of the limitations on the use of balances standing to the credit of member banks on the books of the Federal Reserve Banks.

The new bill (in Section 10) omits entirely any revision or amendment of the reserve requirements of member banks, and also omits the restrictions of the old bill on the transfer of balances in Federal reserve banks.

Member banks as mediums in making loans on collateral. (p. 30)

In accordance with a recommendation of the Federal Reserve Board, Section 10 of the new bill adds a new paragraph to Section 19 of the Federal Reserve Act forbidding a member bank to act as the medium or agent of any non-banking corporation or individual in making loans on the security of stocks, bonds and other investment securities to brokers or dealers in such securities, and providing a fine for violation thereof.

The old bill contained a provision for a similar purpose but in different form.

SECTION 11.

Loans to or investments in stock of affiliates. (pp. 30-32)

On this subject the new bill (in Section 11) adopts substantially the recommendations of the Federal Reserve Board and provides that no member banks shall make any loan or extension of credit to, or purchase

securities under repurchase agreements from, any of its affiliates, or invest in the stock or obligations of such affiliates, or accept such stock or obligations as security for advances, if the aggregate amount thereof, in the case of any one affiliate, will exceed ten per cent of the capital stock and surplus of the member bank, or if, in the case of all such affiliates, the aggregate amount thereof will exceed twenty per cent of the capital stock and surplus of such member bank. Each loan or extension of credit to an affiliate shall be secured by collateral, in the form of stocks, bonds, debentures or other such obligations, having a market value of at least twenty per cent more than the amount of the loan or extension of credit or at least ten per cent more than the amount thereof if secured by State or municipal obligations. Loans or extensions of credit secured by obligations of the United States, Federal intermediate credit banks, Federal land banks or paper eligible for rediscount by Federal reserve banks are excepted from the requirement as to marginal collateral (but the suggestions of the Federal Reserve Board that those secured by obligations of the Reconstruction Finance Corporation be also excepted was not adopted). The provisions of this section do not apply to an affiliate engaged solely in holding the bank premises of the affiliated member bank or conducting a safe-deposit business or the business of an agricultural credit corporation or live stock loan company, or to an affiliate in the capital stock of which a national bank is authorized to invest under Section 25 of the Federal Reserve Act, or an affiliate organized under Section 25(a) of the Federal Reserve Act.

The old bill (in Section 9) contained some of the provisions of the new bill on this subject, but the limitations prescribed were applicable only as to affiliates engaged in buying and selling stocks, bonds, real estate or real estate mortgages or organized to hold title to any such property. The old bill did not include the twenty percent limit in the case of all affiliates, on the aggregate of loans, investments and advances, nor did it include any of the above-mentioned exceptions to the limitations prescribed. The old bill required marginal collateral of twenty per cent in all cases except where the security for the loan consisted of paper eligible for rediscount or obligations eligible for investment by savings banks.

SECTION 12.

Real estate loans and investments in bank premises (pp. 32, 33)

The old bill (in Section 14) contained a number of provisions with reference to real estate loans and investments of member banks. It would have required a bank to revise the valuations on which such loans were based at the time of each examination and also, in effect, at the time of each report of its condition. The limitations on the amount of such loans would have been changed, and all unsecured loans whose eventual safety depends upon the value of real estate would have been classified as real estate loans. Time depositors would have been given a preferred claim on all real estate loans and other assets acquired under this section of the old bill.

The Federal Reserve Board recommended that these provisions of the old bill be omitted and that there be substituted therefor a provision that no national bank, without the permission of the Comptroller of the Currency, and no State member bank, without the permission of the Board, shall invest in bank premises, or in the stock or obligations of, or in loans to, any corporation owning or holding its bank premises a sum exceeding the amount of the capital stock of such bank.

The new bill omits the provisions of the old bill in accordance with the recommendation of the Board, and adopts in substance the provision suggested by the Board, although the language of the provision is somewhat changed, and loans upon the security of the stock of any such corporation holding bank premises are included within the investments to which the limitation applies.

SECTION 13.

Jurisdiction of Federal Courts over cases involving foreign banking transactions. (pp. 33,34)

This provision, which was not contained in the old bill and which was not the subject of a recommendation by the Federal Reserve Board, confers upon the district courts of the United States jurisdiction over any case to which a corporation organized under the laws of the United States is a party and which arises out of transactions involving international or foreign banking, either directly or through the agency, ownership or control of branches or of local institutions in foreign countries.

It is understood that the rule in the Federal courts with reference to the valuation of foreign currency in transactions of this kind is more favorable to banks than in the State courts, and it is apparently for this reason that the bill contains the above provision.

SECTION 14.

National banks granted all powers of State banks. (p. 34)

In the old bill (Section 15) national banks were granted power to engage in all forms of banking business permitted by the laws of the State in which they are located to "banks of deposit and discount" organized under such State laws, except to the extent that the exercise of such powers is forbidden by the laws of the United States.

The Board recommended that this provision be omitted; but it is contained in the new bill in substantially the same form in which it appeared in the old bill.

Dealings in investment securities (pp. 34-36)

The old bill (in section 15) contained a number of provisions with reference to dealings in investment securities by national banks and the Board recommended that all these provisions be omitted. They are, however, repeated in the new bill, with certain changes and additions, and with the provision (in Section 4) that the same provisions shall be applicable to State member banks. The new bill provides in effect that:

Dealings in investment securities are limited to the purchase and sale of such securities, without recourse, solely upon the order

and for the account of customers, except that member banks may purchase and hold for their own account investment securities under limitations and restrictions prescribed by regulation of the Comptroller of the Currency.

No member bank shall underwrite any issue of securities.

The total amount of any one issue of investment securities of any one obligor hereafter purchased and held by a member bank for its own account shall not exceed 10 per cent of the total amount of such issue outstanding, but this limitation does not apply to any issue not in excess of $100,000 and not in excess of 50 per cent of the capital of the bank; and the total amount of investment securities of any one obligor hereafter purchased and held shall not exceed 15% of the capital of the bank and 25 per cent of its surplus. (The latter limitation in the old bill was stated in ambiguous terms and might have been construed to apply to the aggregate amount of all investment securities held by the bank.)

No member bank may purchase or hold the stock of any corporation, except as otherwise permitted by law, and except that a bank may invest not more than 15 per cent of its capital and surplus in the stock of safe deposit companies.

These limitations do not apply to obligations of the United States, to general obligations of any State or any subdivision thereof, or to obligations issued under the authority of the Federal Farm Loan Act.

The definition of investment securities contained in existing law would apparently have been stricken out by the old bill and the Comptroller of the Currency given unlimited powers to prescribe his own definition, except that stocks could not be included. The new bill, however, in effect restores the definition contained in the existing law.

SECTION 15

(a) Capital required for organization of national banks. (pp. 36, 37)

The old bill (in section 16) contained an amendment to Section 5138 of the Revised Statutes to provide that no national bank may be organized with a capital of less than $50,000, except that a national bank may be formed, in the discretion of the Comptroller of the Currency, for the purpose of succeeding to the business of an existing bank with a capital of not less than $25,000. The old bill also eliminated the existing requirement that the organization of national banks with a capital of less than $100,000 shall be subject to the approval of the Secretary of the Treasury.

The Board recommended the elimination of the exception in the old bill which permitted the formation of national banks with a capital of less than $50,000 to take over the business of an existing bank. This recommendation was adopted and with this change the provisions of the old bill on this subject are repeated in the new bill.

(b) Capital requirements of State member banks. (p. 37)

Section 15(b) of the new bill contains a provision, not appearing in the old bill and not recommended by the Federal Reserve Board, which amends Section 9 of the Federal Reserve Act so as to eliminate the provision of existing law under which a State bank is permitted to become a member of the Federal Reserve System with a capital equal to only 60% of the amount required for the organization of a national bank in the place in which it is situated. The capital required of State member banks hereafter admitted to the System, therefore, would be required in all cases to be equal to that required of national banks located in places of like size.

SECTION 16.

Shares of stock of $100 each.

The old bill (in Section 17) would have amended section 5139 of the Revised Statutes so as to provide that the capital stock of national banks should be divided into shares of $100 each, thus repealing the provision of the present law for shares of a lesser amount. In accordance with the recommendation of the Federal Reserve Board, however, this provision is omitted in the new bill.

Divorce of stock of national bank from stock of other corporations. (p. 37)

The new bill provides (in Section 16) that, after three years from the date of its passage, no certificate of stock of a national

bank shall represent the stock of any other corporation except a member bank, nor shall the ownership or transfer of a stock certificate of a national bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation except a member bank.

Substantially the same provision was included in the old bill (in Section 17), except that the prohibition apparently was to take effect immediately and no exception was made as to the stock of another member bank. The Board recommended that this provision be made effective three years after enactment and, as stated, the new bill includes this change.

Similar provisions regarding certificates of stock of State member banks are included in section 5(b) of the new bill.

SECTION 17.

Shares of its own stock held by a national bank as trustee. (p. 38)

The old bill (in Section 19) provided that no shareholders of national banks who shall become such through nominal transfer or ownership on behalf of another shall vote at meetings of shareholders of such banks. The Board recommended that shares of its own stock held by any national bank as trustee shall not be voted. The Board's recommendation was adopted in the new bill, and the provision of the old bill was not retained.

Right of an affiliate of a national bank to vote stock held by it in such bank. (pp. 38-43)

The old bill (in Sections 19 and 20) contained provisions requiring an affiliate of a national bank to obtain a voting permit from the Federal Reserve Board before voting any stock held by it in such national bank. Such a voting permit might be issued only upon compliance by the holding company affiliate with a number of detailed provisions. The Federal Reserve Board recommended a number of changes in these provisions of the old bill, but the Board's recommendations on this subject have not been adopted in the new bill.

The salient features of the Board's recommendations on this subject were as follows: Shares owned or controlled by an affiliate shall not be voted unless such affiliate has filed an agreement with the Comptroller of the Currency to comply with the provisions of this section. Within one year from the date of any such agreement each nonmember State bank owned or controlled by such affiliate shall apply for membership in the Federal Reserve System and if not admitted such affiliate shall divest itself of all interest in such bank. Each such affiliate shall hold readily marketable assets, other than bank stocks, equal to 15 per cent of bank stocks held by it and shall reinvest its net earnings above 6 per cent in such assets until they amount to 25 per cent of bank shares held by it; with a proviso that credit shall be given for contributions made during the preceding three years to banks owned or controlled by the affiliate. Failure to comply with the agreement is ground for termination thereof by the Comptroller. No national bank shall make any loan to, or on

the security of the stock of, or be the purchaser of the stock of, any affiliate which owns or controls such bank, unless necessary to prevent loss upon a debt previously contracted in good faith, and stock so acquired shall be disposed of within two years. Officers and employees of affiliates which have entered into an agreement with the Comptroller of the Currency, are made subject to certain criminal provisions, and a penalty is provided for voting the stock held by affiliates, unless such an agreement is in effect.

The provisions of the new bill on this subject, which follow along the lines of the old bill with certain changes and additions and which do not contain the provisions as recommended by the Board, are in brief form set forth in the following paragraphs. (As hereinbefore explained under Section 5, the provisions of the new bill on this subject are applicable also to holding company affiliates of State member banks.)

Shares of a national bank controlled by a holding company affiliate, including those held by a trustee for the benefit of the shareholders of such affiliate, shall not be voted unless such affiliate shall have obtained a voting permit from the Federal Reserve Board; and in acting upon an application for such permit, the Board shall consider the financial condition of the applicant, the general character of its management and the probable effect of the granting of the permit upon the affairs of such bank. No permit shall be granted except upon the following conditions:

(a) Each such holding company affiliate shall agree: to submit to examinations, at its own expense, disclosing fully the relationship

between such affiliate and such bank, that such examinations may be made of each bank owned or controlled by the affiliate, and that publication of statements of condition of such banks may be required.

(b) After January 1, 1935, every such holding company affiliate shall possess unpledged readily marketable assets other than bank stock in an amount not less than 12% of the par value of all bank stocks controlled by such affiliate, which amount shall be increased by not less than 2% annually up to 25% thereof and by reinvesting in such readily marketable assets net earnings in excess of 6% annually until the 25% requirement is reached. (The last of the requirements of this paragraph was recommended by the Board.)

(c) However, where the shareholders of the affiliate are themselves liable under the double liability provisions on the bank stock held by the affiliate, the latter shall be required only to establish, out of its net earnings in excess of 6%, a reserve of readily marketable assets equal to 12% of the par value of bank stocks controlled by it, and readily marketable assets required of such affiliate may be used for replacement of capital in banks affiliated with it; but any deficiency so incurred shall be made up within such period as the Federal Reserve Board may prescribe.

(d) That officers, directors, agents and employees of such a holding company affiliate shall be subject to the same penalties for false entries as officers and employees of member banks are subject to under Section 5209 of the Revised Statutes.

(e) That every such holding company affiliate shall show that it does not have any interest in and is not participating in the management of any securities company; that, if it has such an interest or participation it will, within three years, divest itself thereof; and that it will declare dividends only out of actual net earnings.

If any holding company affiliate violates any of the provisions of this act, the Federal Reserve Board may revoke its voting permit after notice, and thereafter no national bank whose stock is controlled by such affiliate shall receive Government deposits or pay any dividend to such affiliate.

Where such a voting permit of an affiliate has been revoked, the franchise of any national bank controlled by such an affiliate shall be subject to forfeiture.

SECTION 18.

Relationships between Member Banks and Securities Dealers or Corporations making collateral loans. (pp. 43, 44.)

The old bill (in section 18) provided that, after January 1, 1933, no director, officer or employee of a member bank should be an officer or employee of a corporation or association engaged primarily in the securities business and no such officer, director or employee of a member bank should be a director, officer or employee of a corporation making loans secured by collateral to any one except its own subsidiaries. The old bill also provided that no member bank should have correspondent relationships with associations or corporations of the kind mentioned.

The Board recommended that these provisions be omitted and suggested substitute provisions.

The new bill provides, in substantial accordance with the substitute provisions recommended by the Board, that, after three years, no member bank shall be affiliated with a securities corporation in the manner described in Section 2(b) of the bill (where the word "affiliate" is defined so as not to include holding company affiliates). Violations of this provision subjects the member bank to a penalty of $1,000 a day, in the discretion of the Federal Reserve Board, and, if the violations continue for six months after warning from the Board, the bank's franchise may be forfeited, if a national bank, or its membership in the Federal Reserve System may be forfeited, if a State bank.

SECTION 19.

Branches of National banks. (pp. 44,45).

The old bill (in Section 21) provided for State-wide branches of national banks in States where the State law permits State banks to have branches, with a proviso that, if the usual business of the bank extends into an adjacent State, the Federal Reserve Board may permit the establishment of a branch by the bank in such State not more than fifty miles from its head office. In order to have branches outside of the city of its head office, a capital of $500,000 was required. Furthermore, the aggregate capital of a bank and its branches was required to equal the capital required for an equal number of national banks situated where the bank and its branches are respectively located.

The Federal Reserve Board suggested that, if these provisions were to be retained, a change be made which would eliminate the limitations of the present law on the number of branches which may be established in cities of less than 100,000 inhabitants, and the limitation providing that no branch may be established in a city of less than 25,000 inhabitants. This recommendation of the Board was adopted in the new bill.

The provisions of the new bill on this subject are substantially the same as those contained in the old bill, with the change recommended by the Board; except that the establishment of State-wide branches is not limited to those States in which the State law permits State banks to have branches.

(The provisions of the new bill with reference to branches of State member banks are contained in Section 5(a).)

SECTION 20.

Consolidations of national banks with other banks in the same State.(p. 45)

The provisions of the Act providing for the consolidation of two or more national banks or for the consolidation of State banks with national banks would be amended by the new bill so as to permit such consolidations to take place between banks located anywhere in the same State. This section was contained in the same form in the old bill (in Section 22). No suggestion was made by the Board on this point.

SECTION 21.

Rate of interest on loans. (pp. 45,46)

The new bill would amend Section 5197 of the Revised Statutes so that national banks could charge on loans and discounts, (1) the rate of interest allowed by the State law (or 7% where the State law fixes no limit), or (2) a rate 1% in excess of the Federal reserve bank discount rate, which ever may be the greater.

The provision of the new bill on this subject is the same as that contained in the old bill (Section 23) with a minor change suggested by the Board.

SECTION 22.

Limitations on loans to affiliated corporations. (pp.46,47)

The new bill provides an amendment to the first paragraph of Section 5200 of the Revised Statutes, which provides that in computing the amount which a corporation can borrow from a national bank, the corporation and all of its subsidiaries in which such corporation owns or controls a majority interest would be treated as a single borrower.

This provision has been adopted from the old bill (Section 25(a)) with a clarifying amendment suggested by the Board.

In accordance with the Board's recommendations, the following provisions of section 25 of the old bill are omitted from the new bill: (1) That the amount which any national bank might lend to any broker or member of any stock exchange or similar corporation or any finance company, securities company, investment trust or other similar organization would be limited to 10% of the capital and surplus of such national bank. (2) that no national bank would be permitted to lend to "an affiliate" an amount exceeding 10% of the capital and surplus of such

national bank or exceeding the capital stock of such affiliate, whichever may be the smaller.

(3) that the aggregate amount which all affiliates of a national bank could borrow from such national bank (including repurchase agreements) would be limited to 10% of the national bank's capital and surplus except that loans secured by Government bonds or by bonds issued by the State in which such bank is situated or by any political subdivision of such State would be excluded altogether from the limitations of Section 5200 of the Revised Statutes, if actually owned by the borrower.

(4) that no national bank might establish or capitalize an affiliate through cash or stock dividend declarations made from its surplus or from undivided profits; and "within three years after this section as amended takes effect", every affiliate should be capitalized through the sale of its own stock which should be paid for in cash in the same manner as required in the case of a national bank.

(5) that for a period of three years, no affiliate of a national bank might hold, or lend upon, more than 10% of the shares of the capital stock of the parent institution.

SECTION 23.

Reports of affiliates of national banks (pp. 47, 48).

The old bill (in Section 27) required each affiliate of a national bank to make three complete reports of condition annually through the president of the bank to the Comptroller of the Currency, and also to make such special reports as the Comptroller might require. The Board's recommendation was that such reports be required only when deemed necessary.

The new bill provides that every national bank shall obtain from each of its affiliates, other than member banks, and furnish to the Comptroller of the Currency not less than three reports of condition each year and such additional reports as the Comptroller may deem necessary. The provision requiring such reports is still mandatory; but they are required to contain only such information as in the judgment of the Comptroller shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Comptroller to inform himself as to the effect of such relations upon the affairs of such bank. The bank is subject to a penalty for failure to render such reports.

Provisions of the old bill requiring an affiliate under certain stated conditions to publish its entire portfolio are omitted from the new bill.

(Substantially the same provisions are contained in Section 5(b) of the new bill with reference to reports of affiliates of State member banks).

SECTION 24.

Examinations of affiliates of national banks. (pp. 48-50)

The new bill requires such examinations of affiliates (other than member banks) of a national bank as shall be necessary to disclose fully the relations between such bank and such affiliates and the effect of such relations upon the affairs of such bank, and authorizes the forfeiture of the franchise of the bank in the event of refusal of the affiliate to give information or to permit such examination. Publication of the examination report of a national bank or of an affiliate is authorized if the bank or affiliate fails to comply with recommendations of the Comptroller of the Currency based on such examinations.

The old bill contained a provision (in Section 28) requiring examinations of affiliates of national banks and member banks. The Federal Reserve Board recommended that this section provide for examination of affiliates of national banks only (as examinations of affiliates of State member banks are provided for elsewhere in the bill) and that such examinations be authorized to be made only when deemed necessary.

In accordance with certain other suggestions of the Federal Reserve Board on this subject, the new bill has added certain provisions to authorize examiners making an examination of an affiliate of a national bank to administer oaths and to examine officers and employees under oath; to provide that the expenses of such examination may be assessed against the affiliate and, if not paid by the affiliate, then against

the bank; and to provide a penalty of $100 per day to be paid by the bank for refusal of the affiliate to give information required or to permit such an examination.

While examinations of affiliates of national banks in the old bill were limited to a period of three years after its passage, the new bill, in accordance with the Board's suggestion on this point, contains no limit of this kind.

(Provisions of a somewhat similar character with reference to examinations of affiliates of State member banks are contained in Section 5(b) of the new bill.)

SECTION 25.

Removal of bank directors or officers from office.(pp.50-52)

On this subject, the new bill follows substantially the recommendation of the Board and provides a procedure for the removal of a director or officer of a member bank who has continued to violate the law or has continued unsafe or unsound practices in conducting the business of the bank with which he is connected, after being warned by the Comptroller of the Currency (as to a national bank) or the Federal Reserve Agent of his district (as to a State member bank) to discontinue such violations or such practices. After a hearing by the Federal Reserve Board establishing such facts, the Board may order the removal of such director or officer and a copy of such order shall be served upon him and upon the bank with which he is connected. Such order and findings of fact may not be made public or disclosed except

to such director or officer and the directors of his bank, "otherwise than in connection with proceedings for a violation of this section." Participation by such officer or director in the management of such bank after having been removed is punishable by fine or imprisonment.

The old bill placed the power of removal in a committee consisting of the Governor of the Federal Reserve Board, the Comptroller of the Currency and the Federal Reserve Agent, instead of in the Federal Reserve Board as provided in the new bill. The old bill did not contain the provision prohibiting the making public or disclosing the order of removal or findings of fact.

SECTION 26.

Saving clause and reservation of right to amend. (p. 52).

Section 26 contains the usual provisions (which were also in the old bill) reserving the right to alter, amend or repeal the act and limiting decisions holding parts of the act to be invalid, to the specific sections dealt with in such decisions.

SECTIONS OF OLD BILL ENTIRELY OMITTED FROM NEW BILL.

In addition to a number of other provisions of the old bill which have been omitted from the new bill but which have been treated above in connection with certain related topics contained in the corresponding sections of the new bill, (such as the provisions regarding reserves and regarding real estate loans and investments of member banks), there have also been omitted from the new bill the following provisions, each of which constituted an entire separate section of the old bill.

Limitation upon amount of loans on collateral security by member banks.

Section 8 of the old bill authorized the Federal Reserve Board to fix the percentage of the capital and surplus of a member bank which might be represented by loans on collateral security. The purpose of this section apparently was to prevent the undue use of bank loans for speculation in securities, which is fully covered in Section 3. In accordance with the recommendation of the Board, therefore, the provisions of Section 8 of the old bill have been omitted from the new bill.

Interest on deposits.

Section 24 of the old bill would have limited the rate of interest which national and State member banks would be permitted to pay on deposits as follows: (1) interest on balances due to banks would have been limited to 2 1/2% or "the current rate of discount of the Federal reserve bank", whichever is the smaller; (2) on all other deposit balances, the rate would have been limited to one-half the rate of interest which national banks are permitted to charge on loans.

In accordance with a recommendation of the Federal Reserve Board this section is omitted from the new bill.

Limitations on collateral loans to single borrowers.

Section 26 of the old bill provided that no member bank shall lend to any individual or corporation "upon collateral security" an amount exceeding 10% of its own capital and surplus, or an amount exceeding the percentage fixed by the Federal Reserve Board, whichever is the smaller.

In accordance with the recommendation of the Federal Reserve Board this section is omitted from the new bill (as was also Section 8 of the old bill which also provided for limiting collateral loans.)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7140

April 22, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEFRAY" has been designated to cover a new issue of Treasury Bills, dated April 27, 1932, and maturing July 27, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDECUR" 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-7143

April 26, 1932.

SUBJECT: New Issues of Treasury Certificates of Indebtedness and Treasury Notes.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Certificates of Indebtedness and Treasury Notes:

"NOWHOAX" Treasury Certificates of Indebtedness, Series B-1933, 2%, to be dated May 2, 1932 due May 2, 1933;

"NOWHUGE" Three percent Treasury Notes, Series A-1934, to be dated May 2, 1932, due May 2, 1934.

These code words should be inserted in the Federal Reserve Telegraph Code book, on Page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7144

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

STATEMENT FOR THE PRESS

For release in Morning Papers, Thursday, April 28, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of March and April, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Industrial activity was in smaller volume in March than in February, although usually little change is reported at this season, and the number of employees at factories was also reduced, contrary to seasonal tendency. Volume of reserve bank credit decreased in March, but showed a considerable growth in the first three weeks of April. Money rates continued to decline.

Production and employment - Output of industrial products, as measured by the Board's seasonally adjusted index, declined from 70 per cent of the 1923-1925 average in February to 68 per cent in March. Daily output at steel mills and automobile factories decreased, contrary to seasonal tendency, and activity at woolen mills declined sharply to the lowest level in recent years. Cotton consumption by domestic mills continued at the February rate, although sales of cotton cloth declined, and output of shoes increased considerably; in both these industries production was at about the same rate as a year ago. Activity in the lumber industry, which recently has been at a level about 45 per cent lower than last year, increased by more than the usual seasonal amount. Output of coal also increased considerably during March but declined in early April.

Volume of factory employment and payrolls decreased from February to March, although an increase is usual at this season. There were substantial

reductions in working forces in the steel, automobile, machinery, and furniture industries, as well as at woolen and silk mills, while clothing and shoe factories showed additions to their working forces.

Value of building contracts awarded, as reported by the F. W. Dodge Corporation, showed some increase of a seasonal character during March and the first half of April and was approximately one-third as large as last year.

Distribution - Rail shipments of merchandise, which ordinarily increase in March, showed little change, and sales at department stores in leading cities increased by less than the estimated seasonal amount.

Wholesale prices - The general level of wholesale commodity prices showed little change between February and March, according to the Bureau of Labor Statistics. In the first two weeks in March prices of many commodities, including livestock and meats, advanced; between the middle of March and the third week in April, prices of cotton, silk, wool, hides, sugar, silver, and tin declined considerably, while prices of coffee and petroleum increased. Wheat prices showed wide fluctuations but were at about the same level in the week ending April 23 as in the first half of March.

Bank credit - The Federal reserve system's holdings of United States Government securities, after increasing continuously from early in March, totaled $1,078,000,000 on April 20, an increase of $338,000,000 since the end of February. This increase has been accompanied by some further decline in the reserve banks' holdings of acceptances and a reduction of $264,000,000 in discounts. Member bank indebtedness to the reserve banks showed a considerable reduction in all of the Federal reserve districts. Total volume of reserve bank credit outstanding, which had declined in

March reflecting a continued return of money from circulation and an increase in the country's stock of monetary gold, increased by $115,000,000 during the first three weeks of April. This increase was accompanied by a substantial growth in member bank reserve balances.

Total loans and investments of reporting member banks in leading cities continued to decline during the five weeks ending April 13. At banks in New York City, however, there was an increase in investment holdings both of United States Government securities and other securities, offsetting the decline in loans, which continued until the middle of April.

Open-market rates for bankers acceptances showed successive reductions and on April 21 the offering rate for 90-day bills was 7/8 of one per cent, the same rate as prevailed between May and September, 1931. Rates on commercial paper also declined.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7146

April 29, 1932.

SUBJECT: Procedure for pledging United States Government Securities as Collateral for Federal Reserve Notes.

Dear Sir:

Inclosed herewith is a copy of a letter addressed to the Governor of your Bank, in regard to the pledging of United States Government securities as collateral security for Federal reserve [redacted] such action is authorized by the Federal Reserve Board.

In order that your bank may be able, when authorized to do so by the Federal Reserve Board, to pledge United States Government securities held in the special investment account as collateral security for Federal reserve notes, it is suggested that you give to the Federal Reserve Agent at New York a power of attorney in the form attached, authorizing him to receive and hold direct obligations of the United States for your account.

You will note from the letter to the Governor of your bank that you will receive telegraphic advice, followed by mail confirmation, of all United States Government securities deposited with or withdrawn from the Federal Reserve Agent at New York for your account. The mail confirmation of such wire advice will be signed by the

Federal Reserve Agent at New York, or by his assistant, and will be in the form of the schedule referred to in the inclosed letter to the Governor of your Bank. It will be noted that the power of attorney which is to be given to the Federal Reserve Agent at New York by you authorizes the Federal Reserve Agent at New York to release direct obligations of the United States held for your account upon the substitution therefor of other such obligations. However, authority to make any release other than for purposes of substitution must, in each instance, be given by you to the Federal Reserve Agent at New York.

A copy of each schedule listing securities pledged with you as collateral security for outstanding Federal reserve notes, from the portfolio of your bank, should be furnished to the Federal Reserve Board and should bear a statement signed by you, or by your assistant, reading as follows:

"Receipt is acknowledged of the United States Government securities listed above, amounting to $_____, to be held as collateral security for outstanding Federal reserve notes of the Federal Reserve Bank of _____.

_____
Federal Reserve Agent at
_____".

Each schedule covering the release of securities pledged with you from the portfolio of your bank should bear a statement signed by you, or by your assistant, reading as follows:

"The United States Government securities listed above, amounting to $_____, held as collateral security for outstanding Federal reserve notes of the Federal Reserve Bank of _____ have this day been returned to the Federal Reserve Bank of _____.

_____
Federal Reserve Agent at
_____."

Very truly yours,

Chester Morrill,
Secretary.

Inclosures: X-7146-a and X-7147.

TO ALL F. R. AGENTS EXCEPT NEW YORK.

X-7146-a

FEDERAL RESERVE BANK

OF_____

KNOW ALL MEN BY THESE PRESENTS That I, _____,
Federal Reserve Agent of Federal Reserve Bank of _____,
have constituted and appointed, and by these presents do constitute and appoint J. Herbert Case, Federal Reserve Agent at Federal Reserve Bank of New York, my true and lawful attorney in fact, to receive from Federal Reserve Bank of _____ or from Federal Reserve Bank of New York or other duly authorized agent of Federal Reserve Bank of _____ and to hold for me and in my name and subject to my order direct obligations of the United States eligible as collateral security for Federal reserve notes under the provisions of the Federal Reserve Act, with power to my said attorney without further order or instructions from me to release and deliver to Federal Reserve Bank of New York as agent of Federal Reserve Bank of _____ any of the said obligations of the United States so held upon receipt of other direct obligations of the United States eligible as collateral security for Federal reserve notes under the provisions of the Federal Reserve Act of a face amount not less than the obligations so released and delivered.

Witness my hand and seal this _____ day of _____ A. D., 1932.

_____(SEAL)

Signed, sealed and delivered
in the presence of:

_____

_____

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7147

April 29, 1932.

SUBJECT: Procedure for pledging United States Government Securities as Collateral for Federal Reserve Notes.

Dear Sir:

As you know, the Act of February 27, 1932, amending the second paragraph of Section 16 of the Federal Reserve Act, provides that until March 3, 1933, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal reserve banks to offer, and the Federal reserve agents to accept, as collateral security for Federal reserve notes, direct obligations of the United States.

The Federal Reserve Board has not authorized any Federal reserve bank to pledge with its Federal reserve agent direct obligations of the United States Government as collateral security for Federal reserve notes. There are certain details which should be worked out at this time, however, and the following procedure is suggested in order that the accounting which would be involved in the pledging of United States Government securities held in the special investment account may be simplified as much as practicable.

If your Federal reserve bank is authorized to pledge with its Fed-

eral reserve agent United States Government securities and desires to pledge such securities held in the special investment account, it should notify the Federal Reserve Bank of New York by wire of the amount to be pledged, leaving to that bank the discretion to determine the specific securities to be pledged. Upon depositing such securities with its Federal reserve agent for the account of the Federal reserve agent of your bank, the Federal Reserve Bank of New York will notify your bank by wire of the amount of each issue of securities so deposited and confirm the advice by mail. At the same time, the Federal Reserve Agent at New York will wire the Federal reserve agent at your bank that he has received the securities and will confirm such wire advice by mail.

A similar procedure will be followed in the event your bank should desire the release of any securities deposited by the Federal Reserve Bank of New York with its Federal reserve agent for your account. It will be noted that the power of attorney which is to be given to the Federal Reserve Agent at New York by the Federal Reserve Agent at your bank authorizes the Federal Reserve Agent at New York to release direct obligations of the United States held for the account of the Federal Reserve Agent at your bank upon receipt of other direct obligations of the United States, without obtaining specific authority therefor from the Federal Reserve Agent at your bank. However, it will be necessary for the Federal Reserve Agent at your bank to authorize the Federal Reserve Agent at New York, in each instance, to make releases of direct obligations of the United States, held for his account, other than for purposes

of substitutions.

In case your bank should pledge with its Federal reserve agent United States Government securities held in its own portfolio, a schedule listing the amount of securities of each issue should accompany the securities pledged with or withdrawn from the agent.

There is inclosed herewith a copy of a letter which is being addressed today to the Federal Reserve Agent at your bank.

Very truly yours,

Chester Morrill,
Secretary.

To the Governors of all F. R. Banks except New York.

Inclosures X-7146 and X-7146a.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7149

May 6, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEFT" has been designated to cover a new issue of Treasury Bills, dated May 11, 1932, and maturing August 10, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEFRAY" 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-7150

May 6, 1932.

SUBJECT: Changes in Inter-District Time Schedule.

Dear Sir:

In accordance with a request of the Federal Reserve Bank of Minneapolis, the Federal Reserve Bank of New York having agreed thereto, the Federal Reserve Board has approved changes in the inter-district time schedule of availability items from Minneapolis to New York, from three days to two days, and from Minneapolis to Helena, from two days to three days.

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7151

May 6, 1932.

SUBJECT: Code words in connection with the pledge of Government securities as collateral for Federal reserve notes.

Dear Sir:

The Federal Reserve Board has designated the following code words to cover suggested form telegrams for use by the Federal reserve banks and Federal reserve agents in connection with the pledging and release of United States Government securities as collateral for Federal reserve notes:

1. To Federal Reserve Bank of New York, signed by transmitting Federal Reserve Bank:

MOCKLER

Please deliver $ face amount of our participation in United States Government securities held in system special investment account to Federal Reserve Agent at New York to be held by him under power of attorney for account of Federal Reserve Agent at this bank as collateral security for Federal reserve notes.

2. To Federal Reserve Bank addressed, signed by Federal Reserve Bank of New York:

MOCKLOVE

In accordance with your telegram of (Date) we have delivered $ face amount of your participation in United States Government securities held in system special investment account to Federal Reserve Agent at New York to be held by him under power of attorney for account of Federal Reserve Agent at your bank as collateral security for Federal reserve notes.

3. To Federal Reserve Agent addressed, signed by Federal Reserve Agent at New York:

MOCKLUST

Upon your bank's instructions Federal Reserve Bank of New York has delivered to me $ face amount of United States Government securities to be held by me under power of attorney for your account as collateral security for Federal reserve notes.

4. To Federal Reserve Agent at New York, signed by Federal Reserve Agent at other bank:

MOCKMAD

Release to Federal Reserve Bank of New York for account of this bank $ face amount of United States Government securities now held by you under power of attorney for my account as collateral security for Federal reserve notes.

5. To Federal Reserve Agent addressed, signed by Federal Reserve Agent at New York:

MOCKMIST

In accordance with your telegram of (Date) I have released to Federal Reserve Bank of New York for account of your bank $ face amount of United States Government securities held by me under power of attorney for your account as collateral security for Federal reserve notes.

6. To Federal Reserve Bank addressed, signed Federal Reserve Bank of New York:

MOCKMONY

Upon your Federal Reserve Agent's instructions Federal Reserve Agent at New York has released to Federal Reserve Bank of New York for your account $ face amount of United States Government securities which he held under power of attorney for account of your Agent as collateral security for Federal reserve notes.

These words should be inserted in the Federal reserve telegraph code book following the code word "Mockjest" on page 160.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL GOVERNORS AND F. R. AGENTS.

X-7152

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

April 1 to 28, 1932.

	$5	$10	$20	Total Sheets	Amount
Boston,	38,000	32,000	-	70,000	$ 6,475.00
New York,	156,000	86,000	-	242,000	22,385.00
Philadelphia,	53,000	25,000	22,000	100,000	9,250.00
Cleveland,	38,000	40,000	10,000	88,000	8,140.00
Atlanta,	34,000	15,000	10,000	59,000	5,457.50
Kansas City,	-	20,000	14,000	34,000	3,145.00
Dallas,	-	10,000	-	10,000	925.00
	319,000	228,000	56,000	603,000	$55,777.50

603,000 sheets, $92.50 per M, . . .$55,777.50

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7154

May 13, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, April, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7154-a and X-7154-b, covering in detail operations of the main lines, Leased Wire System, during the month of April, 1932.

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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL, 1932.

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	28,360	2,527	30,887	3.64
New York	141,631	-	141,631	16.71
Philadelphia	28,906	3,041	31,947	3.77
Cleveland	62,984	2,859	65,843	7.77
Richmond	58,097	2,424	60,521	7.14
Atlanta	52,176	7,520	59,696	7.04
Chicago	91,175	4,158	95,333	11.25
St. Louis	68,711	2,350	71,061	8.39
Minneapolis	31,469	2,264	33,733	3.98
Kansas City	69,793	2,401	72,194	8.52
Dallas	62,162	7,510	69,672	8.22
San Francisco	110,592	4,372	114,964	13.57
Total	806,056	41,426	847,482	100.00

F. R. Board business	287,598	1,135,080
Reimbursable business Incoming and Outgoing		382,767
Total words transmitted over main lines		1,517,847

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7154-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, APRIL, 1932.

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	$637.19	$265.00	$372.19
New York	1,134.15	3.00	-	1,137.15	2,925.14	1,137.15	1,787.99
Philadelphia	225.00	-	-	225.00	659.95	225.00	434.95
Cleveland	306.66	-	-	306.66	1,360.17	306.66	1,053.51
Richmond	190.00	-	230.00 (&)	420.00	1,249.88	420.00	829.88
Atlanta	270.00	-	-	270.00	1,232.38	270.00	962.38
Chicago	3,772.42 (#)	2.00	-	3,774.42	1,969.35	3,774.42	1,805.07 (*)
St. Louis	195.00	-	-	195.00	1,468.70	195.00	1,273.70
Minneapolis	243.49	-	-	243.49	696.71	243.49	453.22
Kansas City	287.50	-	-	287.50	1,491.46	287.50	1,203.96
Dallas	251.00	-	-	251.00	1,438.94	251.00	1,187.94
San Francisco	380.00	-	-	380.00	2,375.47	380.00	1,995.47
Federal Reserve Board	-	-	15,653.20	15,653.20	-	-	-
Total	$7,515.22	$10.00	$15,883.20	$23,408.42	$17,505.34	$7,755.22	$11,555.19
							1,805.07 (a)
							$ 9,750.12

Reimbursable charges:

Treasury Department	$2,758.68	
Reconstruction Finance Corporation	3,067.26	
Federal Farm Loan Board	30.43	
Federal Farm Board	46.71	
Less reimbursable charges		5,903.08
Total		$17,505.34

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7155

May 13, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEFUSS" has been designated to cover a new issue of Treasury Bills, dated May 18, 1932, and maturing August 17, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEFT" 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-7156

May 17, 1932.

SUBJECT: Holidays during June, 1932.

Dear Sir:

The Federal reserve banks and branches listed below will be closed on Friday, 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	

*Confederate Memorial 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-7157

FEDERAL RESERVE BOARD STATEMENT FOR THE PRESS

May 17, 1932

For immediate release

The Governors of the Federal Reserve Banks met today with the Federal Reserve Board and it was decided to continue open market operations by the purchase of government securities, the extent and amount to be determined from time to time as conditions justify.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7159

May 19, 1932.

SUBJECT: Procedure in elections of Class A and Class B directors.

Dear Sir:

After a careful consideration of the replies received from the chairmen of the several Federal reserve banks to the Board's letter of November 27, 1931, X-7036, with regard to the date of closing the polls and of mailing of the lists of candidates in elections of Class A and Class B directors, the Federal Reserve Board wishes to suggest that the following procedure be adopted in all elections of Federal reserve bank directors commencing with the next regular annual election.

Copies of the list of candidates nominated in accordance with the existing procedure should be mailed by the chairman of each Federal reserve bank on such days and at such times that, in the normal course of the mails, every voting member bank in the district will receive a copy on the date fixed for the opening of the polls. The polls should be closed on the fifteenth calendar day after the date of their opening, that is, if the polls are opened on November 1, they should be closed on November 16; and no ballot should be counted as valid unless it has been received by the chairman on or before the date thus fixed for the closing of the polls. As under existing practice, the requirement

that a ballot be received by the chairman within the period stated in order to be counted as valid should be called to the attention of the member banks in the instructions sent them regarding the election.

Inasmuch as the law places the conduct of elections of Class A and Class B directors of each Federal reserve bank under the direction of the Chairman of the Board of Directors of such bank, the Federal Reserve Board will not hereafter fix or approve dates for the opening or closing of the polls in either annual or special elections. It is suggested, however, that some convenient date in the early part of November be selected each year for the opening of the polls in annual elections; and it would seem advisable in every case that the time of the election should be so arranged that neither the date for the opening nor the date for the closing of the polls will fall upon a Sunday or legal holiday in any of the States of the district in which the election is being held. In view of the requirement of the statute as to the time within which the chairman shall furnish a copy of the list of candidates to each member bank, the date fixed for the opening of the polls should not in any case be more than fifteen days after completion of this list.

This letter is not intended to suggest any changes in the existing election procedure other than those specifically mentioned.

Very truly yours,

Chester Morrill,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7160

May 20, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEGARB" has been designated to cover a new issue of Treasury Bills, dated May 25, 1932, and maturing August 24, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEFUSS" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

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

STATEMENT FOR THE PRESS

For release in Morning Papers, Thursday, May 26, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of April and May, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Industrial activity and factory employment declined substantially from March to April, although usually little change occurs at this season. Purchases of Government securities by the Federal reserve banks have continued during April and the first three weeks of May and there has been a considerable growth in the reserves of member banks.

Production and employment - Volume of industrial production, as measured by the Board's seasonally adjusted index, decreased from 67 per cent of the 1923-1925 average in March to 64 per cent in April. Reductions in activity were reported for many leading industries, with sharp declines at cotton and woolen mills and at bituminous coal mines; in the automobile industry output increased from the low level of March by more than the usual seasonal percentage, and in the steel industry, where activity had declined from early February to the middle of April, production increased somewhat between the middle of April and the third week of May.

The number of wage earners employed at manufacturing establishments declined further between the middle of March and the middle of April and there was a substantial reduction in factory payrolls. Large decreases in employment were reported for the iron and steel, machinery, and textile industries, while the volume of employment in the food and leather industries showed the usual seasonal changes.

Daily average value of building contracts awarded during April and the first half of May, as reported by the F. W. Dodge Corporation, showed a seasonal increase over the first quarter. A substantial increase was reported for public works and public utilities, while residential building continued at the low level of the first quarter, showing none of the usual seasonal expansion.

Distribution - Freight-car loadings of merchandise showed little change in volume from March to April, continuing at the level prevailing since January, although increases are usual during this period. Sales by department stores increased considerably in April.

Wholesale prices - Wholesale prices of commodities declined from 66 per cent of the 1926 average in March to 65.5 per cent in April, according to the Bureau of Labor Statistics, and in the first three weeks of May further decreases in the prices of many leading commodities were reported. Downward movements in textiles, nonferrous metals, and imported raw materials, as well as in most domestic agricultural products except wheat, were offset in part by increases in the prices of coffee, petroleum, and petroleum products.

Bank credit - Further purchases of U. S. Government securities by the Federal reserve banks were made during April and the first three weeks in May, and on May 18 total holdings were $1,466,000,000. The funds placed in the market through these purchases between April 6 and May 18 were used to the extent of $170,000,000 in a further reduction of member bank indebtedness to the reserve banks; and to the extent of $122,000,000 in meeting a demand for gold from abroad; at the same time member banks accumulated reserve balances considerably in excess of legal requirements. During

May the demand for currency, which had declined in April, increased somewhat, contrary to usual seasonal movement.

Loans and investments of reporting member banks in leading cities, which has declined continuously until the middle of April, showed little net change between April 13 and May 18. The banks' investments increased by nearly $300,000,000, chiefly in New York City; while loans declined by about an equal amount. There was also a growth in net demand deposits, which reflected in part an increase in bankers' balances deposited in New York City banks.

Money rates in the open market continued easy. Rates on commercial paper were reduced about one-half per cent to a range of 2 3/4 - 3 per cent for prime names, and the offering rate on 90-day bankers' acceptances, which had advanced to 1 1/8 per cent in the first week of May, declined on May 11 to the previously prevailing rate of 7/8 of one per cent.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7163

May 26, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEGEND" has been designated to cover a new issue of Treasury Bills, dated June 1, 1932, and maturing August 31, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEGARB" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

THE STATE OF WASHINGTON, ex rel. KERN AND KIBBE, a corporation,

Plaintiff, Petitioner,

v.

CHARLES W. HINTON, as State Treasurer of the State of Washington,

Defendent, Respondent.

No. 23725

Department One

Filed May 11, 1932.

PER CURIAM: This is an original action in this court by which Kern & Kibbe, a corporation, by petition seeks a writ of mandate directing the state treasurer to pay to the plaintiff out of moneys in the state treasury to the credit of the motor vehicle fund $20,587.48 in satisfaction of warrants issued to plaintiff by the state auditor drawn and directed to the state treasurer.

The facts in the case are presented by the pleadings and a written stipulation signed by the parties and filed in the cause, substantially as follows: The plaintiff is a corporation. Respondent, Charles W. Hinton, was and is treasurer of the state. During January, 1932, to and including the twenty-first day of the month, the Olympia National Bank was a national banking association, doing business in Olympia, Washington. That at the close of business on January 21, 1932, the Olympia National Bank closed its doors and discontinued the doing of business, and the next morning the bank and its assets were taken over for liquidation by the comptroller of the currency of the United States. That on January 13, 1932, on account of the completion by plaintiff of two contracts for the construction and improvement of certain highways, the state became indebted to plaintiff in the sum of $20,578.48 for which,

upon claims and vouchers duly presented, the state auditor after settling and allowing the same signed and delivered, as such auditor, two state warrants on the state treasury to pay the respective amounts of $8043.48 and $12,535.00 out of any moneys in the motor vehicle find in the state treasury not otherwise appropriated. On January 15, 1932, the plaintiff endorsed and delivered both warrants to the First National Bank of Portland, Oregon, for collection and on the same day that bank forwarded the warrants, with others belonging to other persons, to the respondent as state treasurer for payment, all of which were accepted by the state treasurer and for which he issued checks to cover the respective amounts and forwarded the checks to the Portland bank, the checks being drawn by the state treasurer on the Olympia National Bank payable to the First National Bank of Portland, or order. The Portland bank, upon receipt of the checks on January 19, 1932, forwarded them by mail to the Seattle branch of the Federal Reserve Bank of San Francisco for collection and, on January 20, 1932, that bank forwarded the checks by mail to the Olympia National Bank for collection, and the latter named bank received the checks on January 21, 1932. At the time the checks were forwarded for collection and at the time they were received by the Olympia National Bank, it was a designated depository for the funds of the state and the state treasurer had therein to his credit, subject to check, an amount in excess of the checks involved. Upon receipt of the checks, the Olympia National Bank charged them to the account of the state treasurer on the bank's books and marked the checks "Paid", but the bank in no way set apart or segregated any of its money for transmission to either the Seattle branch of the Federal Reserve Bank of San Francisco or to the Portland bank in settlement or payment of the checks, but on January 21, 1932, drew its

draft in the sum of $29,659.19 to cover the checks involved, and other items, on the First National Bank of Seattle, payable to the Seattle branch of the Federal Reserve Bank of San Francisco, and forwarded the draft by mail on that day to the Seattle branch of the Federal Reserve Bank.

The amount of cash in the Olympia National Bank available for the payment of checks at the close of business the last four days the bank was open amounted to the following sums: January 18, $45,098.43; January 19, $42,620.76; January 20, $40,172.42, January 21, $27,255.24. At the close of business on January 21, the bank had to its credit with banks other than the First National Bank of Seattle, $44,679.00, based in part on items transmitted to such banks for collection, over and above the amount of all drafts drawn against such other banks, but there was no information available on January 21, or at the date of the stipulation of facts in the action, to show the amount of such collection items transmitted or the amount thereof not collected at that date.

It appears that on January 21, after the state treasurer gave a check on the Olympia National Bank, for which that bank issued its draft on the First National Bank of Seattle, the state treasurer gave to the Capital National Bank of Olympia a check on the Olympia National Bank in the sum of $52,981.58 for the purpose of paying state warrants being collected through the agency of the Capital National Bank, which check was paid by means of telegraphic transfer of funds from the account of the Olympia National Bank with the Seattle branch of the Federal Reserve Bank to the account of the Capital National Bank. At that time the Federal Reserve Bank required a reserve to be kept with it by the Olympia National Bank in the sum of approximately $120,000.00, and the payment of

the check just mentioned by telegraphic transfer reduced the balance of credit of the Olympia National Bank with the Seattle branch of the Federal Reserve Bank to the sum of $29,090.00.

At the time the draft in question was forwarded to the bank in Seattle, the Olympia National Bank did not have, nor did it thereafter have, money or credit with the First National Bank of Seattle sufficient to meet it. The First National Bank of Seattle refused to honor the draft when presented and it has at all times since been dishonored.

It had been a practice between the Olympia National Bank and the First National Bank of Seattle to give credit for cash letters when received and to charge back items not collected, but on January 20, 1932, and at all times thereafter the First National Bank of Seattle refused to give the Olympia National Bank credit for such cash letters until and as the items were actually collected, but notwithstanding such refusal the Olympia National Bank, upon issuing the draft on January 21, 1932 and at the close of business that day, had outstanding drafts on the First National Bank of Seattle in the total sum of $98,647.29, which was $5,054.72 in excess of all cash items transmitted by the Olympia National Bank to the First National Bank of Seattle for collection, whether collected or not at the time, as was known to the Olympia National Bank, as that amount, in that account, was entered as an overdraft in the books of the Olympia National Bank that day.

Upon dishonor of the draft and notice thereof to interested parties, the Seattle branch of the Federal Reserve Bank, upon demand, received from the receiver of the Olympia National Bank the checks in question which were returned to the First National Bank of Portland and by that bank returned to the state treasurer upon his request and demand.

At all times mentioned and now there was and is in the motor vehicle fund in the state treasury sufficient available funds, not otherwise appropriated, for the payment of the warrants in favor of plaintiff.

The defendant rests his case on the general well settled rule that a collecting agent is without authority to accept for the debt of his principal anything but that which the law declares to be legal tender, or as stated by the defendant to be the rule so far as this case is concerned if the payee of a check, or his agent, accepts from the drawee bank something else in place of cash, as a draft on another bank, or a deposit slip or credit, where the drawee bank holds funds of the drawer sufficient to pay the check and would pay it in cash if demand therefore were made, the transaction will be regarded as a payment of the check and the drawer discharged. Counsel rely on First National Bank v. Commercial Bank & Trust Co., 137 Wash, 335, and cases cited, and also the cases listed, commencing on page 994, in the annotation to the case of Berg v. Federal Reserve Bank, 52 A.L.R. 980.

The plaintiff, while contesting the common law rule, relied on by the defendant and hence its applicability as such to this case, contends that the case is controlled in favor of plaintiff by certain provisions of Chapter 203, Laws of 1929, declared to be "The Bank Collection Code", the title of the act being "An act to expedite and simplify the collection and payment by banks of checks and other instruments for the payment of money."

It contains a number of interrelated provisions as is usual in such a code, regulating collections by mail and defining the relation and powers of each bank taking part in collections as agent or sub-agent of the original depositor. The particular portion of the act upon which the

plaintiff relies, as controlling the present case, is a part of section 11, as follows:

"Where an item is duly presented by mail to the drawee or payor, whether or not the same has been charged to the account of the maker or drawer thereof or returned to such maker or drawer, the agent collecting bank so presenting may, at its election, exercised with reasonable diligence, treat such item as dishonored by non-payment and recourse may be had upon prior parties thereto in any of the following cases:

"(1) Where the check or draft of the drawee or payor bank upon another bank received in payment therefor shall not be paid in due course;"

On the other hand, the defendant contends that if it be admitted that the bank collection code would otherwise apply or control, it affords no relief to the plaintiff in this case because of section 7, which provides:

"Where the item is received by mail by a solvent drawee or payor bank, it shall be deemed paid when the amount is finally charged to the account of the maker or drawer."

The condition, however, upon which the item received by mail by the drawee or payor bank shall be deemed paid when finally charged to the account of the maker or drawer is that such bank shall be solvent. In this respect, on account of the facts hereinbefore stated, to which the parties have agreed by their pleadings and written stipulation filed in the action, we think it must be held, for the purposes of this case, that the drawee or payor bank on which the defendant's checks were drawn was not solvent at the time the bank received the checks and stamped them "Paid", within the purview of section 7 of the bank collection code. Still further we are of the opinion, upon the facts as the parties have stipulated them to be, that the portion of section 11 of the bank collection code above mentioned, on which the plaintiff relies, is applicable and controlling in this case, from which the conclusion follows that the

plaintiff is entitled to the relief prayed for.

IT IS ORDERED AND ADJUDGED that a writ of mandate issue directing the defendant Charles W. Hinton, as state treasurer, to pay to the plaintiff, Kern & Kibbe, a corporation, out of moneys in the state treasury to the credit of the motor vehicle fund, the sum of $20,587.48 in satisfaction of the two warrants issued to the plaintiff by the state auditor.

COPY

X-7165-a

372

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

THE STATE OF WASHINGTON, ex rel. UNION IRON WORKS, a corporation,	)	No. 23726
Plaintiff,	)	Department One
v.	)	
CHARLES W. HINTON, as State Treasurer of the State of Washington	)	
Defendant.	)	Filed May 11, 1932.

PER CURIAM: This is an original application in this court for a writ of mandate directing Charles W. Hinton, as state treasurer, to pay to the plaintiff out of moneys in the state treasury to the credit of the motor vehicle fund No. 15 the sum of $325.00 in payment of a warrant dated January 15, 1932, issued to the plaintiff by the state auditor for material and supplies furnished and delivered by the plaintiff to and for the use of the department of highways of the state between the second and tenth days of December, 1931.

The case is a companion of the case of State, ex rel. Kern & Kibbe v. Hinton, ante, p. _____, the two cases being presented in the same briefs and argued together by respective counsel. The facts are agreed to by the pleadings and a signed stipulation of facts, the latter being included in and a part of the stipulation covering the facts in the other case. Here, too, the Olympia National Bank, through which collection was attempted by mail, issued a draft on January 21, 1932, the last day the bank was open for business, drawn on the First National Bank of Seattle, which draft was dishonored and never paid.

The case is, in all material respects, like that of the companion one just referred to and upon the authority of that case and the facts in this one;

IT IS ORDERED AND ADJUDGED that a writ of mandate issue directing the defendant Charles W. Hinton, as state treasurer, to pay to the plaintiff Union Iron Works, a corporation, out of moneys in the state treasury to the credit of the motor vehicle fund No. 15, the sum of $325.00 in satisfaction of the warrant issued to the plaintiff by the state auditor.

COPY

X-7165-b

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

THE STATE OF WASHINGTON, ex rel. UNION IRON WORKS, a corporation, Plaintiff	No. 23726
v.	PETITION FOR REHEARING
CHARLES W. HINTON, as State Treasurer of the State of Washington, Defendant.	

Comes now the defendant, Chas. W. Hinton, and respectfully petitions the court for a rehearing in the above entitled matter for the following reasons;

the PER CURIAM opinion filed May 11, 1932, does not state the facts involved in this case but the conclusion reached is based entirely upon the authority of the case of State ex rel. Kern and Kibbe v. Hinton, No. 23725. This case was instituted as a test case. While the amount involved in this particular case is small, the total amount of warrants in the same position as the warrant in this case is approximately $100,000.00.

Under the facts as clearly appear in the pleadings and stipulation, these warrants were presented by the Olympia National Bank to the state treasurer, the state treasurer gave the Olympia National Bank his check drawn against his account in the Olympia National Bank, which check was charged to the treasurer's account, marked "paid" and cancelled and his account thereby reduced by the total amount of such checks. The state treasurer is now compelled under this decision to pay all of these warrants again. The

receiver of the Olympia National Bank has intimated that he will not allow the state treasurer's claim for these items for the reason that, if claims on these warrants are allowed to the treasurer, he can hold his security for the same, while, if they are allowed to the persons forwarding the warrants for collection, they would be unsecured and therefore the amount available to unsecured creditors increased. It probably will be necessary for the state treasurer to bring an action against the receiver in order to establish a claim for the amount of these warrants, approximately $100,000.00, since, of course, this decision is not binding upon the receiver of the Olympia National Bank. This suit would have to be instituted in Federal court, since the bank is a national bank and the receiver a Federal officer, liquidating the bank under the authority of the comptroller of the currency. The Federal court is not bound by this decision. The rule, is, however, that the construction of a state statute by a state court is binding on a Federal court. Counsel and the court, knowing the facts in this case, understand, of course, that the court has held that section 11 of the collection code (chap. 203, L. 1929) controls in this case the same as in the Kern and Kibbe case. However, the facts not being stated in the opinion, the opinion is of little value as authority for use in the Federal court. Any person reading the two opinions would naturally assume that the facts were the same in both cases; however, there is a vital distinction in the facts. In the Kern and Kibbe case, the state treasurer's check was payable to the First National Bank of Portland and by that bank sent for collection to the Olympia National

Bank and by the Olympia National Bank charged to the treasurer's account and marked "paid." In this case, the state treasurer's check was payable to the Olympia National Bank and accepted by that bank in payment of warrants, which warrants were delivered to the state treasurer and cancelled. In citing this case as authority in the Federal court, the court would not know from the opinion these facts.

The court can readily appreciate the precarious position of the state treasurer. It is entirely possible that the Federal court would not follow this court on the merits. However, the construction placed by this court on section 11, chapter 203, Laws of 1929, would be binding on the Federal court. It is therefore essential from the standpoint of the state treasurer that the facts be stated in the opinion in this case, so that it will clearly appear that section 11 of the collection code controls.

If the court has construed the facts in this case to be similar in all essentials to the facts in the Kern and Kibbe case, then we respectfully submit that the court has misconstrued the pleadings and the stipulation, for it clearly appears that the check involved in this case was not received by mail by the Olympia National Bank but was delivered directly to the Olympia National Bank payable to the Olympia National Bank and by it accepted and charged to the treasurer's account. These facts are materially different from the facts in the Kern and Kibbe case, and, as we pointed out in our briefs, the provisions of the collection code do not apply under this state of facts, and it is respectfully requested that a rehearing be granted in this case before the court en banc.

If, however, the court should overrule our petition for rehearing, it is respectfully requested that the opinion filed herein be modified to clearly state the facts. If this is done, then the opinion can be used as authority in an action by the state treasurer against the receiver of the Olympia National Bank in the Federal court.

Respectfully submitted,

JOHN H. DUNBAR
Attorney General

LESTER T. PARKER
Assistant Attorney General

Attorneys for Defendant
Chas. W. Hinton, as State
Treasurer.

COPY

IN THE SUPREME COURT OF THE STATE OF WASHINGTON

THE STATE OF WASHINGTON, ex rel. UNION IRON WORKS, a corporation, Plaintiff, v. CHARLES W. HINTON, as state Treasurer of the State of Washington, Defendant.	No. 23726 Department One Filed May 20, 1932.

PER CURIAM: Upon further consideration of this case we are of the opinion that the second paragraph of the opinion filed in this case on May 11, 1932, which second paragraph commences with the words "The case is a companion of the case of State, ex rel. Kern & Kibbe v. Hinton", and ending with the words "which draft was dishonored and never paid" should be stricken and in its stead the following should be and is directed to be inserted, to-wit:

"The case is a companion of State ex. rel. Kern & Kibbe v. Hinton, ante. p.____, the two cases being presented in the same briefs and argued together. The facts are agreed to by the pleadings and a signed stipulation of facts filed in the case, the latter being included in and a part of the stipulation covering the facts in the other case. In this case, on account of material and supplies furnished the state for its department of highways, the warrant referred to in the sum of $325.00 payable to the plaintiff 'or order' was, on January 15, 1932, issued by the state auditor and delivered to the plaintiff. On January 19, 1932, plaintiff endorsed and delivered the warrant to the Old National Bank & Union Trust Company of Spokane for collection. That bank on that day forwarded the warrant, with other items, by United States mail to the

Olympia National Bank at Olympia to collect and remit the proceeds to the First National Bank of Seattle for the credit of the Old National Bank & Union Trust Company. The items, including the warrant, were received by the Olympia National Bank through the mail on January 20, 1932, and, on January 21, 1932, with divers other state warrants received by the Olympia National Bank through the mail from other persons, aggregating altogether $33,118.69, were presented by the Olympia National Bank to the state treasurer for acceptance and payment. The defendant, as state treasurer, accepted and received all such items, including the particular warrant involved in this action, and issued and delivered therefor his check in the sum of $33,118.69 drawn on the Olympia National Bank, a depository for state funds, and in which bank there was at that time on its books to the credit of the respondent an amount in excess of the amount of the check, together with all other outstanding checks drawn thereon by the state treasurer. The Olympia National Bank on that day charged the check to the respondent on its books and marked the check 'paid', but withdrew or set apart no money whatever to pay the same or to remit to the Old National Bank & Union Trust Company of Spokane or to the First National Bank of Seattle for the credit of the Spokane bank or the plaintiff, nor did it make any purported payment other than on January 21, 1932, the Olympia National Bank drew and forwarded by mail to the First National Bank of Seattle its draft on and payable to the First National Bank of Seattle, for the credit of the Old National Bank & Union Trust Company in an amount sufficient to cover the items forwarded for collection by the Old National Bank & Union Trust Company, including the particular warrant involved in this suit. The Olympia National Bank did not at that time, nor thereafter, have credit with the First National Bank of Seattle nor funds in that bank upon which it had a right to draw sufficient to meet the

draft whereupon the First National Bank of Seattle refused to accept and pay the draft or to give the Old National Bank & Union Trust Company credit on account thereof, which draft has at all times since been dishonored according to notice thereof given by the bank upon which it was drawn. The Olympia National Bank ceased to do business on January 21, 1932. At all times mentioned herein and now there were and are in the motor vehicle fund No. 15 in the state treasury sufficient available funds, not otherwise appropriated, for the payment of the warrant in favor of plaintiff, that is involved in this action. Other pertinent facts applicable to the case, according to the pleadings and according to the stipulated facts filed herein are referred to in the opinion in the companion case of Kern & Kibbe just filed. In our opinion, on all the facts, as between these parties and for the purposes of this case the Olympia National Bank was insolvent at all times on January 21, 1932, and that the first part of and the first subdivision of section eleven of the bank collection code are applicable to and governing in this case."

And that the opinion, as thus changed and amended, constitutes the decision of the court and as such is to be recorded in the permanent records and reports of the court.

FEDERAL RESERVE BOARD

WASHINGTON

X-7166

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 28, 1932.

SUBJECT: Par List.

Dear Sir:

In view of the fact that the monthly supplements to the Par List now definitely show all changes in the par status of towns or cities since publication of the January list, it does not appear necessary for your bank to furnish the Board with a complete typewritten manuscript for the July list as has been the practice heretofore.

In lieu thereof, the Board, on or about June 10, will forward to you two copies of the galley proof of the July Par List, so far as it relates to your district, in which all changes to June 1 will be incorporated. The data contained in the galley proof should be carefully checked and one copy of the corrected proof returned to the Board in time to reach Washington by June 30, with changes between June 1 and the date of mailing indicated thereon. The other copy should be retained in your files.

The Board should be advised by wire on July 2 of any further changes to be made in the galley proof up to, and including, July 1, which is the date of issue of the Par List. If there are no further changes, the Board should be so advised.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL GOVERNORS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7168

June 1, 1932.

Dear Sir:

Through the courtesy of Counsel to the Comptroller of the Currency, I inclose for your information copies of opinions rendered May 11, 1932, by the Supreme Court of Washington in two cases arising under the Bank Collection Code, State of Washington ex rel. Kern and Kibbe v. Hinton and State of Washington ex rel. Union Iron Works v. Hinton, and also a copy of defendant's petition for rehearing in the latter case. I am informed that the Attorney General of the State of Washington does not intend to petition for a rehearing in the Kern and Kibbe case.

I think that you will be especially interested in the position taken by the Receiver of the National Bank in the Union Iron Works case, as set forth in the petition for rehearing in that case.

I understand that the Counsel for the Comptroller of the Currency has copies of the pleadings and briefs in both of these cases and I probably can have copies made for you if you need them.

Cordially yours,

Walter Wyatt,
General Counsel.

Inclosures.

(LETTER TO COUNSEL FOR ALL F. R. BANKS AND ALL ASSOCIATE COUNSEL)

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7169

June 6, 1932.

Dear Sir :

This refers to my letters of May 7 and August 14, 1931, with their respective inclosures, on the subject of "cashing" Government checks and warrants by Federal reserve banks.

As you will remember, I addressed a memorandum to the Federal Reserve Board under date of April 17, 1931, discussing this subject in detail and recommending that it be referred to the Governors' Conference; the Governors' Conference in April, 1931, referred the subject to the Standing Committee on Collections for study and report to the Fall Conference of Governors; the Standing Committee on Collections rendered a report under date of August 10, 1931; and the Governors' Conference in December, 1931, referred the subject to the Conference of Counsel of Federal reserve banks for consideration and consultation with the Standing Committee on Collections and officials of the Treasury Department, with a view to obtaining a clarification of the applicable provisions of Treasury Department Circular No. 176.

For your further information in this connection, I inclose copies of the following:

1. Letter of August 19, 1931, from Mr. Robert S.

Parker, Counsel to the Federal Reserve Bank of Atlanta, discussing my letter of August 14, 1931, above referred to;

2. Letter of September 11, 1931, from Mr. A. C. Agnew, Counsel to the Federal Reserve Bank of San Francisco, also discussing my letter of August 14, 1931;

3. Letter of November 28, 1931, from Mr. James G. McConkey, Counsel to the Federal Reserve Bank of St. Louis, inclosing a memorandum which he had prepared discussing the report rendered by the Standing Committee on Collections and my letter of August 14, 1931;

4. Letter of December 14, 1931, which I addressed to Mr. McConkey in response to his letter of November 28, 1931;

5. Letter of January 6, 1932, from Mr. J. P. Dreibelbis of the firm of Locke, Locke, Stroud and Randolph, Counsel to the Federal Reserve Bank of Dallas, inclosing a file of correspondence concerning Treasury checks which were involved in the failure of a national bank in Texas;

6. Letter of June 1, 1932, from Mr. J. S. Walden, Jr., Chairman of the Standing Committee on Collections, discussing the possibility of holding a conference on this subject; and

7. My reply of June 2, 1932.

The pressure of more urgent matters has rendered it impossible for me to give consideration heretofore to the question of arranging a conference on this subject, and I believe it will be impossible for this office or the officials of the Treasury Department to participate in such a conference until sometime after Congress adjourns; but I think we ought to have it at the earliest date convenient to all concerned. We cannot make any definite plans until we know when Congress will adjourn, but I shall appreciate an expression of your views as to the time most suitable and convenient for such a conference.

Cordially yours,

Walter Wyatt,
General Counsel.

Inclosures.

TO COUNSEL OF ALL FEDERAL RESERVE BANKS.

C O P Y X-7169-a

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT
Attorneys at Law
Suite 1607 William-Oliver Bldg.
Atlanta, Ga.

August 19, 1931.

PERSONAL.

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

Dear Walter:

I have received your letter of August 14th, sent for my personal and confidential information and enclosing a copy of a letter which you have written to the Chairman of the Standing Committee on Collections concerning the Committee's report on the subject of "cashing" Government checks and warrants by Federal reserve banks.

I approve most heartily the views set out in your letter. I have always felt that if the matter were put up to the Treasury Department in a vigorous way by the Federal reserve banks acting in concert, the present conflusion would be eliminated. As the situation now is, no Federal reserve bank knows whether a Government item is actually "cashed" or paid when presented to the bank for that purpose and charged to the Treasury account, and, in fact, it seems to me that the Treasury has no fixed policy about the matter. Sometimes the position is taken that a check is paid when cashed by its fiscal agent and charged to its account. Sometimes the opposite position is assumed.

I believe the matter is of sufficient importance to justify a conference of counsel, particularly since there are doubtless other questions which could be profitably considered at such a conference.

As regards the payment or cashing of Government checks or warrants, the position of the Federal reserve banks is rendered even more uncertain by the doubt which exists as to whether or not such warrants are negotiable instruments. There are many other interesting angles which ought to have

X-7169-a

COLQUITT, PARKER, TROUTMAN & ARKWRIGHT

Continuation Sheet

Mr. Walter Wyatt - #2. 8-19-31.

consideration. My own view is that when a Federal reserve bank takes one of these warrants in regular course of business, pays or cashes the same and charges the item to the Treasury account, the payment ought to be regarded as final unless, of course, the instrument, upon receipt at the Treasury, should be found to be forged or to have been paid upon a forged endorsement or unless there exists some other reason why the warrant was not properly payable upon presentation at the office of the Federal reserve bank.

I trust that you will have a pleasant vacation and know that you have earned very much more rest than you can obtain in two or three weeks. I have not been away this summer and do not expect to get away. That fact does not, however, prevent me from preaching to others the necessity for vacations.

With sincere personal regards, I am

Cordially yours,

(S) Robt. S. Parker.

RSP/w.

C O P Y X-7169-b

FEDERAL RESERVE BANK OF SAN FRANCISCO

September 11, 1931.

(CONFIDENTIAL)

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

Dear Mr. Wyatt:

Reference is made to your letter dated August 14, transmitting for my "personal and confidential information" copy of your letter written to the Chairman of the Standing Committee on Collections with regard to the Committee's report on the subject of "Cashing" Government checks and warrants by Federal Reserve Banks.

I have only recently had the opportunity of examining the Committee's report. This I have done in conference with the officers of this bank. I agree with the major portion of what you have to say in your letter of August 13 (X-6944).

Certainly, the Treasury circular should contain a clear statement with regard to the responsibility of Federal Reserve Banks in cases where payment is stopped on checks for which immediate credit has been given. I believe that the Treasurer should not recognize any stop-payment order until first communicating with the Federal Reserve Bank affected to ascertain whether or not credit has been passed and if so, whether reimbursement can be obtained.

I also believe that a great deal of the difficulty heretofore encountered could be obviated by eliminating entirely from paragraph 32 of the Treasury circular all reference to what the Federal Reserve Banks will do under given circumstances. It seems to me that such reference merely confuses the situation and leaves in doubt the capacity in which such banks are acting. I also believe that the Treasury Department should incorporate in its circular a clear statement to the effect that Federal Reserve Banks, in handling Government checks and warrants, are acting solely as agents of the banks from which such checks are received, and I cannot see why the Treasurer should have any objection to making such a statement.

Mr. Clerk, the Deputy Governor of this bank, who is probably as conversant with operating procedure as any man in the system and whose ideas on subjects of this character are extremely clear cut, is of the opinion that all reference to payment of Government checks through clearing houses should be eliminated, in order that it may be additionally clear that such items will not be handled for non-member banks, directly or indirectly. I think that the word "Cashing" Government checks and warrants should be eliminated entirely. Such items are not "cashed" in fact except in the case of items drawn by disbursing officers of the Government. I do not believe that it is necessary or advisable that in the Treasury circular Federal Reserve Banks be denominated either as fiscal agents or depositaries of the United States, and that this dilemma, which has previously existed, could be obviated by making it clear that in handling Government checks and warrants Federal Reserve Banks act only as agents of their depositors and not in any agent capacity for the Government.

Certainly, the circular should be clarified and can be clarified, but I do not believe that this will be accomplished until we have an absolute "show-down" with the Treasury Department, in which we make it plain that their circular must be prepared in such form as to offer adequate protection to the Federal Reserve Banks and that unless this is done the banks will accept Government items only for deferred credit. This can be best accomplished, in my opinion, through a conference with the Treasury officials at which counsel for the Reserve Banks and the operating officers of such banks are present. Of course, no such conference should be held until a preliminary conference between Federal Reserve Bank officers and counsel has been held in order that when we meet with the Treasury Department we may be agreed as to what we want.

Please understand that the foregoing are only my personal views. I feel certain that if determined action is taken, something definite and satisfactory can be accomplished.

Very truly yours,

(S) Albert C. Agnew
Counsel.

ACA:MA

C O P Y

FEDERAL RESERVE BANK

OF

ST. LOUIS

November 28, 1931

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

Dear Mr. Wyatt:

Enclosed you will find copy of a memorandum I handed Governor Martin on the subject of the report of the Standing Committee on Collections on "Cashing Government Checks and Warrants." I am not in a position to know the difficulties the operating Committee had to contend with in meeting the legal requirements suggested by the Counsel's Committee, nevertheless, I do not believe the Governors' Conference should act on the report until these differences have been ironed out - and I so advised Governor Martin.

I regretted that I could not be here when the Committee met in St. Louis. Upon Mr. Walden's invitation, I had made my arrangements to be here, but was suddenly called upon to go with one of the National Bank Examiners to Corinth, Miss. to pass on the legality of an arrangement whereby the City of Corinth was loaning one of the member banks in the town certain bonds owned by the city to be used as collateral to the bank's borrowings from the Federal Reserve Bank.

When we arrived at 9:00 a.m., the City Council were all assembled ready to pass any ordinance I found necessary for them to pass, in order to give the bank the right to use the bonds as collateral with the Reserve Bank. They signed on the dotted line.

I then prepared and had the Board of Directors of the bank sign the necessary Resolution authorizing the pledging of the bonds to the Reserve Bank. We finished in time for the member bank to take these bonds 150 miles by automobile to Memphis, arrange for the loan, and secure the necessary funds to continue business the next day as usual, - otherwise, they would not have been able to remain open.

With kindest regards,

Very truly yours,

(S) Jas. G. Mc Conkey,
Counsel.

C O P Y

X-7169-c-1

November 27, 1931

Mr. Wm. Mc C. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Mo.

Dear Mr. Martin:

Referring to the letter subject "Cashing of Government Checks and Warrants by Federal Reserve Banks" signed by Mr. Walden, Chairman of the Standing Committee on Collections, dated August 12, 1931, and the suggestions contained therein that, if in the opinion of the several Counsel, no serious legal objections be found therein the report submitted by the Committee under date of the 10th, it would be submitted to the next Governors' Conference.

The subject of Cashing Government Checks and Warrants has been the source of a great deal of correspondence passing between the Reserve Banks of Richmond, Atlanta and New York, the Federal Reserve Board and the Treasury Department, since 1922.

The subject was discussed at a Conference of Counsel for the Federal Reserve Banks with representative from the Treasury Department, under date of June 10, 1930, at which time all the members of the Standing Committee on Collections (except Mr. Attebery) were present. No definite agreement was reached at this Conference, but the following Resolution was adopted:

> "RESOLVED, That the Chairman of the Governor's Conference be requested to instruct the Standing Committee on Collections to prepare a tentative draft of a uniform check collection circular embodying therein the suggested amendments to Regulation J, the preparation of such tentative draft to be made in collaboration with a sub-committee of Counsel to the Federal reserve banks (such sub-committee to be appointed by Counsel to the Federal Reserve Board and of which sub-committee Counsel to the Federal Reserve Board shall be a member ex officio), with the understanding that such tentative draft, when prepared, shall be submitted to the Federal reserve banks for criticism and/or approval pending the adoption by the Federal Reserve Board of the suggested amendments to Regulation J."

Under date of April 17, 1931, Mr. Wyatt advised the Federal Reserve Board that since this subject was so closely identified with both the practical operations of the Reserve banks and their legal liabilities that it would be advisable for the Conference of Governors, which was to convene on April 27, 1931, to refer the matter back to a special Committee of Counsel and operating officials for study and report.

2 Governor Martin.

Mr. Wyatt advised me under date of July 22, 1930 that, after a talk with Governor Calkins, Chairman of the Governor's Conference, and Mr. Walden, he had named the Counsel for the Atlanta, Richmond and New York banks since they had developed the most of the dispute between the banks and the Treasury Department on the subject. Mr. Wyatt was an ex officio member of the committee.

The Standing Committee on Collections met in St. Louis in June 1931. None of the members of the Counsel's Committee were here. I had intended attending the Conference but had been called out of the City on legal matters and was not here when the Committee met.

Under date of August 14, 1931, Mr. Wyatt forwarded to me copy of letter he had written Mr. Walden, in which strenuous objections were interposed to certain parts of the report. Some of the objections I think are well taken. It would, therefore, appear to me that the questions is not ready to be acted upon by the Governor's Conference in the face of the objections offered by Mr. Wyatt - but rather that the matter be referred back to the joint Committee of Counsel and operating officials, so that these difficulties could be ironed out before any final action is taken by the Governor's Conference.

Respectfully submitted

Jas. G. Mc Conkey,
General Counsel.

C O P Y

X-7169-d

December 14, 1931.

Mr. James G. McConkey,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

My dear Mr. McConkey:

I have read with much interest your letter of November 28, 1931, inclosing for my information a copy of the memorandum which you had given to Governor Martin on November 27, 1931, with reference to the report of the Standing Committee on Collections on "cashing Government checks and warrants".

I am very glad that you think that some of my objections to the report of the Standing Committee on Collections are well taken, and I am very grateful for your suggestion that the matter should be referred to a joint committee of counsel and operative officials, so that these difficulties could be ironed out before any final action is taken by the Governors' Conference.

I am afraid, however, that you are under the impression that the Sub-committee of Counsel appointed pursuant to the resolution adopted by the Conference of Counsel for the Federal reserve banks on June 10, 1930, was expected to assist the Standing Committee on Collections in dealing with this subject and that the failure of the Sub-committee of Counsel to attend the meeting of the Standing Committee on Collections which was held in St. Louis on June 23, 1931, and the consequent failure of the report of the Standing Committee on Collections to conform to

my views and those of Counsel for some of the Federal reserve banks, may have resulted from some neglect or omission on my part, which is not the case.

The resolution adopted by the Conference of Counsel of the Federal reserve banks on June 10, 1930, which is quoted in your memorandum to Governor Martin, pertained solely to the revision of the uniform provisions of the check collection circulars of the Federal reserve banks so as to conform to the amendments to Regulation J which had been recommended by the Conference of Counsel. It had nothing whatever to do with the "cashing" of government checks and warrants. The Committee of Counsel which I appointed pursuant to that resolution fully discharged its functions when it met with the Standing Committee on Collections in New York on or about August 1, 1930, and assisted in the revision of the uniform provisions of the check collection circulars of the Federal reserve banks which were adopted and promulgated by the Federal reserve banks, on September 1, 1930, the date on which the Board's amendment to Regulation J became effective. Having fully performed its functions, that committee went out of existence, since it was not created as a standing committee but only as a committee for a specific purpose.

It is true that, during the Conference of Counsel which was held here in June, 1930, we discussed with the Treasury Department the provisions of Treasury Circular No. 176 and succeeded in inducing the Treasury Department to amend those portions of its circular which dealt with the collection of

bank checks by the Federal reserve banks for the Treasury Department; but you will remember that we could not reach any agreement either among ourselves or with officials of the Treasury Department regarding the revision of those provisions of the Treasury circular which pertain to the "cashing" of government checks and warrants by the Federal reserve banks, and it was agreed to let that matter remain in abeyance indefinitely.

My memorandum of April 17, 1931, which resulted in the action of the Governors' Conference of April 27 -29, 1931, referring to the Standing Committee on Collections the subject of the "cashing" of Government checks and warrants, started an entirely new chapter and an entirely new effort to obtain amendments to the provisions of the Treasury circular relating to the "cashing" of Government checks and warrants; and the Sub-committee of Counsel which had been appointed pursuant to the resolution of June 10, 1930, had no authority to deal with this subject, and was not requested or invited to attend the meeting of the Standing Committee on Collections or to assist that Committee in any way.

In my memorandum of April 17, 1931, suggesting that this subject be called to the attention of the Governors' Conference, in order that a further effort might be made to pursuade the Treasury Department to revise and qualify the provisions of Sections 32 and 34 of the Treasury Department Circular No. 176, as amended September 2, 1930, so as to define clearly the status of the Federal reserve banks in "cashing" government warrants and checks and so as to clarify

their duties and responsibilities in doing so, I suggested that it would be appropriate for the Governors' Conference to refer the matter to the "Standing Committee on Collections, to the Conference of Counsel or to some other appropriate committee for for study and report". The Board presented my memorandum to the Governors' Conference, which referred the subject to the Standing Committee on Collections for consideration and report without suggesting that a Committee of Counsel should be appointed to assist the Standing Committee on Collections in its consideration of the matter. After the conference, both Governor Francher and Mr. Strater told me that they thought the Governors' Conference ought to have arranged for a Committee of Counsel to collaborate with the Standing Committee on Collections and said that they would suggest it to Mr. Walden, Chairman of the Standing Committee on Collections; but I understand they failed to convey this suggestion to Mr. Walden.

In fact, I was not consulted about the meeting of the Standing Committee on Collections and did not know it had been called until June 15, 1931, when I received a letter from Mr. Attebery which incidentally mentioned the fact that a meeting of the Committee had been called to consider that subject on June 23, 1931. I immediately called Mr. Walden on the telephone and suggested that Counsel for some of the Federal reserve banks should be invited to attend the meeting; but he said that he did not feel free to do so without the consent of the Committee, and that the time was too short for him to obtain the Committee's consent and arrange for the Counsel to attend. He seemed to feel that it was

not necessary for any of the Counsel to attend the meeting and said that the report could be submitted to them for comment after a tentative draft had been prepared. I told him that I did not believe that this would produce satisfactory results and he replied that, inasmuch as the meeting would be held at the Federal reserve bank of St. Louis, the Committee could call upon you for any legal advice which it desired. A few days later he invited me to attend the meeting, but the time was so short and I was so busy that I was unable to arrange to do so.

On July 22, 1931, Mr. Walden sent me a copy of the tentative draft of the Committee's report and invited my comments; but I was extremely busy at the time and had not had an opportunity to send him my comments when I received a final copy of the report on August 12, 1931.

On August 13, 1931, I wrote Mr. Walden a letter expressing my disagreement with certain portions of the Committee's report, after a very hurried consideration thereof, and subsequently I sent copies to Counsel for all Federal reserve banks for their information.

I think that, in preparing its report, the Committee failed to appreciate certain of the legal difficulties and dangers growing out of the ambiguity of the provisions of Sections 32 and 34 of the Treasury Circular and also misunderstood the legal effect of their suggestion that the Treasury Circular should show that in "cashing" Government warrants and checks, the Federal reserve banks act as agents for the banks from which they have received

such checks pursuant to the terms of Regulation J. The Committee apparently thought that the provisions of Regulation J would give the Federal reserve banks all of the protection which they need; but I think this is a mistake. Regulation J is designed to protect the Federal reserve banks against liability to the holders of checks for failure to collect them; whereas what we need to obtain through an amendment of the Treasury Circular is a clarification of the legal rights, duties and responsibilities of the Federal reserve banks in relation to the Treasury Department when they "cash" Government checks and warrants drawn on the Treasurer of the United States. In other words, Regulation J defines the duties of the Federal reserve banks as collection agents but it does not undertake to define their duties as agents to pay or "cash" checks for the Treasurer of the United States. In my opinion, the latter subject is dealt with very unsatisfactorily in the Treasury Circular and I desire to see it clarified and improved.

I would like to see the Treasury Circular amended so as to provide that, in "cashing" government checks and warrants, the Federal reserve banks act as fiscal agents, thereby relieving them of all liability when they act within the scope of their authority and with ordinary care. I would also like to see a provision inserted fixing the time when a Government check shall be considered to be finally paid; since I understand that

the Treasurer assumes the right to stop payment on such checks even after he has examined them, perforated them, and entered them on his books as paid. I also believe that the provisions of Section 34 of the Circular should be amended so as to be entirely consistent with the theory that Federal reserve banks act only as agents in "cashing" such checks and that they assume no liability except for losses resulting from a failure to exercise ordinary care or to act within the scope of their authority. I realize, however, that I may not appreciate some of the practical difficulties involved in the accomplishment of these objects, and I am not willing to commit myself definitely to any specific proposal until the subject has been thoroughly threshed out in a joint meeting between the Standing Committee on Collections and the Conference of Counsel or a Committee thereof.

While I have not yet received official notification of the action taken at the recent Conference of Governors, I understand that the report of the Standing Committee on Collections was referred to the Conference of Counsel for consideration and consultation with the Standing Committee on Collections and officials of the Treasury Department, with a view of obtaining a clarification of the applicable provisions of the Treasury Department Circular No. 176 with respect to the duties and responsibilities of the Federal reserve banks in cashing Government checks and warrants. I believe that this should lead to a satisfactory solution of this difficulty; but I am afraid it would

be difficult to arrange a joint meeting of the Conference of Counsel for all Federal reserve banks and of the Standing Committee on Collections at which this subject could be considered with sufficient thoroughness to produce satisfactory results, before some time next summer.

With apologies for the length of this letter and with best personal regards, I am

Cordially yours,

(S) Walter Wyatt,
General Counsel.

WW gc

COPY

X-7169-e

LOCKE, LOCKE, STROUD & RANDOLPH,
First National Bank Building
DALLAS, TEXAS.

January 6, 1932.

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

Dear Mr. Wyatt:-

As requested in your telegram I am enclosing herewith file of correspondence concerning treasury checks involved in the failure of the Citizens National Bank of Brownwood, Texas.

Sincerely yours,

(Signed) J. P. Dreibelbis.

JPD:g

COPY

X-7169-e-1

December 29, 1931

Honorable G. O. Barnes
Assistant Treasurer of the United States
Treasury Department
Washington, D. C.

Sir:

Reference is made to your letter of November 21, 1931, concerning the following described checks:

Check No.	Date	Amount	Payee	Drawer	Symbol
2595778	9-30-31	$160.83	Joseph Hamilton	A. Zaponne	70-001
108170	9-30-31	100.00	Clara Farr Achor as guardian of estate of Noah A. J. Achor	R. E. Waters	11-519
1150388	9-28-31	617.40	Charles E. Bennett	J. B. Shommer	99-220

We are informed that plans are well under way whereby the Citizens National Bank of Brownwood will reopen or a new bank will be organized which will succeed to its affairs. Either plan, of course, will satisfactorily dispose of these particular items.

Notwithstanding the foregoing, we think that it is not inappropriate at this time to discuss the subject generally with you and express to you our views in regard to the problems which present themselves to us in connection with the general subject.

A full understanding of the position of this bank in the handling of these items can best be conveyed to you by placing before you the full details of the handling of the particular items listed. Our information as to how the items were handled by the original depositary bank and also by your office is limited to such facts as are made known by the correspondence between this bank and the original depositary bank and between this bank and your office. However, most of the pertinent facts are disclosed by that correspondence.

The first two of these items were apparently deposited in the Citizens National Bank of Brownwood not later than October 1, 1931. This date we fix by the endorsement on the back of the items in question. They were received by this bank on October 2, 1931, in the cash letter of the Citizens National Bank dated October 1, 1931, the letter totaling $804.48.

In accordance with our usual practice, immediate credit was given upon these two items. That is to say, the funds became subject to immediate withdrawal, and in this respect you are advised that at the close of that day's business the Citizens National Bank had drawn its balance with us down to the sum of $43.02.

The last one of the three items mentioned above was apparently deposited in the Citizens National Bank on October 3, 1931, such date being the date of the bank's endorsement. October 4 fell on a Sunday, and on October 5 the item was received in the cash letter of the Citizens National Bank dated October 3, that letter totaling $813.90. This item was likewise passed to the credit of the Citizens National Bank, and the funds represented thereby became immediately available for withdrawal.

We have no knowledge as to the circumstances under which the items were deposited with the Citizens National Bank other than is reflected by the correspondence with the examiner in charge. We were advised, however, on October 16, 1931, by Ernest Lamb, the examiner in charge, that the records of that bank showed that the parties mentioned deposited these checks for credit and that in each instance they had checked against their balances before the suspension of the bank. We assume, therefore, that the Brownwood bank gave immediate credit for the items and permitted the depositors to withdraw funds against the items, in so far as they desired to do so.

The first two of these items were forwarded to your office with our transcript of October 2, and the last was forwarded to your office with our transcript of October 5. We have no knowledge as to when these items reached your office. Our experience is that items mailed here on a given day reach Washington upon the third day thereafter. At any rate, we assume that the first two items reached your office not later than October 6 and that the last item reached your office not later than October 9. These dates are fixed by the perforations placed on the items in your office.

The Citizens National Bank failed to open on October 6, 1931, and we assume that it was with knowledge of this failure that the various payees, themselves or through the drawers of the various items, requested your office to decline payment.

Under date of October 7, 1931, the first two items were returned to us by your office with advice that payment of the items was being declined in compliance with the requests dated October 6 from the drawer and payee, respectively; under date of October 9, 1931, the third item was returned to us by your office with advice that payment of the same was being declined in compliance with the request dated October 7, 1931, from the drawer. Being unable to effect collection of these items from the examiner in charge, we returned them to your office under date of October 17, 1931.

On October 28, 1931, the items were again returned to us by your office. In this letter we were advised that in the case of checks which are deposited for collection it is the practice of the Comptroller of the Currency to charge the depositor's account and return the checks to him if his balance will permit such action, and that if the depositor's balance is less than the amount of the check, the bank is the owner of the check to that extent and the check is returned to the depositor upon repayment of the difference between his

balance and the amount of the check. It was suggested, also, that our correspondents should be advised that checks received in your office are perforated with the date and assembled for identification purposes before clearance or examination, and such perforation does not signify that a check has been paid.

Following the receipt of the items from you, we forwarded them to the examiner in charge, together with a copy of your letter to us. The examiner again returned them to us, and we wrote you under date of November 9, 1931, quoting in its entirety the letter of the examiner which accompanied the items.

You now suggest to us that as the failed bank's deposit ticket stated definitely that it was acting as agent for the depositor in the collection of checks, it is your understanding that, unless the Federal Reserve Bank has altered its position or extended additional credit in reliance or faith upon the supposition that the deposit in fact belonged to the bank, it now has no right to offset proceeds of these items against the indebtedness owing to it by the failed bank.

Leaving for the present the legal, as well as the equitable features of the case, it seems to us that a great deal of the difficulty in these cases is brought about by a lack of understanding upon the part of this bank, as well as its correspondents, as to the circumstances under which a Government check or warrant may be considered paid.

We have carefully considered the provisions of Circular No. 176 of the Treasury Department, particularly with respect to the payment of Government checks and warrants, and while it is clear therefrom that such items

shall be considered paid only after examination by the Treasury Department, the question of what action on the part of the Treasurer shall amount to payment is left unanswered. It seems to us obvious that at some point in the handling of a particular item some specific or definite act on the part of the Treasurer should constitute payment, but the circular is entirely silent on that point, so far as we are able to discern. In other words, it appears to us that the real and final question is approached from a negative rather than a positive viewpoint. While we are advised as to what will not constitute payment, we are not informed as to what will.

We do observe from the circular that the Treasurer reserves only the usual right of the drawee to examine, when received, all Government checks and warrants cashed by Federal reserve banks. We assume that the purpose of the word "usual" is to reserve to the Treasurer the same right that a commercial institution doing the same character of business would have. We also note that the circular provides that the Treasurer reserves the right to examine the items when received. From the language of the circular it is our understanding that the Treasury Department intended thereby to represent that upon receipt of a check or warrant it would examine it and act in regard to it within the same time required of a commercial institution doing the same character of business, or certainly within a reasonable and definite time.

We, of course, realize that the perforation of the items, in itself, does not constitute payment in the absence of other facts and circumstances. On the other hand, it is a circumstance which can be taken into consideration with other circumstances in determining whether or not payment has been made, because, after all, the ultimate question is one of fact.

Without reference to the handling of the particular items described in this letter, we do feel that if a commercial bank had received an item, credit for which had already been passed to the depositor, held it for over twenty-four hours, and perforated it with its cancellation stamp, there are few courts that would not hold that the item was paid or accepted.

Returning to the legal aspects of the particular cases, as evidenced by the available facts, we recognize, of course, the general propositions asserted by you in your letter of November 21, 1931, and while we agree that the rights of the parties may be fixed by contract evidenced by provisions incorporated in the depositary bank's deposit slip, we feel that, by the same token, the bank may, by its action or by special contract, create a different relationship.

In these particular cases, so we are advised, the depositary bank gave immediate credit for the items and permitted the various depositors to withdraw against them. That they did not withdraw all of the funds evidenced by these items was probably because they did not desire to do so. At any rate, it is our opinion that the Citizens National Bank of Brownwood, by giving immediate credit without restriction, bought the items in question and created the relationship of debtor and creditor, rather than that of principal and agent. In this connection, your attention is directed to the case of City of Douglas v. Federal Reserve Bank of Dallas, 271 U. S. 489.

As to this bank's position in the transaction being altered, it seems to us that every time it receives a Government check or warrant and passes immediate credit to the forwarding bank, it changes its position. As a matter of fact, it is because we are constantly changing our position by paying out funds and creating credits subject to immediate withdrawal that

the question gives us so much concern.

In conclusion, we are hoping that under the circumstances you will conclude that the various payees have no claims except as against the depositary bank in which they chose to deposit their funds, and, accordingly, we are herewith returning the items.

Yours very truly,

Governor

COPY

X-7169-e-2

COPY

LETTERHEAD OF THE TREASURY DEPARTMENT, WASHINGTON

Office of the Treasurer of the United States
In replying quote initials AWS:C

November 21, 1931.

Mr. L. G. Pondrom,
Assistant Cashier,
Federal Reserve Bank,
Dallas, Tex.

REGISTERED MAIL

Sir:

Receipt of your letter of November 9 is acknowledged, forwarding three checks, described below, drawn on this office and returned when presented for payment because of drawers' and payees' requests due to the failure of The Citizens National Bank of Brownwood, Texas, after the deposit of the checks there and before they were presented to this office for payment:

Check No.	Date	Amount	Payee	Drawer	Symbol
1,150,388	9-28-31	$617.40	Charles E. Bennett	J. B. Schommer	99220
2,595,778	9-30-31	160.83	Joseph Hamilton	A. Zappone	70001
108,170	9-30-31	100.00	Clara Farr Achor as Gdn. of Est. of Noah A. J. Achor	R. E. Waters	11519

It appears that when the checks were returned you acknowledged receipt of them under dates of October 10 and 13 and wrote that you were returning the checks to your endorser and as soon as you received any information regarding them you would advise this office.

The payee of the first check above, Mr. Bennett, telegraphed and wrote to this office on November 3, that his check had been returned to him and he requested that stoppage be lifted. In his letter he stated that he had redeposited the check in The First National Bank of Brownwood. On November 6, he telegraphed that complications had arisen and requested renewal of stoppage.

The payee of the second check, Mr. Hamilton, wrote on October 16, that the examiner in charge of the failed bank refused to return his check although the payee had tendered to the examiner the amount of the difference between his bank balance and the amount of this check.

The failed bank's deposit ticket stated definitely that it was acting as agent for depositors in the collection of checks.

Under date of October 17, you returned the three checks to this office with a copy of a letter from the examiner of the failed bank dated October 16, in which he returned the checks to you and stated in part: "--- we are not in position to give you authority to charge the account of The Citizens National Bank of Brownwood with the checks."

On October 28, the checks were again sent to you for return to the receiver of the failed bank with information as to the practice approved by the Comptroller of the Currency for handling such checks when deposited for collection.

With your letter of November 9, you again forwarded the checks and quoted a letter from the Receiver in part as follows: " 'At the time these checks were returned to me with your letter of November 2nd, it was my thought that I could have the payees reimburse me the difference between the amount of the checks and the amount standing to their credit on the individual ledger, which would enable me to make a debit against the account, which would close each of the accounts, and you in turn debit the credit balance of The Citizens National Bank of Brownwood, Texas. Upon investigation, I find that you have closed the account of The Citizens National Bank on your books, and it is presumed the amount was applied as a credit on the rediscounts of subject bank with you, although I have never been advised to that effect. As you are aware, I am not in a position to draw drafts against credit balances with other banks in order to reimburse you the amount of the checks involved, therefore, I am returning the checks herewith and ask that you please acknowledge receipt of same.' " You also stated: "Regarding the balance standing to the credit of The Citizens National Bank of Brownwood on our books, referred to in Mr. Lamb's letter, we advise that this balance has been applied on the indebtedness of The Citizens National Bank of Brownwood and the subject bank does not show any balance to its credit at the present time."

As understood by this office the failed bank acted as agent for collection of out of town items deposited until collection was effected. The agency relationship continued until the failed bank received the proceeds from its subagent. Where an agent makes a deposit, even in his own name, of funds belonging to his principal, the bank, although unaware of the beneficial ownership of such deposit cannot offset such deposit against an indebtedness owing by such agent to the bank, where the bank has not altered its position or extended any additional credit, in reliance or faith upon the supposition that the deposit in fact belonged to the agent. Numerous decisions sustain this view.

It thus appears that the payees of these checks own the proceeds except to the extent that the failed bank permitted withdrawals against the deposits, unless the Federal Reserve Bank after the receipt of these items changed its position to its detriment. No information as to this feature is contained in the file.

The checks are again returned to you herewith and unless your bank can be shown to have changed position to its detriment after receipt of the checks, it would appear that your offsetting them against an indebtedness owing to you by the failed bank may not be upheld upon your further consideration.

Respectfully,

G. O. Barnes (Signed)
Assistant Treasurer.

Inclosures.

C O P Y

X-7169-e-3

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

November 23, 1931

Mr. G. O. Barnes
Assistant Treasurer of the United States
Treasury Department
Washington, D. C.

Sir:

Under date of November 9, we forwarded you the following described Treasury warrants:

Number	Amount	Drawn to the order of:
1,150,388	$617.40	Charles F. Bennett
108,170	100.00	Clara Farr Achor
2,595,778	160.83	Joseph Hamilton.

We do not appear to have received an acknowledgment covering these items and shall appreciate it if you will advise us whether they have reached your office.

Respectfully

L. G. Pondrom
Assistant Cashier

LGP:HH

COPY

X-7169-e-4

COPY

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

November 9, 1931

Mr. G. O. Barnes
Assistant Treasurer of the United States
Treasury Department
Washington, D. C.

Sir:

In reply to your letter of November 4, initialed "AWS-C," we return Treasurer's check No. 1,150,388, for $617.40, drawn to the order of Charles F. Bennett, referred to therein, together with warrant for $100, No. 108,170, drawn to the order of Clara Farr Achor, Guardian of the Estate of Noah A. J. Achor, and warrant No. 2,595,778, for $160,83, drawn to the order of Joseph Hamilton, which checks were mentioned in Treasurer's letter of October 28.

Our action becomes necessary in view of letter today received from Mr. Ernest Lamb, National Bank Examiner in charge of the Citizens National Bank of Brownwood, returning these warrants to us, which we quote below:

> "With further reference to the three checks drawn on the Treasurer of the United States for $100, $160.83, and $617.40, payable to Clara Pharr Achor, Joseph Hamilton, and Charles F. Bennett, respectively, about which there has been so much controversy, I am returning the checks herewith.
>
> "As you were previously advised the payees of these checks deposited the items in The Citizens National Bank prior to its suspension, received immediate credit for the items against which credit each payee had checked prior to the suspension of business. At the time these checks were returned to me with your letter of November 2nd, it was my thought that I could have the payees reimburse me the difference between the amount of the checks and the amount standing to their credit on the individual ledger, which would enable me to make a debit against the account, which would close each of the accounts, and you in turn debit the credit balance of The Citizens National Bank of Brownwood, Texas.
>
> "Upon investigation, I find that you have closed the account of The Citizens National Bank on your books, and it is presumed the amount was applied as a credit on the rediscounts of subject bank with you, although I have never been advised to that effect.

"As you are aware, I am not in a position to draw drafts against credit balances with other banks in order to reimburse you the amount of the checks involved, therefore, I am returning the checks herewith and ask that you please acknowledge receipt of same."

Regarding the balance standing to the credit of the Citizens National Bank of Brownwood on our books, referred to in Mr. Lamb's letter, we advise that this balance has been applied on the indebtedness of the Citizens National Bank of Brownwood and the subject bank does not show any balance to its credit at the present time.

We shall await your further advice in connection with these warrants and will thank you to acknowledge their receipt.

Respectfully

L. G. Pondrom
Assistant Cashier

LGP:HH
Attachments

COPY

C O P Y

LETTERHEAD OF THE TREASURY DEPARTMENT, WASHINGTON

November 4, 1931

Office of Treasurer of the United States
In replying quote initials ATS-C

Cashier,
Federal Reserve Bank,
Dallas, Texas.

Sir:

Reference is made to office letter dated October 9, 1931, relative to check No. 115,388, dated September 28, 1931, drawn on this office to the order of Charles F. Bennett for $617.40 by J. B. Schommer, symbol 99-220, payment of which check was declined when presented for the reason that the Citizens National Bank of Brownwood, Texas, in which the item had been deposited, subsequently closed.

Inasmuch as the check was returned by the receiver of the failed bank to the payee and as you do not appear to have entered credit in the Treasurer's account for this item, it will be greatly appreciated if you will communicate with your indorser with a view of obtaining the amount involved.

Respectfully,

G. O. Barnes (Signed)
Assistant Treasurer.

COPY

COPY

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

November 9, 1931

Mr. Ernest Lamb
National Bank Examiner
Citizens National Bank
Brownwood, Texas.

Dear Mr. Lamb:

This will acknowledge receipt of your letter of November 6, enclosing to us the following described Treasury warrants:

Number	Name of Payee	Amount
1,150,388	Charles F. Bennett	$617.40
2,595,778	Joseph Hamilton	160.83
108,170	Clara Farr Achor as Guardian of the Estate of Noah A. J. Achor	100.00

We are quoting your letter to the Treasurer of the United States today and shall be pleased to advise you of any further developments that might occur in connection with these checks.

Yours very truly

L. G. Pondrom
Assistant Cashier

LGP:HH

C O P Y

C O P Y

LETTERHEAD OF THE CITIZENS NATIONAL BANK OF BROWNWOOD

November 6, 1931.

Federal Reserve Bank,
Dallas, Texas.

Gentlemen:

With further reference to the three checks drawn on the Treasurer of the United States for $100.00, $160,83 and $617.40, payable to Clara Pharr Achor, Joseph Hamilton and Charles F. Bennett respectively, about which there has been so much controversy, I am returning the checks herewith.

As you were previously advised the payees of these checks deposited the items in The Citizens National Bank prior to its suspension, received immediate credit for the items against which credit each payee had checked prior to the suspension of business. At the time these checks were returned to me with your letter of November 2nd, it was my thought that I could have the payees reimburse me the difference between the amount of the checks and the amount standing to their credit on the individual ledger which would enable me to make a debit against the account, which would close each of the accounts, and you in turn debit the credit balance of The Citizens National Bank of Brownwood, Texas.

Upon investigation, I find that you have closed the account of The Citizens National Bank on your books and it is presumed the amount was applied as a credit on the rediscounts of subject bank with you, although I have never been advised to that effect.

As you are aware, I am not in a position to draw drafts against credit balances with other banks in order to reimburse you the amount of the checks involved, therefore, I am returning the checks herewith and ask that you please acknowledge receipt of same.

Respectfully yours,

Ernest Lamb, (Signed)
National Bank Examiner.

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

November 2, 1931

Mr. Ernest Lamb,
National Bank Examiner,
Citizens National Bank,
Brownwood, Texas.

Dear Mr. Lamb:

We are enclosing the three checks drawn on the Treasurer of the United States for $100.00, $160.83 and $617.40, which you forwarded to us in your letter of October 16th after having refused to accept their return. We are also enclosing copy of a letter from the Treasurer regarding the checks that is self-explanatory.

The check drawn to the order of Clara Farr Achor as Gdn. of Est. of Noah A. J. Achor should be endorsed exactly as drawn before it is again presented for payment.

Please acknowledge receipt of the check and advise us regarding the matter.

Yours very truly,

L. G. Pondrom,
Assistant Cashier.

LGP/S
s

X-7169-e-9

COPY

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

November 5, 1931

Mr. Joseph Hamilton
P. O. Box 813
Brownwood, Texas

Dear Sir:

This will acknowledge receipt of your letter of November 4, enclosing United States Treasury check No. 2595778, dated September 30, drawn to your order for $160.83.

We observe that you would have us cancel our endorsement in order that further negotiation of the check may be accomplished. This is to advise that certain matters in connection with this particular warrant are still under adjustment with Mr. Ernest Lamb, Examiner in Charge of the Citizens National Bank of Brownwood, and we are not at the present time at liberty to cancel our endorsement. We have returned the warrant today to Mr. Lamb and suggest that you call upon him, and he will be glad to fully explain the matter.

Yours very truly

L. G. Pondrom
Assistant Cashier

LGP:HH

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

November 5, 1931

Mr. Ernest Lamb
Examiner in Charge
Citizens National Bank
Brownwood, Texas

Dear Mr. Lamb:

Furthering our telephone conversation regarding certain Government warrants, one of these checks for $160.83 was received by us today direct from the payee, Joseph Hamilton. We are writing Mr. Hamilton that the warrant has been returned to you and that he should get in touch with you with further reference to its payment.

We might state that he has asked us to cancel our endorsement in order that the warrant may be negotiated. This, of course, we cannot do until the question now in controversy is settled.

Please acknowledge receipt of the enclosure.

Yours very truly

L. G. Pondrom
Assistant Cashier

LGP:HH
Attachment

X-7169-e-ll

C O P Y

Post Office Box 813,
Brownwood, Texas,
November 4, 1931.

Federal Reserve Bank of Dallas,
Dallas, Texas.

Gentlemen:

I am enclosing check No. 2,595,778 dated September 30, 1931, for $160.83, drawn on the Treasurer of the United States to the order of the undersigned by A. Zappone, symbol 70-001. Payment on this check has been suspended.

In accordance with instructions from the Treasurer of the United States to have all endorsements cancelled before redepositing this item you are kindly requested to cancel your endorsement thereon and return to undersigned.

Yours very truly

Joseph Hamilton (Signed)

X-7169-e-12

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

November 4, 1931

Mr. Dean Rippetoe, Assistant Cashier
First National Bank
Brownwood, Texas

Dear Mr. Rippetoe:

We refer to your letter of November 3, enclosing Treasury warrant No. 1150388, drawn to the order of Charles F. Bennett for $617.40, requesting that, if in order, the amount be credited to your account.

As advised you over the telephone today, this warrant is in controversy, having been returned to us by the Treasurer of the United States for reclamation through the Examiner in Charge of the Citizens National Bank of Brownwood on account of the fact that the payeee had requested that payment be stopped on it.

We returned the warrant to Mr. Lamb, Examiner in Charge of the Citizens National Bank at Brownwood for reimbursement, and this matter is still receiving Mr. Lamb's consideration. Therefore we return the warrant to you and ask that you get in touch with Mr. Lamb so that he may be present when you discuss the matter with your depositor, who we understand is the payee, Charles F. Bennett.

Kindly favor us by acknowledging receipt of the enclosure.

Yours very truly

L. G. Pondrom
Assistant Cashier

LGP:HH
Attachment

cc to Mr. Ernest Lamb
National Bank Examiner
c/o Citizens National Bank
Brownwood, Texas

X-7169-e-13

C O P Y

LETTERHEAD OF THE FIRST NATIONAL BANK, BROWNWOOD, TEXAS

November 3, 1931.

Federal Reserve Bank in Dallas,
Dallas, Texas.

Gentlemen:

We enclose herein Adjusted Service Certificate Loan check by J. B. Schommer, Disbursing Clerk on the Treasurer of the United States, dated September 28, 1931, and being numbered 1,150,388, in the sum of $617.40, payable to the order of Charles F. Bennett, 109 E. Chandler, Brownwood, Texas.

Prior endorsements on this item indicates that it was deposited in the Citizens National Bank of this city on October 3rd, by payee, but on account of the closing of that bank, payment was requested to be stopped, and the item has consequently been returned to the payee, who has today wired the Treasurer of the United States at Washington, as follows:

> "Lift stop payment against check #1150388 J. B. Schommer disbursing clerk to Charles F. Bennett $617.40, adjusted service certificate loan and confirm your action to First National Bank, Brownwood, since check has now been returned to me by other bank."

If it is now in order to pay this check, we will thank you to credit our account and advise us when finally paid, in order that we may pay the funds over to the endorser of the check only when we have received final payment.

Yours very truly,

Dean Rippetoe (Signed)
Assistant Cashier.

Y-r

C O P Y

LETTERHEAD OF THE TREASURY DEPARTMENT, WASHINGTON

Office of
Treasurer of the United States
In replying quote initials AWS:C

October 28, 1931.

Cashier,
Federal Reserve Bank,
Dallas, Tex.

REGISTERED MAIL

Sir:

Herewith are returned checks received with your letter of October 17, with inclosure from Ernest Lamb, National Bank Examiner, Brownwood, Texas, as follows:

Check No.	Symbol	Amount	Payee
108,170	11519	$100.00	Clara Farr Achor as Gdn. of Est. of Noah A. J. Achor
1,150,388	99220	617.40	Charles F. Bennett
2,595,778	70001	160.83	Joseph Hamilton

In case of checks which were deposited for collection it is the practice of the Comptroller of the Currency to charge the depositor's account and return the checks to him if his balance will permit such action. If the depositor's balance is less than the amount of the check the bank is owner of the check to that extent, and the check is returned to the depositor upon repayment of the difference between his balance and the amount of the check.

Please return the checks to the representative of the Citizens National Bank, Brownwood, Texas, and advise this office in detail as to his position if you are not reimbursed within a reasonable time.

Your correspondent should be advised that checks received in this office are perforated with a date and symbols for identification purposes before clearance or examination and such perforation does not signify that a check has been paid.

Respectfully,

W. O. Woods (Signed)
Treasurer.

Inclosures.

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

October 17, 1931.

Hon. W. O. Woods,
Treasurer of the United States,
Washington, D. C.

Sir:

Reference is made to your letters of October 7th and October 9th enclosing checks as described below:

Check No.	Payee	Amount
108,170	Clara Farr Achor, as Guardian of Estate of Noah A. J. Achor	$100.00
1,150,388	Charles F. Bennett	617.40
2,595,778	Joseph Hamilton	160.83

The matter of obtaining refund to cover the checks was referred to the National Bank Examiner in charge of the Citizens National Bank, Brownwood, Texas, and we are today in receipt of a letter from him, copy of which is attached.

The checks are enclosed for your disposition and we ask that you please advise us if we can be of further assistance.

Respectfully,

L. G. Pondrom,
Assistant Cashier.

LGP/S
s

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

October 13, 1931.

Hon. W. O. Woods,
Treasurer of the United States,
Washington, D. C.

Sir:

Receipt is acknowledged of your letter of October 9th, 1931, initials AWS-C, enclosing check No. 1,150,388, drawn to the order of Charles F. Bennett for $617.40, on which payment has been stopped because the bank in which it was deposited has closed.

We are returning the check to our endorser and as soon as we receive any information regarding it you will be advised.

Respectfully,

L. G. Pondrom,
Assistant Cashier.

LGP/S
s

C O P Y

LETTERHEAD OF THE TREASURY DEPARTMENT, WASHINGTON

Office of
Treasurer of the United States
In replying quote initials AWS-C

October 9, 1931

Cashier,
Federal Reserve Bank,
Dallas, Tex.

REGISTERED MAIL

Sir:

There is returned herewith check No. 1,150,388 dated September 28, 1931, drawn on this office to the order of Charles F. Bennett, for $617.40, by J. B. Schommer, symbol No. 99220, which was listed in your transcript of the Treasurer's account dated October 5, 1931. Payment is declined at this time in compliance with request dated October 7, 1931, from drawer, who asked that payment be stopped because the bank in which the check was deposited had become insolvent.

Please return the check through the indorsers to the receiver of the failed bank for delivery to the payee if the circumstances warrant this action. Returned Check Credit Ticket No. 72194 is inclosed, with which to enter credit in the Treasurer's account.

Respectfully,

W. O. WOODS (Signed)
Treasurer.

Countersigned:

Asst. Chief, Accounting Division.

RMB:NR
AC-152

COPY

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

October 10, 1931.

Hon. W. O. Woods,
Treasurer of the United States,
Washington, D. C.

Sir:

Receipt is acknowledged of your letter of October 7th, initials AWS-C, enclosing check No. 2,595,778, drawn to the order of Joseph Hamilton for $160.83, on which payment has been stopped because the bank in which it was deposited has closed.

We are returning the check to our endorser and as soon as we receive any information regarding it you will be advised.

Respectfully,

L. G. Pondrom,
Assistant Cashier.

LGP/S
s

X-7169-e-19

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

October 10, 1931.

Hon. W. O. Woods,
Treasurer of the United States,
Washington, D. C.

Sir:

Receipt is acknowledged of your letter of October 7th, initials AWS-C, enclosing check No. 108,170, drawn to the order of Clara Farr Achor as Gdn. of Est. of Noah A. J. Achor for $100.00, on which payment has been stopped because the bank in which it was deposited has closed.

We are returning the check to our endorser and as soon as we receive any information regarding it you will be advised.

Respectfully,

L. G. Pondrom,
Assistant Cashier.

LGP S
s

C O P Y

LETTERHEAD OF TREASURY DEPARTMENT, WASHINGTON

October 7, 1931

Office of
Treasurer of the United States
In replying quote initials AWS-C

Cashier,
Federal Reserve Bank,
Dallas, Texas.

REGISTERED MAIL

Sir:

There is returned herewith check No. 2,595,778, dated September 30, 1931, drawn on this office to the order of Joseph Hamilton, for $160.83, by A. Zappone, symbol No. 70001, which was listed in your transcript of the Treasurer's account dated October 2, 1931. Payment is declined at this time in compliance with request dated October 6, 1931, from the payee, who asked that payment be stopped because the bank in which the check was deposited had become insolvent.

Please return the check through the indorsers to the receiver of the failed bank for delivery to the payee if the circumstances warrant this action. Returned Check Credit Ticket No. 47030 is inclosed, with which to enter credit in the Treasurer's account.

Respectfully,

W. O. WOODS
Treasurer.

Countersigned:

Asst. Chief, Accounting Division.

F:EB
AC-152

X-7169-e-21

C O P Y

LETTERHEAD OF THE TREASURY DEPARTMENT, WASHINGTON

Office of
Treasurer of the United States
In replying quote initials AWS-C

October 7, 1931.

Cashier,
Federal Reserve Bank,
Dallas, Tex.

REGISTERED MAIL

Sir:

There is returned herewith check No. 108,170, dated September 30, 1931, drawn on this office to the order of Clara Farr Achor as Gdn. of Est. of Noah A. J. Achor, for $100.00, by R. E. Waters, symbol No. 11-519, which was listed in your transcript of the Treasurer's account dated October 2, 1931. Payment is declined at this time in compliance with request dated October 6, from the drawer, who asked that payment be stopped because the bank in which the check was deposited had become insolvent.

Please return the check through the indorsers to the receiver of the failed bank for delivery to the payee if the circumstances warrant this action. Returned Check Credit Ticket No. 47029 is inclosed, with which to enter credit in the Treasurer's account.

Respectfully,

W. O. WOODS
Treasurer.

Countersigned:

Asst. Chief, Accounting Division.

AC-152
KMD:REL

The check should be indorsed exactly as drawn-Clara Farr Achor as Gdn. of Est. of Noah A. J. Achor, before it is again presented for payment.

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

October 10, 1931.

Examiner in Charge,
Citizens National Bank,
Brownwood, Texas.

Dear Sir:

There is returned herewith check No. 108,170, drawn to the order of Clara Farr Achor as Gdn. of Est. of Noah, A. J. Achor, for $100.00, which bears the endorsement of the Citizens National Bank, Brownwood, Texas, of October 1, 1931.

This check has been returned to us by the Treasury Department with a letter which, in part, reads as follows:

> "Payment is declined at this time in compliance with request dated October 6, from the drawer, who asked that payment be stopped because the bank in which the check was deposited had become insolvent.
>
> "Please return the check through the indorsers to the receiver of the failed bank for delivery to the payee if the circumstances warrant this action."

Under the circumstances please advise us if it will be in order for us to charge the account of the Citizens National Bank, Brownwood, Texas, to cover.

Yours very truly,

L. G. Pondrom,
Assistant Cashier.

LGP/S
s

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

October 13, 1931.

Examiner in Charge,
Citizens National Bank,
Brownwood, Texas.

Dear Sir:

There is returned herewith check No. 1,150,388, drawn to the order of Charles F. Bennett for $617.40, which bears the endorsement of the Citizens National Bank, Brownwood, Texas, of October 3, 1931.

This check has been returned to us by the Treasury Department with a letter which, in part, reads as follows:

> "Payment is declined at this time in compliance with request dated October 7, 1931, from drawer, who asked that payment be stopped because the bank in which the check was deposited had become insolvent.
>
> "Please return the check through the indorsers to the receiver of the failed bank for delivery to the payee if the circumstances warrant this action."

Under the circumstances please advise us if it will be in order for us to charge the account of the Citizens National Bank, Brownwood, Texas, to cover.

Yours very truly,

L. G. Pondrom,
Assistant Cashier.

LGP/S
s

C O P Y

LETTERHEAD OF THE FEDERAL RESERVE BANK OF DALLAS

October 10, 1931.

Examiner in Charge,
Citizens National Bank,
Brownwood, Texas.

Dear Sir:

There is returned herewith check No. 2,595,778, drawn to the order of Joseph Hamilton for $160.83, which bears the endorsement of the Citizens National Bank, Brownwood, Texas, of October 1, 1931.

This check has been returned to us by the Treasury Department with a letter which, in part, reads as follows:

> "Payment is declined at this time in compliance with request dated October 6, 1931, from the payee, who asked that payment be stopped because the bank in which the check was deposited had become insolvent.
>
> "Please return the check through the indorsers to the receiver of the failed bank for delivery to the payee if the circumstances warrant this action."

Under the circumstances please advise us if it will be in order for us to charge the account of the Citizens National Bank, Brownwood, Texas, to cover.

Yours very truly,

L. G. Pondrom,
Assistant Cashier.

LGP:S
s

C O P Y

LETTERHEAD OF THE CITIZENS NATIONAL BANK OF BROWNWOOD, BROWNWOOD, TEXAS

October 16, 1931.

Federal Reserve Bank,
Dallas, Texas.

Gentlemen:

Receipt is acknowledged of your letters enclosing Government checks payable to:

Clara Farr Achor, as Guardian of Estate of Noah A. J. Achor, for	$100.00
Charles F. Bennett	617.40
Joseph Hamilton	160.83

which appear to have been returned to you on account of payment being declined in compliance with request dated October 6th from the drawers, who asked that payment be stopped because the bank in which the checks were deposited had become insolvent.

The records of this bank show that the parties mentioned deposited these checks for credit and had checked against their balances before the bank suspended. In addition thereto each and all of the checks show to be punctured paid by the Treasury Department and, replying to your question in the last paragraph of your letters, you are advised that we take the position that, based upon all the circumstances in the case, we are not in position to give you authority to charge the account of The Citizens National Bank of Brownwood with the checks. Therefore, we are returning the checks to you requesting that they be returned through the regular order with any notation you may deem proper to make.

Respectfully yours,

Ernest Lamb (Signed)
National Bank Examiner.

Copy X-7169-f

June 2, 1932.

Mr. J. S. Walden, Jr., Chairman,
Standing Committee on Collections,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Walden:

I have received and greatly appreciate your kind letter of June 1, 1932, regarding the matter of calling a meeting of Counsel for the Federal Reserve Banks with the Standing Committee on Collections to consider the matter of "cashing" government checks and warrants by Federal Reserve Banks under the terms of Treasury Department Circular No. 176.

I appreciate the difficulties of obtaining full attendance at a conference of this kind during the summer months, and I personally would prefer to hold the conference in the late summer or early fall; but Counsel for one of the Federal Reserve Banks has already called my attention to the fact that many of the courts which take recesses during the summer resume their terms during the month of September, and this makes the months of September and October unusually busy months for some of the Counsel. It may be necessary, therefore, to hold the conference not later than August, in order to enable Counsel to return home in time to attend to their litigation. In the circumstances, I shall ask Counsel for each of the Federal Reserve Banks to advise me when it would be most convenient to him to

attend such a conference and I suggest that you make similar inquiries of the members of your Committee and advise me of the results. This is the only way that I know of whereby we can arrive at a date convenient to a majority of all those concerned.

I wish you would also be giving some thought to the question of procedure. Undoubtedly, it would be advisable for the Counsel and the members of the Standing Committee on Collections to agree upon a definite position before taking the matter up with the officials of the Treasury Department; but the officials of the Treasury Department may desire to have some time to study the recommendations of the Counsel and the Standing Committee on collections before they participate in a conference. It may be necessary to hold two conferences on the subject; but I think this should be avoided if possible. If a second conference is found to be absolutely necessary, it would seem to me that it need not be attended by all of the Counsel and all of the members of the Standing Committee on Collections, but that the views of the Federal Reserve Banks could be presented by a small committee appointed for that purpose. Apparently the Governors' Conference does not desire further recommendations to be submitted to them but expects the Counsel and the Standing Committee on Collections to take the matter up with the officials of the Treasury Department, agree upon the necessary changes in Treasury Department Circular 176, and report

the results. I have no fixed views about the matter, however, and I shall be very glad to receive any suggestions which you or any of the other interested parties may have to offer.

I have received the eight copies of the report of the Standing Committee on Collections which you sent me and have obtained one additional copy from a member of the Board. I am, therefore, sending copies to Counsel for all the Federal Reserve Banks except Chicago and Dallas, who I understand from your letter already have copies, and Mr. Wallace, who can obtain a copy from you.

With kindest personal regards and all best wishes,

I am

Very truly yours,

WW/gc

Walter Wyatt,
General Counsel.

Copy X-7169-g

Federal Reserve Bank

Of Richmond

June 1, 1932.

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

Dear Mr. Wyatt:

Your letter of May 26th, which was acknowledged by Mr. Broaddus, was received during my absence from the bank which accounts for my delay in replying.

I can fully appreciate the fact that you have been burdened with important matters and that it has been impossible for you to call a meeting of the counsel for the Federal reserve banks with the Standing Committee on Collections to consider the matter of "cashing" Government checks and warrants by Federal reserve banks, which was referred to the counsel by the Governors' Conference of December, 1931. I am sure that the officers of the Federal reserve banks also have been burdened with work resulting principally from the operations of the Reconstruction Finance Corporation, as I know this has been true in my case.

It will be agreeable with me to hold a meeting of the counsel and Standing Committee on Collections during the summer after Congress adjourns, and I presume that one time will suit about as well as another. We are almost certain, however, to run into vacations and it is more than likely that some of the members of the Committee, as well as certain counsel, may not be able to attend the meeting unless they know of it far enough in advance to arrange their vacation accordingly. You will recall that in the summer of 1930 when the Standing Committee on Collections was considering the subject of a uniform cash collection circular in consultation with a special committee of counsel we experienced a great deal of difficulty in reaching an agreement on the final report and I was considerably delayed and inconvenienced because certain of the members present at our first meeting started on vacations and could not be reached. While personally I am perfectly agreeable to holding the meeting this summer, as long as the matter has already been delayed for quite a while it might be advisable to arrange a meeting during the early fall after all of the counsel and members of the Collection Committee have returned from vacation. It occurs to me that your work will be made very much easier and you will not be subjected to the strain that will almost certainly result if you attempt to have an agreement reached before the summer is over. I will be very glad to communicate with the other members of the Standing Committee on Collections as soon as you let me know if you desire to have the meeting during the summer months.

I am sending you under separate cover eight copies of the report of the Standing Committee on Collections to the fall 1931 Conference of Governors. The topic under consideration is treated at the beginning of the report. My

X-7169-g

Mr. Walter Wyatt, General Counsel, - 2 - June 1, 1932
Federal Reserve Board,
Washington, D. C.

supply of extra copies has been entirely exhausted, and I am sorry that I am not able to send you the number requested. When the report was finished in August, 1931, I sent a copy to the Governor of each Federal Reserve Bank with a letter dated August 12th, and I also sent an extra copy to the Federal Reserve Banks of Chicago and Dallas for the use of their counsel. I also sent a separate copy to each member of the Standing Committee on Collections, representing the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond and St. Louis. There are, therefore, seven banks which should have at least two copies of the report in their files. It does not seem to me that it will be necessary for you to send a copy to those banks represented on the collection committee since I am sure that the committee members can let their counsel have their copies. I also sent on August 12th seven copies to Mr. McClelland for the use of members of the Federal Reserve Board and it is probable that you will find some of these in the files of the Board. When the conference met the first of December, 1931, I sent to Mr. Strater, c/o Federal Reserve Board, twelve copies for the use of the Governors attending the Governors' Conference. It is probable that some of these were left in the conference room and no doubt you will be able to get together a sufficient number of copies to supply the counsel.

Awaiting your further advices, I am with highest personal regards,

Cordially yours,

(Signed) J. S. Walden, Jr.,
Controller.

JSW:D

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7171

June 2, 1932.

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

Dear Sir:

There is attached hereto, for your information, copy of a letter addressed to the Federal Reserve Agent at Philadelphia in response to an inquiry received from him with regard to the administration of Section IV(b) of Regulation D which provides that, whenever it appears that a member bank is not paying due regard to the maintenance of its reserves, the Federal reserve agent will address a letter to each director of the bank calling his attention to the situation.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT PHILADELPHIA AND CLEVELAND.

X-7171-a

May 31, 1932.

Mr. R. L. Austin,
Federal Reserve Agent,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Austin:

The Federal Reserve Board has received your letter of May 17, 1932, stating that a number of member banks in your district, because of an unliquid condition and continued loss of deposits, have been unable to maintain their reserves, and inquiring whether, in view of the circumstances involved, the Federal Reserve Board will require a strict compliance by you with section IV(b) of Regulation D with regard to addressing letters to the directors of banks with deficient reserves.

The purpose sought to be accomplished by the subsection referred to is to bring to the attention of the individual directors the fact that the member bank is not maintaining its reserves, in order that the directors may take the proper steps to see that the bank meets the requirements of the law in the future. It is realized, however, that there may be instances in which it is apparent from the Federal reserve agent's contact with the bank, or from other available information, that the failure of the member bank to maintain its reserves is due to its unsatisfactory condition rather than any disregard on the part of the management for the requirements of the law, or that other reasons exist which would make

it undesirable to write the directors concerning the matter, and that in these cases such letters, rather than accomplishing the desired purpose, might have an adverse effect.

It was for this reason that, as stated in the Board's letter of January 18, 1928, (X-5039), the subsection was purposely phrased in such a way as to permit some flexibility and to afford the Federal reserve agent an opportunity, after discussion with the chief national bank examiner in the case of a national bank and with the State bank supervisor in the case of a State member bank, to exercise a reasonable discretion in its administration. Therefore, in each case where there are indications that the bank is not paying due regard to the maintenance of its reserves, you should give careful consideration to all the circumstances involved and consult with the chief national bank examiner or the State bank supervisor in order to determine, in the exercise of a reasonable discretion, whether it is advisable to write to the directors.

In those cases where it becomes necessary for you to report to the Board, in accordance with section IV(d) of Regulation D, deficiencies in reserves for a period of six consecutive months, it is requested that you include in your report full information as to the consideration which has been given to the matter of writing the directors of the

member bank, and, where such letters have not been sent, the reasons therefor.

Very truly yours,

Chester Morrill,
Secretary.

C O P Y

X-7172

IN THE KANSAS CITY COURT OF APPEALS.

OCTOBER TERM, 1931.

Massey-Harris Harvester Company, Inc., a Corporation,

Respondent,

vs.

No. 17.C84.

Federal Reserve Bank of Kansas City,

Appellant,

Appeal from Jackson Circuit Court

Plaintiff brought suit seeking damages for loss alleged to have been sustained through the act of the defendant in the matter of collecting a cashier's check for $3180 payable to plaintiff and issued by the First State Bank of Cunningham, Kansas. A jury was waived, and the cause was tried by the court, resulting in the court's finding in favor of the Union Avenue Bank of Commerce and against the plaintiff, and in favor of the plaintiff against the defendant, Federal Reserve Bank of Kansas City. From this judgment the said defendant Federal Reserve Bank has appealed.

The petition alleged, among other things, that on or about August 22nd, 1925, plaintiff was the owner of a collection account with the defendant, Union Avenue Bank of Commerce, and on said date plaintiff deposited with said bank for collection a cashier's check for $3180 issued by the First State Bank of Cunningham, Kansas, drawn on itself, dated August 21, 1925, and payable to plaintiff; that at the time of

such deposit, plaintiff endorsed said check "Pay to the order of Union Avenue Bank of Commerce, Kansas City, Missouri"; that the amount of said check was thereupon credited to plaintiff's account; that on or about the 22nd day of August, 1925, the Union Avenue Bank endorsed and delivered said check to Commerce Trust Company for transmission through the Kansas City Clearing House and to be delivered to the defendant for collection; that on August 22nd, 1925, the Commerce Trust Company endorsed and delivered said cashier's check to the defendant Federal Reserve Bank of Kansas City, for collection; that on or about August 25, 1925, defendant endorsed said cashier's check on the back as follows: "Pay to the order of any bank or banker or trust company, prior endorsement guaranteed, August 25, 1925, Federal Reserve Bank of Kansas ", and-

> "thereupon carelessly and negligently forwarded the same direct to the First State Bank of Cunningham, Kansas for collection and payment, upon receipt of which said bank stamped said check paid and issued its draft in payment therefor drawn on the Federal Trust Company of Kansas City, Missouri, and forwarded the same to the defendant Federal Reserve Bank of Kansas City, Missouri.
>
> "That thereafter, and on or about August 30, 1925, the defendant Federal Reserve Bank of Kansas City carelessly and negligently accepted said draft from the First State Bank of Cunningham, Kansas, in payment of said cashier's check, said draft being in the sum of $8262.28 and included other items; that said draft on the Federal Trust Company was protested for non-payment, as this plaintiff is advised and informed, on or about August 31, 1925.
>
> "That in the collection of said cashier's check the defendant Union Avenue Bank of Commerce, through its agent the Commerce Trust Company of Kansas City, appointed defendant Federal Reserve Bank of Kansas City as agent for the collection of said cashier's check; that said defendants had no authority from this plaintiff to send said check direct to the First State Bank of Cunningham for collection or to accept from the First State Bank of Cunningham, the drawer thereof, a draft on the Federal Trust Company of Kansas City or anything else except lawful money of the United States in payment thereof; that it was the duty of said defendants in collecting said cash-

ier's check to receive and accept from the First State Bank of Cunningham, Kansas, only lawful money of the United States in payment thereof and in sending said cashier's check direct to said First State Bank of Cunningham for collection and in accepting said draft in payment thereof defendants acted in a careless and negligent manner and failed to use due diligence in the collection of said check. That said check was not returned to this plaintiff by the defendants.

"That on or about the 8th day of September, 1925, the First State Bank of Cunningham, Kansas, failed and the banking commissioner of Kansas took charge of said bank.

"That at all times from August 21, 1925, to September 3rd, 1925, said First State Bank of Cunningham, Kansas, had money and available cash items on hand sufficient to pay said cashier's check of $3180.00, and the defendants by the exercise of due diligence could have collected the same in cash.

"That on or about the 8th day of September, 1925, the defendant Union Avenue Bank of Commerce notified this plaintiff that said cashier's check had been dishonored and that the amount thereof had been charged back on this plaintiff's account.

"That on August 31st, 1925, plaintiff demanded from the defendants the payment of said $3180.00.

"That by reason of the premises the plaintiff has been damaged in the sum of $3180.00.

"Wherefore, the plaintiff prays judgment, etc."

To this petition, the defendant offered a general demurrer, i.e., that "the petition does not state facts sufficient to constitute a cause of action." The demurrer being overruled, the defendant filed answer which, among other things, set up -

"2. This defendant admits and avers that upon or about August 25, 1925, it received from the Commerce Trust Company of Kansas City the check mentioned in plaintiff's petition, and that thereupon it forwarded the same to the First State Bank of Cunningham, Kansas, for collection and remittance; that on or about August 30, 1925, this defendant received from the said First State Bank of Cunningham, Kansas, its draft for the sum of eight thousand two hundred sixty-two dollars and

twenty-eight cents ($8,262.28), drawn on the Federal Trust Company of Kansas City, which said draft was not paid by said Federal Trust Company and was protested for non-payment.

"3. This defendant denies each and every other allegation in said petition contained.

"4. For further answer defendant states that the nature and conduct of its business, and the extent of its powers and liabilities, are fixed, determined and limited by an Act of Congress, known as the Federal Reserve Act, and that its business is conducted under the control and supervision of the Federal Reserve Board, and that it operates under rules and regulations adopted by said Federal Reserve Board pursuant to authority vested in said Board by said Act of Congress, and under rules and regulations adopted by itself pursuant to authority vested in it by said Federal Reserve Act aforesaid, and the aforesaid rules and regulations of said Federal Reserve Board.

"5. That in receiving said check as aforesaid from said Commerce Trust Company of Kansas City, as alleged in plaintiff's petition, this defendant did so, and accepted said check as the agent of said Commerce Trust Company pursuant to the provisions of the aforesaid regulations of the Federal Reserve Board and its own rules and regulations; that in due course of business and without any negligence or default on its part, but in accordance with the aforesaid rules and regulations authorized by law, it promptly forwarded said cashier's check to the said First State Bank of Cunningham for collection and remittance; that said First State Bank of Cunningham thereupon became, and ever thereafter continued an agent to collect said check from itself and remit the proceeds thereof to this defendant, and if said First State Bank of Cunningham failed so to do, it was not due to the fault or negligence of this answering defendant, but to its own fault and negligence as an agent for collection and responsible for its own defaults and negligence.

"6. That pursuant to authority conferred on it by said Federal Reserve Act as aforesaid, said Federal Reserve Board on or about August 15, 1924, promulgated and made effective Regulation J. Series of 1924, which was in full force and effect at the time of the transactions and the happening of the events alleged in plaintiff's petition, the pertinent provisions of which said regulation are as follows, to-wit:

" '(1) A Federal reserve bank will act only as agent of the bank from which it receives such checks

and will assume no liability except for its own negligence and its guaranty of prior indorsements.

" '(2) A Federal reserve bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

" '(3) A Federal reserve bank may in its discretion and at its option, either directly or through an agent, accept either cash or bank drafts in payment of or in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, nor for the failure of the drawee bank or any agent to remit for such checks, nor for the non-payment of any bank draft accepted in payment or as a remittance from the drawee bank or any agent.

" '(4) Checks received by a Federal reserve bank on its member or non-member clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in cash or bank drafts acceptable to the collecting Federal reserve bank, or at the option of such Federal reserve bank to authorize such Federal reserve bank to charge their reserve accounts or clearing accounts; provided, however, that any Federal reserve bank may reserve the right in its check collection circular to charge such items to the reserve account or clearing account of any such bank at any time when in any particular case the Federal reserve bank deems it necessary to do so.' "

The further allegations in defendant's answer need not be stated, since they relate to matters of estoppel which are not referred to in the briefs and hence need not be noticed.

Plaintiff's reply denied -

"all and singular the allegations contained in paragraphs 4, 5, 6, 7 and 8 of said answer and amendment, and further answering this plaintiff alleges that the allegations contained in said paragraphs of said answer and amendment do not set out facts sufficient to constitute any defense to plaintiff's cause of action."

At the trial a stipulation or an agreed statement of facts was introduced by plaintiff as follows:

"It is hereby stipulated and agreed by and between the plaintiff and defendants that the following are facts in this case, but the introduction of the same or any part thereof shall be subject to such objections that may be offered that the same or any part thereof are not competent, relevant or material, and it is also understood that either party may introduce evidence to establish additional facts in the case. This stipulation is not to be construed as including all the facts in the case:

"1. The plaintiff, Massey-Harris Harvester Company, is a corporation incorporated under the laws of New York with its principal place of business at Batavia in said state and a branch house in Kansas City, Missouri.

"2. The defendant Union Avenue Bank of Commerce is a banking corporation incorporated under the laws of Missouri with its place of business in Kansas City, Missouri.

"3. The defendant Federal Reserve Bank of Kansas City is a banking corporation organized and existing under the Act of Congress, known as Federal Reserve Act, with its principal place of business in Kansas City, Missouri.

"4. At the times hereinafter mentioned the plaintiff was the owner of an account with the defendant Union Avenue Bank of Commerce.

"5. That on or about the 22nd day of August, 1925, plaintiff deposited with said defendant Union Avenue Bank of Commerce for collection a certain cashier's check for $3180.00, issued by the First State Bank of Cunningham, Kansas, drawn on itself, dated August 21st, 1925, and payable to the plaintiff, which check was in words and figures as follows:

'The First State Bank 83-1415 No. 839
Cunningham, Kansas 8-21-1925
Pay to Massey-Harris Harv. Co. $3180.00
Thirty-One Hundred EightyDollars
Cashier's check H. D. Doty, Cashier.'

"6. That at the time of the deposit of said cashier's check with said defendant Union Avenue Bank of Commerce plaintiff endorsed the same on the back thereof

as follows, "Pay to the order of Union Avenue Bank of Commerce, Kansas City, Missouri.

Massey-Harris Harvester Co., Inc.,
John Hugg, Manager'.

and at the time used a deposit slip which had printed thereon the following after the name of the depositor and date of deposit. 'Depositor by using this slip agrees: That all items may be handled under existing or future regulations of Kansas City Clearing House Association and/or Federal Reserve Bank of Kansas City; that items on this bank may be charged back on date of deposit and items returned; that items not on this bank received for collection or credit are at depositor's risk and not subject to check until actual payment therefor is received; that this bank as agent or owner is not liable for neglect, default or failure of banks selected as agents or subagents, or for losses in transit; that should any item be not paid, or any bank fail to remit proceeds or issue paper therefor which is dishonored, any credit given may be cancelled and this bank have no further duty as to such item or paper; that items on other banks in this city or Kansas City, Kansas, may be carried over for presentation through clearing house or otherwise on business day following date of deposit; and that items may be sent direct to banks on which drawn without waiving any of the above conditions.' That the defendant Federal Reserve Bank of Kansas City had no notice or knowledge of the aforesaid terms under which said cashier's check was so deposited with defendant Union Avenue Bank of Commerce and no notice that it was deposited for collection except such notice, if any, as may have been imparted by the endorsements on said check or said check itself.

"7. That the amount of said cashier's check on the date of deposit was credited to plaintiff's said account.

"8. That on or about the 22nd day of August, 1925, defendant Union Avenue Bank of Commerce endorsed said cashier's check on the back thereof as follows: "Pay any bank or banker, previous endorsements guaranteed, August 22, 1925, Union Avenue Bank of Commerce, Kansas City, Missouri,' and deposited the same to its credit in the Commerce Trust Company of Kansas City, Missouri for collection.

"9. The Commerce Trust Company on August 22nd, 1925, endorsed said cashier's check as follows: 'Pay any bank or banker or order, Commerce Trust Company, all previous endorsements guaranteed, August 22, 1925, Kansas City, Missouri, E. P. Wheat, Cashier, Cash Coll.', and delivered the same to defendant Federal Reserve Bank of Kansas City, for collection.

"10. That on August 25, 1925, defendant Federal Reserve Bank of Kansas City endorsed said cashier's check

as follows: 'Pay to the order of any bank, banker or trust company prior endorsements guaranteed, August 25, 1925, Federal Reserve Bank of Kansas City', and thereupon it forwarded the same to the First State Bank of Cunningham, Kansas, for collection and remittance.

"11. That on receipt of said cashier's check said First State Bank of Cunningham, Kansas, and on August 28, 1925, stamped the same paid and issued its draft for eight thousand two hundred sixty-two dollars and twenty-eight cents ($8,262.28) drawn on Federal Trust Company of Kansas City, Missouri, which included the amount thereof and for other items and sent the same to defendant Federal Reserve Bank of Kansas City, which was received by said last named defendant on or about August 31st, 1925. That on or about said August 31st, 1925, defendant Federal Reserve Bank of Kansas City presented said draft to Federal Trust Company and demanded payment, and payment thereof was refused by Federal Trust Company and the same was protested for non-payment and the same has never been paid. The cashier's check was never returned by the defendants to the plaintiff.

"12. That the First State Bank of Cunningham, Kansas, continued to carry on its banking business in the usual and regular way until it failed on September 8th, 1925, and the State Banking Commissioner took charge thereof and that plaintiff has received nothing on account of said cashier's check, except two dividends received from the receiver, viz.: March 2nd, 1928, nine hundred and fifty-four dollars ($954.00) and September 10th, 1928, three hundred eighty-nine dollars and fifty-five cents ($389.55).

"13. That on or about August 1, 1924, the Federal Reserve Board pursuant to the aforesaid Federal Reserve Act, adopted and promulgated regulations known as 'Regulations Series 1924' a copy of which is hereto attached, marked Exhibit 'A', and hereby made a part hereof with like effect as if all of the terms of the same were fully written out herein; that either party to this stipulation may, subject to objections as heretofore stated, read such portions of said regulations as they may determine and the portions so read before the court shall constitute the record of the contents of said regulations for purpose of the trial of this case without the remaining portions thereof being considered as a part of the testimony therein; that on or about July 21, 1924, the Federal Reserve Bank of Kansas City issued its 'General Letter D1' as of that date, addressed to the member banks of district ten and headed 'Check Collection Operations', which said letter was so issued with the consent and approval of the Federal Reserve Board and was mailed to the member banks of district ten and headed 'Check Collection Operations', which said letter was so issued with the consent and approval of the Federal Reserve Board and was mailed to

the member banks of the Federal Reserve Bank of Kansas City including the Commerce Trust Company of Kansas City, from which the check in question was received by said Federal Reserve Bank, copy of which said general letter is hereto attached marked Exhibit 'B' and is hereby made a part hereof with like effect as if its terms were fully set out herewith.

"14. The following is a copy of the cash letter dated Aug....., 1925, from Federal Reserve Bank, transmitting said cashier's check to the First State Bank of Cunningham for collection, marked Exhibit 'C'.

"15. Trial by jury is hereby waived."

The evidence, as disclosed by the record, shows that from August 21, 1925, to September 23, 1925, the First State Bank of Cunningham, Kansas, had in cash, and due to it from other banks, a sum in excess of the amount of the draft which it sent to the defendant about August 30, 1925, but did not at any of said times have on deposit with the Federal Trust Company an amount sufficient to pay the draft.

The defendant's evidence was that when the cashier's check was dishonored the Commerce Trust Company immediately called the representative of the Union Avenue Bank of Commerce and advised him of the situation; that said representative looked into the matter, traced the item to plaintiff and immediately called plaintiff; that the form of deposit slip was the one regularly in use at said Union Avenue Bank of Commerce; that there was no agreement with customers except the recitations contained on the deposit slip; that the Union Avenue Bank of Commerce is a member of the Kansas City Clearing House Association, but is not a member of the Federal Reserve System.

Defendant introduced Regulation J of the Rules and Regulations adopted for, and used by, Federal Reserve Banks, and a general letter from the Federal Reserve Bank showing the manner and method of

handling items for collection, the pertinent parts of which, if necessary, will be mentioned in the course of the opinion.

The defendant's assistant cashier testified that the general letter and Regulation J were in force throughout the year 1925; that the First State Bank of Cunningham was not a member of the Federal Reserve Bank of Kansas City but was a bank from which defendant collected checks; that it has been the custom for many years when checks of any nature were received for collection to send the same to the bank on which they are drawn or another agent in the same town, and accept in payment a draft either on Kansas City or some other reserve city; that remittances were seldom made in cash; that the cashier's check for $3180.00 was received by defendant for collection on August 25; that defendant did not receive the item from the Commerce Trust Company but did receive it from defendant's Oklahoma City branch; that four days are required to collect items at Cunningham, which is the shortest possible schedule; that defendant received a draft from the Cunningham Bank which included the item in question and endeavored to collect the draft from August 31 until about the 2nd or 3rd of September, when the Cunningham Bank closed; that when the draft was dishonored defendant notified the Cunningham Bank and requested that it deposit sufficient funds with the Federal Trust Company to cover the draft; that such request was by 'phone and by wire; that the draft was presented daily, sometimes two or three times a day, to the Federal Trust Company; that he never made demand of the Cunningham Bank for the cash; that at the time the $3180.00 check was sent to Cunningham, Kansas, other items were included, the total of which is $8564.78, all

of which were drawn upon or payable by the Cunningham Bank; that a record of the said other items was not kept by defendant; that it was the custom to send an item for collection direct to the debtor; that he considered the regulation covered that subject. Several other witnesses testified that it was the custom in banking circles to send checks direct to a bank owing the same and to not demand a remittance in cash.

The first question to be decided is whether the court erred in overruling defendant's demurrer the ground of which was, and is, that the petition wholly fails to state any cause of action. If the petition is justly open to that charge, then the defect is not one which is waived by answering over, as plaintiff so earnestly contends. Such defect in a petition is one that follows it throughout the case, even after verdict and on up into the appellate court where it can still be asserted with force and effect, and that too even though no demurrer has been filed. Hoffman v. McCracken, 158 Mo. 337; Welch v. Diehle Estate, 278 S.W. 1057. If neither party raises the point, it is the duty of the appellate court to raise it sua sponte. Greer, Admr. v. St. Louis Iron Mountain etc. R. Co., 173 Mo. App. 276. And if the petition is in such condition, the court cannot look to averments in the answer to determine its sufficiency; the petition must stand on its own foot, and its sufficiency be determined by its own averments. Linn County Bank v. Mary L. Clifton, 263 Mo. 200. It may, perhaps, not be strictly accurate to say that where the petition states no cause of action the demurrer thereto is not waived by answering over. What is meant is that the fatal defect and the point made therein are

not waived by the answer, but if the point is made and relied on in the appellate court such point is still effectual.

Let us see, therefore, whether the petition is so fatally defective as to state no cause of action.

The charge or charges of negligence therein are stated as follows:

1. That defendant "carelessly and negligently forwarded the same (said cashier's check) direct to the First State Bank of Cunningham, Kansas, for collection and payment", on receipt of which, said bank stamped said check paid and issued its draft in payment therefor drawn on the Federal Trust Company of Kansas City, Missouri, and forwarded same to the defendant;

2. That thereafter defendant "carelessly and negligently accepted said draft from the First State Bank of Cunningham, Kansas, in payment of said cashier's check."

We have searched the petition carefully, and fail to find any other allegations wherein are alleged any other act or acts of negligence which, even by the most liberal construction authorized by Section 801, R.S. Mo. 1919, can be tortured into an allegation or allegations of any other grounds of negligence as a cause of action.

The first ground of negligence above stated, namely, the sending of the check direct to the bank on which it was drawn, was an effective charge of negligence up to a certain time. American Exchange etc. Bank v. Metropolitan Natl. Bank, 71 Mo. App. 451; Maronde v. Vollenweider, 279 S.W. 774. But ever since the enactment, on May 30, 1919, of Sec. 10159d, Laws 1919, p. 606, now Sec. 2821, R.S. Mo.

1929, authorizing "any bank receiving any check drawn upon or payable at any other bank in another city or town whether within or without this state, to forward such instrument for collection directly to the bank on which it is drawn, and the failure of such payer bank because of its insolvency or other default to account for the proceeds thereof shall not render the forwarding bank liable therefor, provided such forwarding bank shall have used due diligence in other respects", etc., removes all taint of negligence from said action in sending the check direct, except where due diligence has not been used. Said section is not mentioned in Maronde v. Vollenweider, supra, and presumably the court's attention was not called to said Section, for it was in force at the time of the acts involved therein, to-wit, 1921. The necessary effect of this statute is to authorize the forwarding bank to accept a draft of the drawee or paying bank in remittance. The statute not only authorizes direct sending, but it exempts the forwarding bank from liability, if the drawee or paying bank fails to account for the proceeds on account of insolvency or other default. We have not been able to find any case in this state where said section has been construed or given effect, but similar statutes have been before the courts of other states and have been given controlling effect. See Dudley v. Phenix-Gerard Bank, 114 So. 118; Federal Land Bank v. Barrow, 127 S.E. 3; Qualls v. Farmers etc. Bank, 149 S.E. 546; Hicks Co. Lrd. v. Federal Reserve Bank, 296 S.W. 46; Adams County v. Meadow Valley Bank, 277 Pac. 575, 578. Since the petition charges no negligence other than the two grounds above stated, it is clear that it states no cause of action.

But plaintiff says that the petition charges that defendant "had no authority from this plaintiff to * * * accept from the First State Bank of Cunningham, the drawer thereof, a draft on the Federal Trust Company of Kansas City or anything else except lawful money of the United States in payment thereof; that it was the duty of said defendant in collecting said cashier's check to receive and accept from the First State Bank of Cunningham, Kansas, only lawful money of the United States in payment thereof and in sending said cashier's check direct * * * and in accepting said draft * * *defendant acted in a careless and negligent manner and failed to use due diligence in the collection of said check", and that the Cunningham Bank, at all times from August 21, 1925, to September 3, 1925, had money and available cash items sufficient to pay said cashier's check, and the defendant "by the exercise of due diligence could have collected the same in cash." And from these, plaintiff argues that they are also grounds of negligence on which recovery is sought and in which the negligence consists of delay in sending the check. But it is manifest that these so-called other grounds do not extend further, nor include any negligence other, than that contained in the two grounds heretofore considered and found to be insufficient under the Statute, Sec. 2821. The charge that the defendant "failed to use due diligence in the collection of said check" is connected with and relates to the preceding words "in sending said cashier's check direct to said * * * First State Bank of Cunningham * * * and accepting said draft in payment thereof." The charge that the "defendant by the exercise of due diligence" could have collected the same in cash should be read in connection with the charge that

defendant was required to collect in cash and in connection with the immediately preceding allegation that the Cunningham Bank had sufficient cash on hand to pay the cashier's check in cash, and the whole means, if it means anything, that the check could have been collected in cash, and the reason it was not so collected was because defendant accepted a draft instead and made no demand for cash. Or in other words, the allegation is that the Cunningham Bank had cash to pay the check, and then it is attempted to be said that if cash had been demanded in presenting it, as plaintiff says was required, the cashier's check would have been paid in cash. There is nothing said in the petition about delay in sending the check, and hence the negligence and lack of due diligence can refer only to what the plaintiff specified as negligence, namely, the sending of the check direct and the acceptance of a draft instead of cash. If these so-called other allegations were intended to refer to other acts of negligence such other negligent acts are nowhere stated and, therefore, the said other allegations are mere legal conclusions only, with no statement of issuable facts, either traversable or demurrable, and are to be treated as no statement at all. Mallinckrodt Chemical Works v. Memnich, 169 Mo. 388, 397. This will instantly and clearly appear, if, on the theory that these so-called other allegations refer to other acts of negligence, we ask the questions, "In what way did the defendant 'act in a careless and negligent manner'?", and "In what way did the defendant 'fail to use due diligence in the collection of said check'?" There is no answer to these, except those already stated, namely, that the check was sent direct and a draft was accepted instead of cash. The matter now being considered finds ample support in the following author-

ities, in addition to the Mallinckrodt case, supra, to-wit: Sidway v. Missouri Land etc. Co., 163 Mo. 342, 373-4; Lewis v. James McMahon Co., 307 Mo. 552, 567; State ex rel. v. Burney, 23 S.W. (2nd) 117; Gibson v. Chicago Great Western R. Co., 225 Mo. 473; State ex rel. v. Lee, 288 Mo. 679; State ex rel. v. Dick Bros. etc. Co., 270 Mo. 100.

Moreover, if these so-called other allegations could be regarded as alleging other grounds of negligence they would be only general charges and would not be allowed to supersede the two specific charges, for the latter must prevail over the former, and the plaintiff can recover, if at all, only on the specific charges. Weldhier v. Hannibal etc. R. Co., 71 Mo. 514; Orcutt v. Century Bldg. Co., 201 Mo. 424, 443; McCullough v. Powell Lumber Co., 205 Mo. App. 15, 23.

Nor was plaintiff's petition aided by defendant's answer. Indeed, this is not a case wherein the defect of the petition can be aided by the answer, any more than it could be aided by a reply. The case of Priess v. St. Louis Co., 231 Mo. 332, 339, cited by plaintiff to support its claim of aider by answer, was where the petition was defective in not stating that the contract sued on was in writing, but the answer alleged that it was, so of course the petition was relieved of the consequences of that omission. The same is true of Rickets v. Hurt, 150 Mo. 64, for there the petition, in suit on a bond guaranteeing performance of a contract by defendant, failed to allege performance or an offer to perform on plaintiff's part, which the answer supplied. As we understand the doctrine of aider by answer, it applies only in those cases where the plaintiff has stated facts upon which a right of recovery is based and some material allegation is omitted which the answer supplies; but the answer can never supply the statement of the cause of

action itself. 49 C. J., p. 863, Sec. 1273 (4); Spurdle v. Hyde, 247 Mo. 32; Coulter v. Coulter, 124 Mo. App. 149. But in the case at bar, the petition, outside of the so-called cause of action based on the two alleged grounds of negligence which Sec. 2821 has invalidated, failed to allege any cause of action whatever based on negligent delay, and this the answer did not aid, nor is it seen how it could do so. The part of the answer, relied upon by plaintiff as aiding the petition in stating a cause of action on any additional ground of negligence, is the clause saying that "in due course of business and without any negligence or default on its part, but in accordance with the aforesaid rules and regulations authorized by law, it promptly forwarded said cashier's check to the said First State Bank of Cunningham for collection and remittance" etc. The above quoted part of the answer shows on its face that it was dealing with the alleged negligence in sending the check direct and in accepting a draft instead of demanding cash. The answer quoted is not made in defense of any ground or grounds of negligence other than the two charged in the petition. Moreover, if by any strained or harsh construction, it should be deemed to be in answer to any such other ground of negligence, it does not set out nor contain any of the "constitutive" indispensable elements of a cause of action based on delay. Hence, if the answer be relief on as aiding the petition, we have a petition alleging in support of such cause of action, mere conclusions of law, and an answer, aiding the petition in that regard, by asserting other mere conclusions of law, a remarkable situation indeed; For, in that situation, we would have a case in which, although there was a petition and an answer, no issue of fact could possibly arise. In addition to all that is said in

the foregoing, the judgment herein cannot be allowed to stand for the following reasons:-

1. No issue as to delay, either negligent or otherwise, in forwarding the cashier's check was raised by the pleadings. The petition did not allege any as a ground of recovery, and the answer of defendant, so far from admitting any delay, asserted that -

> "2. This defendant admits and avers that upon or about August 25, 1925, it received from the Commerce Trust Company of Kansas City the check mentioned in plaintiff's petition, and that thereupon it forwarded the same to the First State Bank of Cunningham, Kansas, for collection and remittance; etc."

The reply did not traverse any of these allegations of the answer. Indeed the reply did not traverse anything in paragraphs 1, 2 and 3, and as will be seen by an inspection of the reply shown hereinabove. Plainly the above allegations of the answer were not considered material allegations, otherwise they would have been denied. But, if they were material, then the matter is governed by the rule stated in State ex rel. v. Montgomery, 291 S. W. 472, l. c. 474, where it is said -

> "every pleading is taken to confess such traversable matters alleged on the other side as it does not traverse. Perry on Common-Law Pleading, 281; Carl & Hardwicke v. Mann, 4 Mo. 273; Section 2059 R. S. Mo. 1919." (Now Sec. 1611 R. S. Mo. 1929)

The aforesaid Section 2059 in the above quotation refers, of course, to proceedings in prohibition, and provides that the proceedings therein "shall conform to the code of civil practice". And, in that code, Sec. 932 R. S. Mo. 1929, provides that -

> "An issue of fact arises: First, upon a material allegation in the petition controverted by the answer; or second, upon new matter in the answer controverted by the reply;" etc.

So that, clearly, "negligence on account of delay in forwarding the check" was not in issue at the trial. And, even though it could be said that the evidence showed delay in sending the check yet the judgment herein cannot stand or be preserved on that ground for plaintiff's right of recovery herein is limited to the issues presented and must be determined thereby, and not from such evidence. Daniel v. Pryor, 227 S. W. 102, 105; Mark v. Williams Cooperage Co., 204 Mo. 242; State ex rel. v. Ellison, 176 S. W. 11, 13; Zasemourich v. American Mfg. Co., 213 S. W. 799, 802-3.

Again, the petition, showing on its face by its own affirmative allegations that no charge is made of negligence in delay in forwarding said check, or that delay in forwarding it caused the loss, and said petition failing to set out any constitutive facts to support a valid judgment based on that ground, it (the petition) cannot be aided in that respect by verdict. Shaver v. Mercantile etc. Ins. Co., 79 Mo. App. 420, 425; Walrath v. Crary, 222 S. W., 895, 896; Hart v. Harrison Wire Co., 91 Mo. 414, 420.

The stipulation or agreed statement of facts cannot be regarded as admitting negligence not charged in the petition, but as being drawn in view of the two charges of negligence, namely, forwarding the check direct to the debtor and accepting a draft instead of cash. While the stipulation may be subject to the construction that defendant admits receiving the check on the 22nd but did not forward it until the 25th, thereby creating a delay of three days, yet it will be seen, from the stipulation itself, that it does not affirmatively so state. Paragraph 9 of the agreed stipulation, or agreed statement of facts, says

that on August 22nd, the Commerce Trust Company endorsed the check (in the manner therein set out) and then concludes by saying "and delivered the same to the Federal Reserve Bank of Kansas City for collection." Paragraph 10, immediately following, says "That on August 25, 1925, defendant Federal Reserve Bank of Kansas City endorsed said check as follows (setting out the manner of so endorsing it) and thereupon it forwarded the same to the First State Bank of Cunningham, Kansas, for collection and remittance." So that paragraph 10 says that the endorsement was made August 25 and thereupon the check was forwarded; but no such statement is contained in paragraph 9 showing when the Commerce Trust Company delivered the check to the defendant. The stipulation also provided that "either party may introduce additional facts in the case". And it was doubtless in pursuance of this that witness, Tyner, testified, without objection, that the Federal Reserve Bank received the check from an Oklahoma Bank, and indirectly from the Commerce Trust Company, on August 25th, 1925; and then when plaintiff's counsel, cross-examining, referred to the stipulation as saying the defendant received the check direct from the Commerce Trust Company, defendant's counsel remarked "On the 25th", which statement was not controverted or objected to in any way; and later, the witness went on to state that it took at least 4 days for the check to go from Kansas City to Cunningham. (The draft in payment of said check was sent or accepted on August 30th.) There was no testimony of any witness controverting that of Tyner that the check was received by defendant on the 25th, and no evidence to controvert it, unless the stipulation as to agreed facts be construed as saying it was on the 22nd. So that there is no evidence to support the judgment based on negligent delay from the 22nd to the 25th in forwarding the check to the Cunningham Bank.

It is manifest on the face of the record that the case was not tried on any theory of negligent delay in forwarding said check, but only on the two specific acts of negligence hereinbefore set out and discussed. In other words, negligent delay was not litigated, and hence we are not in a position to pass on the question whether such delay, if any be established, was the cause, or the proximate cause, of the loss.

It would seem that Section 2821 R.S. Mo. 1929, not only expressly authorized defendant to send the cashier's check direct to the Cunningham Bank, but, by exempting defendant from all damage caused by the failure of the latter to account for the proceeds, necessarily authorized defendant to accept a draft instead of cash without liability for so doing. Besides, the check was delivered to and accepted by defendant for forwarding and collection under and pursuant to the rules and regulations governing Federal Reserve Banks, and these not only authorize said defendant bank to receive checks to be forwarded for collection and to send them to the payer bank direct, but also to accept drafts in payment thereof. These Rules and Regulations, made by the Federal Reserve Board and by Federal Reserve Banks, are authorized by law, i.e., by Acts of Congress, and, in acting as clearing houses, as in this case, they (said Rules and Regulations) fix the terms which determine the rights of Federal Reserve Banks; and all parties are to be considered as having dealt with each other in such matters under and pursuant to such terms. Early v. Federal Reserve Bank of Richmond, 261 U.S. 84) 50 Sup. Ct. 235. In the discharge of their "duties with respect to collection of checks deposited with them and with respect to performing the functions of a clearing house the several reserve banks are empowered to adopt any reasonable measure de-

signed to accomplish these purposes. To that end a Federal reserve bank may send checks to the drawee bank directly for remittance through the mails of collections without cost of exchange. If the drawee bank refuses to remit without deduction of the cost of exchange, it is in the power of the several Federal reserve banks to employ any proper instrumentality or agency to collect the checks from the drawee bank and it may legitimately pay the necessary cost of this service." American Bank & Tr. Co. v. Federal Reserve Bank of Atlanta, 280 Fed. 940, l.c. 941-2. (Italics ours) In Hirning v. Federal Reserve Bank, 42 Fed. (2d) 925, l.c. 926, it was held that the Reserve Bank was a mere agent in forwarding the checks, and "under the rules which governed its operations, it had the authority to send the checks to the Brookings (debtor) Bank for collection and take drafts which were sent in payment therefor." (Italics ours.) See also Chicago, M. & St. P. Ry. Co. v. Federal Reserve Bank of San Francisco, 260 Pac. 262; Fergus County v. Federal Reserve Bank of Minneapolis, 244 Pac. 883; Transcontinental Oil Co. v. Federal Reserve Bank, 214. N.W. 918. All the evidence in the case at bar shows that such was, and is, the practice of the Federal Reserve Banks in performing their functions in such matters as those involved in this case. The reserve bank acted only as the agent of the plaintiff in receiving said cashier's check and in forwarding it for collection. And plaintiff, in putting its check in such channels, did so under the contract, or terms and conditions, governing these banks. It is only on the theory of such agency that an action of this kind can be maintained. Since the agency contract is the foundation of any cause of action plaintiff may have, it must accept such contract as it exists and in toto. It cannot accept parts thereof and reject

other parts as not within the authority of the agent. Shinn v. Guyton & Harrington Mule Co., 109 Mo. App. 557. Plaintiff is bound to know the terms upon which defendant could or would accept such employment or agency, and therefore must be held to have consented and agreed that not only the check might be sent directly to the Cunningham Bank for collection but also that the said Bank might remit by draft. Transcontinental Oil Co. v. Federal Reserve Bank of Minneapolis, supra.

It follows from what has been said herein that the petition states no cause of action. Hence the judgment must be reversed and the cause remanded. It is so ordered. All concur. While it is true, the holding herein that it is not negligence to send a check for collection direct to the debtor because of Sec. 2821, R.S. Mo. 1929, is not the holding in the decision of the Springfield Court of Appeals in Maronde v. Vollenweider, 279 S.W. 774, still we do not deem our decision herein to be strictly in conflict with the Springfield Court, for that decision was written without reference to said statute as it was not called to the attention of, or considered by, said court. Since the statute necessarily controls in the matter, it is certain that the Springfield Court would not have ruled contrary to it, had the statute been invoked or noticed. Therefore, we see no reason for certifying and transferring this cause to the Supreme Court.

Francis H. Trimble, P.J.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7173

June 7, 1932.

SUBJECT: New Issues of Treasury Certificates of Indebtedness and Treasury Notes.

Dear Sir:

In connection with telegraphic transactions between Federal reserve banks covering Government securities, the following code words have been designated to cover new issues of Treasury Certificates of Indebtedness and Treasury Notes:

"NOWHOB" Treasury Certificates of Indebtedness, Series T-J 1933, 1½%, dated June 15, 1932, due June 15, 1933;

"NOWHULK" Three percent Treasury Notes, Series A-1935, to be dated June 15, 1932, due June 15, 1935.

These code words should be inserted in the Federal Reserve Telegraph Code book, on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

BANKING AND INDUSTRIAL COMMITTEE
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First Federal Reserve District
Boston

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Boston, Mass.

Thomas Nelson Perkins, Attorney at Law,
50 Federal Street,
Boston, Mass.

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Wm. Filene's Sons Company,
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Dr. Arthur W. Gilbert,
Commissioner of Agriculture,
State House, Boston, Mass.

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Boston Five Cents Savings Bank, Boston, Mass.

X-7175-a

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X-7175-b

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Howard A. Loeb,
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X-7175-c

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X-7175-e

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M. A. Traylor,
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President, Northern Trust Company, Chicago, Illinois.

X-7175-g

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R. C. Lilly,
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Otto Bremer,
Chairman of Board, American National Bank,
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T. F. Wallace,
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W. C. MacFarlane,
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Minneapolis, Minn.

X-7175-i

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Tenth Federal Reserve District
Kansas City

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W. T. Kemper, Banker and investor,
Kansas City, Mo.

Wm. L. Petrikin,
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Denver, Colo.

Waite Phillips,
Chairman of Board, First National Bank
& Trust Co., Tulsa, Okla.

J. C. Nichols,
J. C. Nichols Companies,
Kansas City, Mo.

H. K. Lindsley,
President, Farmers & Bankers Life Ins.
Co., Wichita, Kans.

Conrad Mann,
President, Chamber of Commerce,
Kansas City, Mo.

Thad. L. Hoffman,
President, Kansas Flour Mills Co.,
Kansas City, Mo.

Herbert F. Hall, Grain man and investor,
Kansas City, Mo.

Geo. R. Collett,
President, Kansas City Stock Yards Co.
Kansas City, Mo.

Mike J. Healey,
Vice Pres., John Deere Plow Co.,
Kansas City, Mo.

W. S. McLucas,
Chairman of Board, Commerce Trust
Co., Kansas City, Mo.

E. F. Swinney,
Chairman of Board, First National
Bank, Kansas City, Mo.

Geo. R. Hovey,
President, Interstate National Bank,
Kansas City, Mo.

Frank P. Johnson,
President, First National Bank &
Trust Co., Oklahoma City, Okla.

Milton Tootle, Jr.,
President, Tootle-Lacy National Bank,
St. Joseph, Mo.

Dr. F. D. Farrell,
President, Kansas State Agricultural
College, Manhattan, Kans.

C. Q. Chandler,
Chairman, First National Bank,
Wichita, Kansas.

BANKING AND INDUSTRIAL COMMITTEE
of the
Eleventh Federal Reserve District
Dallas

Chairman:
Frank Kell,
Wichita Falls, Texas.

Nathan Adams,
President, First National Bank in Dallas, Texas.

F. F. Florence,
President, Republic National Bank & Trust Co.,
Dallas, Texas.

R. L. Thornton,
President, Mercantile Bank & Trust Co., Dallas,
Texas.

J. G. Wilkinson,
Chairman of Board, Cont. National Bank, Fort Worth,
Texas.

F. M. Law,
President, First National Bank, Houston, Texas.

Walter P. Napier,
President, Alamo National Bank, San Antonio, Texas.

Arthur L. Kramer,
President, A. Harris & Co., Dallas, Texas.

B. L. Anderson,
Neil P. Anderson & Co., Cotton Merchants,
Fort Worth, Texas.

H. O. Wooten,
President, H. O. Wooten Grocery Co., Abilene, Texas.

H. L. Kokernot,
Livestock, San Antonio, Texas.

W. S. Farrish,
President, Humble Oil & Refining Co., Houston, Texas.

X-7175-k

BANKING AND INDUSTRIAL COMMITTEE
of the
Twelfth Federal Reserve District
San Francisco

Chairman:
K. R. Kingsbury,
President, Standard Oil Company of California,
San Francisco, California.

A. F. Hockenbeamer,
President, Pacific Gas & Electric Co.,
San Francisco, California.

Paul Shoup,
President, Southern Pacific Co., San Francisco, Calif.

Frank B. Anderson,
Chairman of Board, Bank of California, N. A.,
San Francisco, California.

F. L. Lipman,
President, Wells Fargo Bank & Union Trust Co.,
San Francisco, California.

C. C. Teague,
President, California Fruit Growers Exchange,
Los Angeles, California.

John G. Bullock,
President, Bullock's Inc., Los Angeles, Calif.

Frank Ransome,
President, Eastern & Western Lumber Co.,
Portland, Oregon.

Downie D. Muir, Jr.,
Vice President & General Manager, U. S. Smelting Refining & Mining Co., Salt Lake City, Utah.

O. D. Fisher,
President, Fisher Flouring Mills Co., Seattle,
Washington.

X-7176

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

May 2 to 27, 1932.

	$5	$10	$20	Total Sheets	Amount
Boston,.....	38,000	32,000	-	70,000	$6,475.00
New York,.....156,000		86,000	-	242,000	22,385.00
Philadelphia,...	53,000	25,000	20,000	98,000	9,065.00
Cleveland,.....	38,000	40,000	20,000	98,000	9,065.00
Atlanta,.....	35,000	15,000	20,000	70,000	6,475.00
Kansas City,....	-	20,000	28,000	48,000	4,440.00
Dallas,.....	-	10,000	-	10,000	925.00
	320,000	228,000	88,000	636,000	$58,830.00

636,000 sheets, @ $92.50 per M, . . . $58,830.00

X-7177

April 7, 1932

Mr. L. R. Rounds, Deputy Governor,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Rounds:

I have examined the forms prepared by Mr. Logan for use in connection with loans under Sections 10(a) and 10(b) of the Federal Reserve Act and have certain suggestions to offer in connection with those prepared for use under Section 10(a). I inclose herewith one set of those forms on which I have noted a number of suggestions, and I wish to offer the following additional comments.

In our discussions of this subject, I think all of us agreed that, if the provisions of Section 10(a) are availed of to any material extent, there are two different types of groups which might be organized, (1) groups organized for the specific purpose of affording assistance to particular banks which are in difficulties, and (2) more or less permanent groups organized for the mutual benefit of all their members without reference to any particular application for a loan. I think we all agreed that the first type probably will be the one most frequently organized and that the forms should be prepared with a view to being used by such groups. I think we also agreed that it is unlikely that any groups of the second type will be organized and that, if any groups of this type are organized, the attorneys for the banks involved will have their own ideas as to the provisions which should be incorporated in the resolutions of directors, organization agreements and other forms and that it would not be worth while to endeavor to prepare in advance any forms for use by such groups.

It seems to me, however, that a middle course has been adopted in the preparation of the forms and that they would not be entirely suitable for use by groups of either class. If permanent groups are organized, it would seem that provision should be made for a loan committee or some other machinery for action on behalf of the group as a whole in applying for and obtaining loans from the Federal Reserve Bank and that it would be possible to avoid having separate action by the directors of every bank in the group on each application for a loan. On the other hand, if groups are organized for the specific purpose of assisting particular banks which are in difficulties, the situation probably would require prompt action and it would be appropriate and desirable to have each bank adopt only one resolution covering the entire case.

Under the procedure proposed in the forms that have been prepared, the board of directors of each bank joining a loan group would first meet and adopt a resolution authorizing the bank to join the group and, subsequently, at the time of the application for a group loan, it would be necessary for the board of directors of each such bank to meet again and adopt a resolution authorizing the application for the loan from the Federal reserve bank and approving the application of the borrowing bank for a loan from the group. The necessity for this second meeting would result in much delay in obtaining advances from the Federal reserve bank under Section 10(a) and might frequently make it impossible to obtain the necessary credit in time to meet the emergency confronting the borrowing bank. In order to eliminate the necessity for this second meeting, it is suggested that

the two proposed resolutions be consolidated into one and adopted at the time of the formation of the group. In addition to authorizing the bank to become a member of the group such a resolution could also authorize certain officers of the bank to approve an application of the borrowing bank for a loan from the group, to join in making an application to the Reserve Bank for a group loan and to execute on behalf of the bank a group note evidencing such loan.

I do not understand the theory underlying the provisions in the first part of paragraph 6 on page 6 of the agreement covering the organization of the loan group and especially the reference to funds under the control of the trustee which are security, or represent the proceeds of any security, for a note of the borrowing bank. I thought that it was contemplated that all security for the note of the borrowing bank would be pledged and delivered to the Federal reserve bank and that no security would be left in the hands of the trustee. If this is the case, then it would seem that the Federal reserve bank would be entitled to a first claim on the proceeds of the note and should apply such proceeds to the indebtedness represented by the note of the borrowing bank and also to the reduction of the pro rata liability of all banks on the group note. If, however, the trustee holds any funds or security other than that delivered to the Federal reserve bank as security for the note of the borrowing bank, it would seem that the proceeds should be applied first to the payment or reimbursement of the trustee for any expenses incurred by him in connection with the performance of any of his duties and that anything remaining should be paid to the Federal reserve bank and applied in the manner suggested above.

Both the note of the borrowing bank and the note of the group provide for the payment of interest at maturity at a certain rate per annum from the date of the note. It seems probable, however, that in a great majority of cases, advances under Section 10(a) would be handled on a discount basis and interest deducted in advance; and it would seem desirable for these note forms to be changed so that they will be appropriate for use in cases where the notes are discounted as well as in cases where interest is paid at maturity.

These forms seem to contemplate that the note of the group and the security therefor will not be forwarded to the Federal reserve bank until after the reserve bank has considered the application and has actually made the loan. It would seen advisable to have the note and the collateral securing it accompany the application to the Federal reserve bank, in order that the latter may inspect the collateral before approving the loan and in order that the proceeds of the loan may be made available as soon as it is approved. I understand that this is the established procedure regarding discounts and advances to member banks under Section 13 and it seems to me that it should properly be followed in this case also.

The form of note of the borrowing bank, which has been revised so as to omit many of the provisions which were included in the note as first drafted, still contains a number of provisions which do not appear to me to be essential. As I have previously written Mr. Logan, I feel that it would be advisable to

use a simple, straight note, incorporating in the application all necessary provisions as to the rights of the holder, effect of insolvency, etc. The second paragraph of the note especially seems to me to be unnecessary. The reference to the group agreement in the first sentence of that paragraph might affect the negotiability of the note in some jurisdictions, and the certification contained in the second sentence of the paragraph as to the amount of eligible and acceptable assets of the borrowing bank seems unnecessary in view of the fact that such a certification is contained in the application of the borrowing bank. The first paragraph of the note states that copies of the application for the loan and of the schedule of collateral security are attached to the note and made a part thereof. This would appear to have the same effect upon the negotiability of the note as the specific inclusion of each of the provisions of the application and, as this provision does not seem necessary, I think it might wisely be omitted.

The note of the Member Bank Loan Group provides that any member except a borrowing bank may pay the amount of its liability at any time and shall not thereafter be liable. I see no reason why a borrowing bank should not be permitted to anticipate and discharge all or any part of its liability to the Federal reserve bank. It might be provided, however, that any payment made by the borrowing bank shall be applied on its individual note to the

group rather than on its pro rata share of the liability on the group note and shall also be applied in reducing pro rata the liabilities of all banks on the group note. It might also be well to add that, in the event of such anticipation of liability by any member of the group, the note and other agreements shall remain in full force and effect as to all other members of the group and that any rights of the bank which has anticipated its liability in the collateral security pledged with the Federal reserve bank shall be subordinated to the rights of the latter.

These suggestions are submitted for your consideration, and I think they deserve careful attention; but, in order to avoid further delay, I suggest that you transmit directly to the other Federal reserve banks any further modifications or revisions of these forms which you or your committee may decide upon and that they not be held for further consideration by this office. For the Board's information, however, we would like to have copies of any further communications on this subject which you or your committee may transmit to the other banks.

With kindest personal regards, I am,

Cordially yours,

(Signed*) Walter Wyatt
General Counsel

WW/gc/4/7/32

March 9, 1932.

Mr. Walter S. Logan, Counsel,
Federal Reserve Bank of New York,
New York, New York.

Dear Walter:

Confirming the conversations you and I had yesterday and today, regarding the forms for use in connection with loans under Sections 10(a) and 10 (b) of the Federal Reserve Act as amended by the Act of February 27, 1932, I have not yet finished my study of these forms; but, in order to expedite matters, I am sending you herewith such suggestions as I have ready at the present moment. There is inclosed a memorandum making detailed suggestions regarding certain of the forms, and I shall incorporate in this letter more general suggestions regarding other forms.

In view of the fact that these forms are being prepared for use throughout the United States, it would seem that, as suggested by Governor Calkins, the form of note to be used by a bank borrowing from a group should be a simple, straight note, in order that there might not be any question about its negotiability, and that the provisions regarding the pledge of collateral and the other details of the contract of the borrowing bank should be incorporated in a separate agreement. Inasmuch as it is probable that these notes will be discounted, like member bank 15-day

notes under Section 13, it would seem that they should provide for the payment of interest after maturity rather than interest from the date of the note.

Assuming that the provisions regarding the pledge of collateral and other similar provisions will be transferred to a separate document (which might be the application of the borrowing bank to the group), I would suggest that, wherever the payee is referred to in the provisions which are now incorporated in the body of the note, the holder of the note rather than the payee be referred to.

In view of the provisions of the statute regarding the pledge of security for the protection of the group of banks, it would also seem advisable to make it clear that such security may not be applied on other indebtedness to the Federal reserve bank until after the borrowing bank's obligation to the group has been satisfied in full. It would also seem that the borrowing bank should specifically authorize the group or the trustee representing the group to pledge to the Federal reserve bank all collateral or other security pledged by the borrowing bank to the group, in order that the borrowing bank might be estopped from claiming that such security was intended only for the protection of the group and not for the protection of the Federal reserve bank.

Since the group's note will be made payable directly to the Federal reserve bank and presumably will not be transferred

to any other holder, it would not seem important for it to be negotiable. Therefore, there would seem to be no objection to incorporating in the note of the group the various provisions regarding the pledge of collateral and certain additional provisions which are discussed below; but I think that careful consideration should be given to the question whether it would not be more advisable to incorporate such provisions in the application of the group to the Federal reserve bank for a loan. On this question, however, I have no definite opinion.

During our discussions with the Committee on Sunday, March 7th, it was tentatively agreed that the note, application or some other agreement of the group of banks with the Federal reserve bank should contain provisions along the following lines:

1. That, with respect to the note of the borrowing bank and the security therefor the Federal reserve bank may exercise all of the powers of ownership without foreclosure.

2. That the group assigns to the Federal reserve bank all other rights and claims against the borrower arising out of such borrowing.

3. That, in the case of the insolvency of the borrowing bank, the Federal reserve bank is authorized to file a claim against the borrowing bank in its own name and for its own benefit for the full amount of the principal and interest of the group note and that for this purpose, the group assigns to the Federal reserve bank all

of its rights against the borrowing bank; Provided, however, That the Federal reserve bank shall hold the note of the borrowing bank as a holder in due course and not as assignee. (I have not attempted to state this in proper legal form but have simply dictated it from the rough notes which I made at our meeting on Sunday. The purpose of the provision, of course, is to enable the Federal reserve bank to file with the receiver of the borrowing bank a claim for the full amount of the borrowing, since otherwise the claim of the Federal reserve bank against the borrowing bank on the note of the group would only be for the borrowing bank's pro rata share of the amount of the group note. Of course, the Federal reserve bank, after foreclosing on the collateral, and taking over the note of the borrowing bank in its own right, could file a claim on that note with the receiver of the borrowing bank; but in some States and under some circumstances this might be undesirable. It might also be claimed that the Federal reserve bank would have to credit the amount realized in this manner against the pro rata liability of the other banks in the group.)

4. The above provisions, however, shall not affect the right of the Federal reserve bank to enforce the liability of the other banks in the group on the group note without first proceeding against the borrowing bank.

5. The Federal reserve bank may grant renewals, extensions and other indulgences to any member of the group without affecting its rights against any other member of the group.

It would seem also that the contract of both the borrowing bank and the contract of the group with the Federal reserve bank should provide that, after the borrower's obligation and the obligation of the group have been satisfied in full, any remaining collateral held by the Federal reserve bank may be utilized by it to satisfy any other obligation of the borrowing bank. In both agreements, it would also seem advisable to provide that any other security held by the Federal reserve bank for other obligations of the borrowing bank may first be applied on other indebtedness of the borrowing bank to the Federal reserve bank, but that any surplus remaining after all such other indebtedness has been satisfied in full may, in the discretion of the Federal reserve bank, be utilized to satisfy the obligation of the group or the obligation of the borrowing bank.

It would also seem advisable, in the contract of the group, to provide specifically for the right of any bank to anticipate and discharge its liability to the Federal reserve bank; but with a proviso that, in such event, the note and other agreements shall remain in full force and effect as to all other members of the group and that any rights of such bank (i.e., the bank which anticipates and discharges its liability) in the collateral or other security pledged with the Federal reserve bank shall be subordinated to the rights of the Federal reserve bank.

In the note of the loan group it would seem advisable to provide for the payment of interest after maturity, instead of interest from the date of the note, for the reasons indicated above in connection with the note of the borrowing bank.

In the note or other contract of the group, the provisions regarding the method of determining the pro rata liability of each member of the group should be changed in accordance with the change recommended in the inclosed memorandum with regard to the agreement to form the loan group.

In the application of the loan group to the Federal reserve bank for a loan (paragraph II) you apparently contemplate that the note of the group and the security therefor would not be forwarded to the Federal reserve bank until after the Federal reserve bank has considered the application and approved the loan. In accordance with the established procedure regarding rediscounts and advances to member banks under Section 13, would it not be better to have the note and collateral accompany the application to the Federal reserve bank, in order that the Federal reserve bank may inspect the collateral before approving the loan and in order that the proceeds may be made immediately available as soon as the loan is approved?

In the application for a loan under Section 10(b), it would seem that, in view of the fact that the Federal Reserve Board probably will not prescribe any regulations defining the classes of assets which may be pledged as collateral, it would be advisable to strike out the

certificate to the effect that the collateral listed in Schedule A is eligible and to substitute therefor a statement to the effect that none of the collateral listed in Schedule A is the obligation of any foreign government, individual, partnership, association, or corporation organized under the laws thereof. It would also seem advisable to insert in this form a certificate to the effect that the statement of the exceptional and exigent circumstances which is incorporated in the application or attached thereto is a true statement and is believed to be sufficient to justify the granting of the advances applied for.

As soon as I can complete my study of your tentative drafts of the forms, I shall forward such additional suggestions as may occur to me; and I would like to have you consider them before you deliver your final draft of the forms to the Committee. It is also understood, of course, that the Committee will submit all of the forms to the Federal Reserve Board for its consideration before transmitting them to the Federal reserve banks.

Regretting that we were unable to see more of you during our recent visit to New York and with kindest personal regards, I am

Cordially yours,

Walter Wyatt,
General Counsel.

Inclosure.

(Mr. Wyatt's Tentative Suggestions re forms for use in making Advances under Sections 10(a) and 10(b).)

RESOLUTION AUTHORIZING BANK OR TRUST COMPANY TO BECOME MEMBER OF LOAN GROUP.

Last line of first paragraph, omit word "unanimously", since the resolution may not be adopted unanimously.

AGREEMENT TO FORM LOAN GROUP

Suggest omission of first two "Whereas" clauses, as being unnecessary and unduly lengthening the agreement.

Suggest that latter part of first paragraph on page 2 be changed to read as follows: "deem it advisable to form themselves into a group of member banks for the purpose of availing themselves of the benefits of Section 10(a) of the Federal Reserve Act;"

Page 2, paragraph numbered 1: Change latter part to read as follows: "When this agreement has been properly executed by all members named in the next succeeding paragraph hereof". It would seem inadvisable to require the approval of such agreement by the Federal reserve bank; since such approval might be considered to carry with it an implied commitment to make loans to the group organized thereunder.

Page 3, paragraph numbered 3: Commencing with the word "unless" change to read "unless there is a notation to the contrary following its name in paragraph 2 hereof."

Paragraph numbered 4 on page 3: change to read as follows:

"4. The liability of each member of the loan group for advances made by the reserve bank to the loan group shall be limited, in accordance with the provisions of Section 10(a) of the Federal Reserve Act, 'to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group'; and the liability of each member on each note of the Loan Group shall be determined on the basis of its gross deposit liabilities at the opening of business on the date of the written application by the Loan Group to the Federal Reserve Bank for the advance evidenced by such note, which shall be computed by adding together, (1) in the case of a national bank, the figures corresponding to those called for by items 21, 22, 23 and 24 on the Comptroller of the Currency's Call Report Form No. 2130, as revised in November, 1931, or (2) in the case of a State member bank, the figures corresponding to those called for by items 19, 20, 21 and 22 on the Federal Reserve Board's Call Report Form No. 105, as revised in November, 1931."

Page 3, paragraph numbered 5: Strike out the words "and agent" in two places.

Page 3, paragraph numbered (a): Strike out the words "collateral" and place quotation marks before and after the words "Borrowing Bank".

Page 4, lines 1 and 2: Strike out the words "collateral" and substitute therefor the word "securities". Strike out the words "as security".

Page 4, line 3: Strike out the words "not an" and substitute the word "no".

Page 4, paragraph (b) line 2: After word "applications" insert "by or on behalf".

Page 4, paragraph (b) line 7: After word "aggregate" insert word "amount".

Page 4, paragraph (b) line 9: Change word "are" to "shall be".

Page 4, paragraph (b) line 14: Strike out words "secured by the collateral" and substitute "and the security".

Page 4, paragraph (b) line 15: Strike out words "as security". Strike out word "collateral" and substitute therefor the word "security".

Page 4, paragraph (b) line 18: Strike out words "Loan Group" and substitute "Federal reserve bank".

Page 4, paragraph (b), five lines from the bottom: Strike out word "collateral".

Page 4, paragraph (b): At end of paragraph, add the following: "When a member has signed and delivered to the trustee a note of the Loan Group, such members shall, by such action, be deemed to have authorized or ratified, (1) the making of a loan or loans by the loan group to the member or members named in the application of such Loan Group to the Federal reserve bank, and (2) the signing and delivering to the Federal reserve bank on behalf of the Loan Group of the application of such Loan Group for the loan described in such application on the terms and conditions stated therein."

Page 5, paragraph (c) lines 5, 6 and 7: Strike out the words "collateral offered as security for said note or notes of the borrowing bank or banks and" and substitute therefor the word "security".

Page 5, paragraph (c) line 12: Strike out the words "without recourse".

Page 5, paragraph (c) lines 16 and 17: Strike out words "with collateral security for said loan or loans" and substitute therefor the words "security therefor".

Page 5, paragraph (d): Strike out the word "collateral" in four places. Also after the word "return" in the fifth line of the paragraph, insert the words "or release".

Page 6: Immediately before paragraph 6, insert a new paragraph absolving the trustee from all personal liability for any and all acts done by him on behalf of the Loan Group pursuant to the terms of this agreement and within the scope of his authority.

RESOLUTION OF BORROWING BANKS.

Immediately after the words "NOW, THEREFORE, BE IT RESOLVED," insert the following "that _____ "(name and title of officer _____ is authorized other than the one signing attached certificate.)" and directed:"

At end of paragraph 2, strike out the word "and".

At end of paragraph 3, insert the word "and".

Add a new paragraph as follows, immediately after paragraph 3:

"4. To give such other or additional security as may be necessary for the purpose of obtaining such advance."

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7178

June 14, 1932.

SUBJECT: Expense, Main Lines, Leased Wire System, May, 1932.

Dear Sir:

Enclosed herewith you will find two mimeographed statements, X-7178-a and X-7178-b, covering in detail operations of the main lines, Leased Wire System, during the month of May, 1932.

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.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINES OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MAY, 1932.

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	28,468	1,898	30,366	3.66
New York	145,645	-	145,645	17.54
Philadelphia	28,722	2,908	31,630	3.81
Cleveland	61,165	2,323	63,488	7.65
Richmond	63,530	2,298	65,828	7.93
Atlanta	53,759	7,377	61,136	7.36
Chicago	86,760	2,842	89,602	10.79
St. Louis	69,080	2,321	71,401	8.60
Minneapolis	32,630	2,108	34,738	4.18
Kansas City	67,640	2,199	69,839	8.41
Dallas	58,379	5,354	63,733	7.67
San Francisco	98,921	4,039	102,960	12.40
Total	794,699	35,667	830,366	100.00

F. R. Board business	283,717	1,114,083
Reimbursable business Incoming and Outgoing		332,690
Total words transmitted over main lines		1,446,773

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-7178-b).

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

REPORT OF EXPENSE MAIN LINES
FEDERAL RESERVE LEASED WIRE SYSTEM, MAY, 1932.

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	$658.45	$260.00	$398.45
New York	1,134.15	-	-	1,134.15	3,155.51	1,134.15	2,021.36
Philadelphia	225.00	-	-	225.00	685.43	225.00	460.43
Cleveland	306.66	-	-	306.66	1,376.26	306.66	1,069.60
Richmond	190.00	-	230.00 (&)	420.00	1,426.64	420.00	1,006.64
Atlanta	270.00	-	-	270.00	1,324.09	270.00	1,054.09
Chicago	3,776.75 (#)	13.00	-	3,789.75	1,941.16	3,789.75	1,848.59 (*)
St. Louis	195.00	-	-	195.00	1,547.17	195.00	1,352.17
Minneapolis	263.33	-	-	263.33	752.00	263.33	488.67
Kansas City	287.50	-	-	287.50	1,512.99	287.50	1,225.49
Dallas	251.00	-	-	251.00	1,379.86	251.00	1,128.86
San Francisco	380.00	-	-	380.00	2,230.80	380.00	1,850.80
Federal Reserve Board	-	-	15,580.29	15,580.29	-	-	-
Total	$7,539.39	$ 13.00	$15,810.29	$23,362.68	$17,990.36	$7,782.39	$12,056.56
							1,848.59 (a)
							$10,207.97

Reimbursable charges:

Treasury Department	$2,294.70	
Reconstruction Finance Corporation	2,989.41	
Federal Farm Loan Board	29.82	
Federal Farm Board	58.39	
Less reimbursable charges		5,372.32
		$17,990.36

(&) Main line rental, Richmond-Washington.
(#) Includes salaries of Washington operators.
(*) Credit.
(a) Amount reimbursable to Chicago.

X-7180

June 11, 1932

Dr. Miller

Mr. Vest - Assistant Counsel.

Board's rulings regarding Bankers' Acceptances

In accordance with your request, I have prepared the following memorandum showing the more important changes which the Board has made from time to time in the principles incorporated in its regulations and rulings with respect to bankers' acceptances. The memorandum is not intended to cover the lesser important rulings or regulations of the Board on this subject but its purpose is to give the facts with reference to those rulings of primary importance which represent changes in policy with regard to bankers' acceptances, and particularly as to those cases where such changes have involved a liberalization of the requirements.

ORIGINAL FEDERAL RESERVE ACT AND EARLY REGULATIONS AND RULINGS.

Under the provisions of the original Federal Reserve Act, Federal reserve banks were authorized by section 13 to discount acceptances based on the importation or exportation of goods with maturities of not more than three months, when indorsed by a member bank; and member banks were authorized to accept drafts or bills of exchange arising out of import and export transactions having not more than six months' sight to run. Federal reserve banks were also authorized by section 14 to purchase bankers' acceptances, with or without the indorsement of a member bank.

The Federal Reserve Board in 1915 issued several different regulations regarding bankers' acceptances, gradually expanding and enlarging the provisions with respect to their eligibility for rediscount. As a requisite of eligibility, it was required by the Board's rulings that there be a definite bona fide contract for the shipment of the goods involved in the import or export transaction within a specified and reasonable time after the making of the acceptance, and also that the transaction on account of which the acceptance is drawn must itself involve the importation or exportation of the goods in question.

One of the provisions contained in the Board's early regulations was that an acceptance must have been made "by a member bank, nonmember bank, trust company or by some private banking firm, person, company or corporation engaged in the business of accepting or discounting". This provision recognized as eligible for discount acceptances made, not only by banks and bankers, but also by others engaged in the acceptance business. A similar provision, though in different language, is contained in the present regulations regarding acceptances.

One of the most important of the early rulings on acceptances was one published in the 1915 Bulletin at page 91, in the form of an opinion of the Board's counsel, which held that Federal reserve banks were authorized to discount acceptances, as arising out of the

importation and exportation of goods, which were based on the shipment of goods between any two or more foreign countries and between the United States and certain of its dependencies and possessions, as well as between the United States and foreign countries. The Board's records do not indicate the circumstances under which this ruling was made. The substance of this ruling was subsequently incorporated in the Board's regulations and has been contained in the regulations since that time.

AUTHORITY FOR THE PURCHASE OR DISCOUNT OF ACCEPTANCES ARISING OUT OF DOMESTIC TRANSACTIONS.

In a regulation promulgated in November 1915, the Board authorized Federal reserve banks to purchase bankers' acceptances, when properly secured, covering the domestic shipment of goods or covering the warehouse storage of readily marketable staples. In transmitting this regulation, the Board stated that it had not felt justified, upon admitting State banks and trust companies to the Federal Reserve System, in requiring that they discontinue making acceptances arising out of domestic transactions if kept within reasonable limitations; and that the Board considered such acceptances as of a character to make desirable investments for Federal reserve banks. As uniformly construed by the Board, the authority of Federal reserve banks to purchase bankers' acceptances under section 14 of the Federal Reserve Act is not subject to the limitations applicable in the case of rediscounts of acceptances, and accordingly it was legally possible

to authorize Federal reserve banks by regulation to purchase domestic acceptances although no specific mention of domestic acceptances was made in the law. The Board's records do not disclose at whose instance or suggestion this authorization for the purchase of domestic acceptances was given.

Subsequently in the Act of September 7, 1916, the law was amended so as to authorize member banks to accept drafts or bills growing out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance, or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples; and Federal reserve banks were authorized to discount such acceptances. This amendment was recommended by the Federal Reserve Board in its annual report covering the year 1915, in which it was said, "There can be but little question of the safety of such acceptances, and their use will tend to equalize interest rates the country over and help to broaden the discount market".

Among the principal requirements which the Board has made in its regulations and rulings with respect to acceptances drawn against the storage of readily marketable staples is that the warehouse receipt covering such staples be issued by a party independent of the customer and that such acceptances should not have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment or distribution into the process of manufacture or consumption. In connection with acceptances drawn to finance the domestic shipment of goods, the Board has held that there should be some actual connection between the acceptance of the draft and the transaction involving the shipment of the goods; that is, the draft should be drawn to finance the shipment. The Board has also said that a Federal reserve bank may properly decline to discount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of that period reasonably necessary to finance such transaction.

ACCEPTANCES TO FURNISH DOLLAR EXCHANGE.

The amendment of September 7, 1916, also authorized member banks to make, and Federal reserve banks to acquire, acceptances having not more than three months sight to run, drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade.

The Federal Reserve Board adopted regulations requiring member banks which desire to accept drafts drawn by banks or bankers in certain countries for the purpose of furnishing dollar exchange to obtain the permission of the Board. Such permission is granted when the usages of trade in such countries appear to require such acceptance facilities. There have been no important changes in the regulations or in the law with respect to this subject since 1916.

ACCEPTANCES DRAWN UNDER CREDITS EXTENDING OVER A PERIOD OF ONE OR TWO YEARS.

Under date of February 7, 1918, the Board addressed a letter to the Governor of the Federal Reserve Bank of New York (published in the 1918 Bulletin at page 257), stating its policy in dealing with acceptances drawn under credits extending over a period of one or two years. The expression of the Board's policy on this subject was contained in a memorandum accompanying the letter. This letter and memorandum were prepared after correspondence with the Federal Reserve Bank of New York and after conferences between Governor Strong and a number of New York bankers. The principles outlined in the memorandum were summarized in the letter as follows:

> (1) Acceptance credits opened for periods in excess of ninety days should only, in exceptional cases, extend over a period of more than one year, and in no case for a time exceeding two years.
>
> (2) Banks which are members of groups opening these credits, should not buy their own acceptances, and where an agreement is made with the drawer for purchase of acceptances for future delivery, the rate should not be a fixed one, but

should be based upon the rate ruling at the time of the sale.

(3) Transactions covered by these credits should be of a legitimate commercial nature, and acceptances must be eligible according to the rules and regulations of the Board.

(4) Whenever syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal reserve banks should be consulted with regard to the transaction. The question of eligibility, both from the standpoint of the character of the bill and of the amount involved, will be passed upon by the Federal reserve bank subject to the approval in each case of the Federal Reserve Board.

The introductory paragraph of the memorandum setting forth the principles above summarized is as follows:

"In dealing with the question of acceptances, it is desirable that the Board should not be obliged to adopt inflexible regulations unless absolutely necessary. It should be borne in mind that we are competing in the acceptance field with other countries which have no legal restrictions in which sound business judgment, guided from time to time by the central banks of these countries, constitutes the unwritten, but none the less rigid law. The banks of the United States would greatly assist the Board in its work of developing a modern and efficient system of American bankers' acceptances - and they would best serve their own purposes - if they would study and assimilate the underlying principles which must guide the Board, and observe these principles voluntarily without requiring inflexible rules. Unless the bankers cooperate with the Board in this manner, many transactions - unobjectionable as long as they are engaged in for legitimate purposes and within reasonable limits - will have to be barred because strict regulations do not admit of discrimination."

After a full discussion of the principles which are summarized above, the Board's memorandum concluded as follows:

"These are the principles which the Federal Reserve System must apply. It would be inexpedient to attempt more than to establish the principles. It would be detrimental to formulate definite regulations dealing in minute detail with the various phases of the problem. It would be far better to give some latitude to the banks in dealing with these matters. But this will depend entirely upon the wisdom and discretion of the member banks. The banks will best serve their own interests if, following the example of European institutions, they will adopt these principles as self-imposed, well tried rules of business

prudence rather than by abusing their freedom of action to force the Board to tie their hands by rigid regulations."

ACCEPTANCES AGAINST READILY MARKETABLE STAPLES STORED IN A WAREHOUSE IN A FOREIGN COUNTRY.

In 1919, the response to an inquiry from the Federal Reserve Agent at the Federal Reserve Bank of Boston the Board held that a member bank might properly accept a draft drawn in Canada, payable in the United States in dollars and secured by rice stored in a public warehouse in Canada, and that such an acceptance might properly be rediscounted by a Federal reserve bank. The Board's ruling on this question was published in the 1919 Bulletin at page 740.

PURCHASE OF EXPORT ACCEPTANCES WITH SIX MONTHS MATURITIES.

Under date of May 6, 1921, the Federal Reserve Board amended its Regulation B so as to authorize the purchase by Federal reserve banks of bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities up to six months. This increase in the maturities of such acceptances eligible for purchase was suggested in a letter to the Board from Deputy Governor Harrison of the Federal Reserve Bank of New York. The suggestion was also made in letters from Mr. Paul M. Warburg, in connection with the financing of so-called "finishing credits", a term used to designate a credit to finance both (1) the shipment from the United States of raw materials to be manufactured into finished products and (2) the subsequent process of manufacture in the foreign country and the exportation therefrom of the finished product. This amendment to Regulation B was recommended by

the Federal Advisory Council and also by the Governors of the Federal Reserve Banks.

In its letter transmitting the amended regulation, the Board said:

> Two considerations have led the Board to take this action: (1) The desire to widen the acceptance market by meeting the wants of savings banks and similar purchasers of bankers' acceptances who are now deterred from investing in acceptances of longer than three months' maturity, because of the lack of authority of Federal Reserve Banks to purchase longer maturities up to six months; (2) to provide more ample facilities for financing import and export trade with countries where either normal conditions or present abnormal conditions indicate the desirability of rendering assistance by making acceptances of maturities not exceeding six months eligible for purchase by Federal Reserve Banks.

The Board also stated that it looked to the good banking judgment and discretion of the accepting banks and of the Federal Reserve Banks to avoid any untoward results; and that the effect of this widening of the investment powers of the Federal reserve banks would be followed closely with a view to such modification of the regulations as might be necessary.

Under the Board's present regulation, Federal reserve banks may purchase bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities not in excess of six months.

PURCHASE OF ACCEPTANCES DRAWN BY COOPERATIVE MARKETING ASSOCIATIONS WITH SIX MONTHS' MATURITIES.

Under date of December 19, 1922, the Federal Reserve Board promulgated an amendment to its Regulation B authorizing Federal reserve banks to purchase bankers' acceptances, with maturities not in excess of

six months, which are drawn by growers or by cooperative marketing associations composed exclusively of growers of nonperishable, readily marketable, staple agricultural products, to finance the orderly marketing of such products grown by such growers and secured at the time of acceptance by warehouse, terminal or other similar receipts issued by parties independent of the borrowers and conveying security title to such products.

The Board's records do not indicate upon whose suggestion or recommendation this change in its regulation was made; but the Board stated in its letter of transmittal:

> "The Board was moved to take this action by a desire to provide more ample facilities for financing the orderly marketing of staple agricultural products, especially by cooperative marketing associations. This is in accordance with the principle heretofore recognized by the Board that the carrying of agricultural products for such periods as are reasonably necessary in order to assist the orderly marketing thereof is a proper step in the process of distribution."

By the Act of March 4, 1923, Federal Reserve Banks were authorized to <u>discount</u> acceptances with maturities up to six months when drawn for an agricultural purpose and secured at the time of acceptance by documents of title covering readily marketable staples.

ELIMINATION OF DOCUMENTARY REQUIREMENTS AS TO ACCEPTANCES GROWING OUT OF IMPORT AND EXPORT TRANSACTIONS.

Under date of March 29, 1922, the Board promulgated an amendment to its Regulation A, eliminating the requirements for the attachment or furnishing of documents in connection with acceptances arising out of import and export transactions, and leaving

eligibility to be determined by the Federal reserve banks as a question of fact.

Simplification of the Board's regulations regarding bankers' acceptances had been recommended in May, 1921 by the Federal Advisory Council in a statement as follows:

> * * * * "Moreover, it is impossible for the American bankers' acceptance to establish itself in competition with the British sterling acceptance in world markets if the foreign drawer is bewildered by a mass of regulations which he has to understand fully if he is to be certain that he is issuing an eligible bill which will find a ready market in the United States. The simpler the regulations the better the opportunity for the American bankers' acceptance to become a credit instrument in world markets. If there are competent men whose discretion may be relied upon in charge of the supervision of American acceptors, there is no need for attempting to control by detailed regulations the practice of American accepting banks and bankers. "

It was presumably on the basis of this recommendation that the matter was given consideration by the Board in March, 1922, but the record does not show whether this is a fact. Shortly before the adoption of the amended regulation by the Board, the proposed change eliminating the documentary requirements was discussed at an informal conference in New York by Governor Harding and Mr. Logan with Messrs. Warburg, Kent, Broderick, Kenzel and Harrison. There was apparently another discussion of the matter a few days later by Mr. Kenzel and certain New York bankers with the Federal Reserve Board. Before the change in the regulation was adopted a number of the Federal reserve banks, as well as the President of the Advisory Council,

were asked for their views with respect to the matter.

The Board's letter of transmittal of this amendment to Regulation A stated that there had been a rapid growth of the acceptance business during the war and it had been necessary accordingly for the Board to make frequent rulings and to amend its regulations regarding bankers' acceptances periodically; the Regulation of 1920 on this subject was the last step in the development of such regulations and it contained the substance of the more important rulings previously issued by the Board regarding acceptances arising out of import and export transactions. In view of the experience which the American banks had obtained, the Board considered that detailed regulations on this subject were no longer necessary and also that the general advancement of foreign trade could be furthered most effectually by the substitution of a simpler regulation. Accordingly, the Board eliminated the following sentences from its regulation with respect to acceptances arising out of import and export transactions:

> * * * "While it is not necessary that shipping documents covering goods in the process of shipment be attached to drafts drawn for the purpose of financing the exportation or importation of goods, and while it is not essential, therefore, that each such draft cover specific goods actually in existence at the time of acceptance, nevertheless it is essential as a prerequisite to eligibility either (a) that shipping documents or a documentary export draft be attached at the time the draft is presented for

> acceptance, or (b) if the goods covered by the credit have not been actually shipped, that there be in existence a specific and bona fide contract providing for the exportation or importation of such goods at or within a specified and reasonable time and that the customer agree that the accepting bank will be furnished in due course with shipping documents covering such goods or with exchange arising out of the transaction being financed by the credit. A contract between principal and agent will not be considered a bona fide contract of the kind required above, nor is it enough that there be a contract providing merely that the proceeds of the acceptance will be used only to finance the purchase or shipment of goods to be exported or imported.

In making this amendment, the Board stated that it was not reversing or modifying its former rulings, which were regarded as essential to the proper conduct of the acceptance business, but that its action was intended merely to allow greater latitude to Federal reserve banks for the exercise of their discretion and judgment, observing always the limitations of the law. The Board also stated that the responsibility for passing upon the eligibility of bankers' acceptances rests upon the Federal reserve banks themselves and each bank should satisfy itself that the acceptances conform to the requirements.

ACCEPTANCES BY NATIONAL BANKS AGAINST IMPORT AND EXPORT BILLS.

In rulings published in the 1917 Bulletin at page 28 and in the 1920 Bulletin at page 610, the Board took the position that no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft. The theory underlying these rulings was that such a draft is not drawn for the purpose of financing the importation or exportation of goods but for the purpose of financing the business of the bank which purchased the foreign documentary draft.

During the year 1923, the Board had correspondence with Mr. J. H. Fulton, President of the National Park Bank of New York with reference to the right of a national bank to accept drafts against the security of import or export bills, and also had correspondence with the Federal Reserve Bank of New York on this question. The Federal Reserve Bank considered that acceptances of this kind under proper conditions would be lawful, but it was the Board's position at that time that such acceptances were not proper under the rulings above referred to. In 1924, letters were addressed to the Board by the Governors of the Federal Reserve Banks of New York and San Francisco requesting a final ruling of the Board with respect to this question. The Board gave further consideration to the subject, but for some reason no action was taken at that time. In 1926, however, acceptances of this kind were questioned by a national bank examiner in an examination of the First National Bank of Boston and the Comptroller of the Currency asked

the Federal Reserve Board for a ruling in the matter. The Board again gave consideration to the question and reached the conclusion that its former rulings on the subject contained an unnecessarily strict interpretation of the law. Accordingly, the Board ruled that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks; provided that such drafts are drawn before the underlying import or export transactions are completed and comply as to maturity and in all other respects with the provisions of the law and the Board's regulations. (1926 Bulletin 854).

ACCEPTANCES AFTER IMPORT OR EXPORT TRANSACTION COMPLETED.

At a meeting of the Subcommittee of the General Acceptance Committee held in New York in October, 1927, it was decided to recommend to the Federal Reserve Board that the Board revoke its previous rulings to the effect that a bill cannot be eligible for acceptance by a member bank, or for rediscount or purchase by a Federal reserve bank, as a bill growing out of the importation or exportation of goods, if it is accepted after the goods have reached their destination; and to rule in lieu thereof that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale or distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

Shortly before the meeting referred to, Mr. Kenzel, Chairman of the Sub-committee, had appeared before the Federal Reserve Board, in response to an invitation from the Board, to discuss possible amendments to the Board's regulations and rulings regarding bankers' acceptances, and had pointed out the desirability of making a ruling of this kind in order that American acceptances might compete with those of other countries in financing foreign trade.

Subsequent to his appearance before the Board in this connection, Mr. Kenzel conferred with a number of prominent New York bankers engaged in the acceptance business; and the following is an excerpt from his statement on this subject submitted in connection with the recommendation of the sub-committee:

> "They (the bankers consulted) felt that they would not wish to extend credits in Europe for purely domestic purposes, explaining that by that they meant the purchase of goods of domestic origin, the fabrication of such goods and its sale for domestic consumption within any European country, but that they did feel that they should be permitted to finance through acceptance credits the sale within European countries of goods of origin foreign to those countries, and the fabrication and sale of goods for export. Many of them cited the familiar problem of American cotton which is now sent so largely to European countries on consignment by American shippers and is sold to European spinners out of warehouses in Europe. Spinners require credit of ninety days or more. Under the present rules, American banks can give such credits where the cotton crosses a frontier in Europe, that is, where it is exported from one European country to another, but they cannot give such credits if the cotton is sold to spinners located in the same European country in which it is stored pending sale.

"A similar negative position arises with respect to cotton which is sold and shipped from America on terms that have become quite usual, i.e., that at the buyer's option he may pay cash on arrival or give ninety days bankers credit. It frequently happens that the cotton has arrived and so the physical export completed before the buyer elects how he shall pay. If he elects to give ninety days bankers credit the banker may not accept the bill if the cotton has arrived at the foreign destination named in the shipping documents."

"The American bankers consulted felt that the time has certainly arrived in the development of American acceptance business when American accepting bankers should be permitted the free exercise of their discretion within the law and regulations and that, within those limits, full latitude should be granted them in the accommodation of business as it is done in foreign countries. They stressed particularly the point that they regarded it as preferable to give a three months credit with a renewal for a further period, if it were found that a renewal were required at the expiration of the original period, than to grant the credit originally for a period of six months, and that if the rule against accepting a bill after the goods had arrived were rescinded, the end sought would be practically accomplished without a specific ruling in favor of renewal bills. It was pointed out that from the bankers' point of view it was preferable to be able to review credits at more frequent intervals than is the case when credits up to six months are being insisted upon by the borrower as a precaution against being unable to redraw at the end of a shorter period in case of need even for a small part of the credit".

The recommendation made by the subcommittee was considered by the Federal Advisory Council and, with one suggested change, was

approved. After consideration of the matter, the Board reached the conclusion that its previous rulings on this subject contained an unnecessarily strict interpretation of the law; and, in order to facilitate the financing of foreign trade and the sale of American goods abroad, the Board ruled, on November 28, 1927, (1927 Bulletin, p. 860) that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed. The Board pointed out that due care should be observed to prevent a duplication of financing and that there should not be outstanding at any time more than one acceptance against the same goods. This ruling of the Board reversed all previous conflicting rulings.

ACCEPTANCES DRAWN BY WAREHOUSE OR ELEVATOR COMPANY AGAINST WAREHOUSE RECEIPTS ISSUED BY ITSELF.

In 1924, Governor Young of the Federal Reserve Bank of Minneapolis suggested to the Federal Reserve Board that it give approval to acceptances drawn by a terminal elevator company against the security of warehouse receipts issued by the company which draws the acceptances. He pointed out that in Minnesota such a company is under the strict supervision and control of a State commission, a representative of which checks all grain that is stored in the elevator and all grain that is removed therefrom; and that it is practically impossible to remove grain from such terminal elevators without the knowledge and permission of the representa-

tive of the State commission.

The matter was considered by the Federal Reserve Board from time to time over a period of several years and was twice referred to the Governors' Conference, which recommended that the Board approve acceptances of this character. After consideration of the matter, the Board in April, 1927, voted to disapprove the recommendation of the Governors' Conference and not to amend its regulations so as to make such acceptances eligible for rediscount or purchase by the Federal reserve banks. The Board considered that the principle laid down in its regulations, that warehouse receipts used as security for acceptances must be issued by a party independent of the customer, was essential to the maintenance of the high standard of bankers' acceptances and that any action setting aside this principle might establish a precedent for future action which would result in the lowering of the standard.

The matter was again considered by the Federal Reserve Board in October 1928, however, at which time Governor Young was Governor of the Federal Reserve Board, and the Board decided to adopt an amendment to its regulations making eligible for rediscount or purchase acceptances against warehouse receipts conveying security title to readily marketable staples when such receipts are "issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn."

LIBERALIZATION OF RULINGS REGARDING DOMESTIC BANKERS' ACCEPTANCES.

The General Committee on Bankers' Acceptances at its meeting in March, 1926, adopted a report containing a statement of broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits and recommending specifically that the use of domestic acceptances be broadened, particularly in two respects:

(1) To permit the purchaser of goods under bankers' acceptance credits to draw bills having a maturity consistent with the usual and customary credit time that obtains in the relative trade, instead of requiring the shipper to draw the bill if it has a maturity in excess of the actual transit time of the goods, (the Board's rulings had been understood as making a distinction between the period for which acceptances may be drawn by the seller and the period for which they may be drawn by the purchaser);

(2) To permit the use of bankers' acceptances secured by receipts covering readily marketable staples to finance the carrying of certain staples during the time they are being converted into other forms of readily marketable staples through a converter independent of the drawer, provided that the identity of the goods is not lost and the accepting bank remains secured by the independent converter's receipt.

This report of the General Committee on Bankers' Acceptances was considered by the Governors' Conference in March, 1926, which approved the report and requested the Federal Reserve Board to adopt the rulings contained therein. The Federal Reserve Board acted upon the matter in June, 1928, at which time it approved the report in so far as it contained a statement of the broad general principles regarding correct practices in the granting of domestic bankers' acceptance credits, but with the understanding that such approval should not be construed as revoking or qualifying any of the Board's existing rulings. The Board stated that if the broadened use of domestic bankers' acceptances was found to be hampered by the existing rulings of the Board, it would consider the question of revoking or modifying such rulings provided a statement of specific facts arising in actual cases was submitted to the Board.

The Governors' Conference in November 1928, upon consideration of a report of the subcommittee of the General Committee on Bankers' Acceptances, requested the subcommittee to submit to the Board specific examples of transactions exemplifying the need for a modification of the Board's rulings in the respects above mentioned. This was done and the following is an example of the facts submitted with regard to the Committee's first recom-

mendation:

> "A firm in New York City purchases certain staples from a seller in a western city who ships the same and draws a sight draft on the purchaser in New York with bill of lading attached. This draft and bill of lading attached are sent in the customary way to a bank in New York, Bank A, designated by the purchaser. The latter then draws a 90 day bill on Bank A, which is accepted by the bank, having at the time in its possession the bill of lading covering the staples in process of shipment. The acceptance is then discounted by the purchaser and the proceeds used to pay the sight draft and to obtain the release of the bill of lading. It does not require 90 days for the completion of the shipment of goods, only a relatively short time being necessary for this purpose."

After consideration, the Board ruled in November 1929 that a draft drawn by the purchaser of goods in accordance with the facts above stated is eligible for acceptance by a member bank when it has a maturity consistent with the usual and customary credit time prevailing in the particular business, provided that all other relevant requirements of the law and of the Board's regulations are complied with. (1929 Bulletin, page 811).

This ruling was in some respects inconsistent with certain previous rulings of the Federal Reserve Board to the effect that an acceptance should not be drawn for the purpose of furnishing working capital to the borrower or to the purchaser during the process of the manufacture of goods; and the Board stated that such previous rulings with regard to working capital might be regarded as superseded by this ruling to the extent of any such inconsistencies.

The subcommittee also submitted an example of a specific case designed to show the desirability of permitting the use of bankers' acceptances, secured by receipts covering readily marketable staples, to finance the carrying of these staples during the time they are being converted into other forms through a converter or processer who is independent of the drawer of the acceptance, provided that the identity of the goods is not lost and the accepting bank remains secured by the independent converter's receipt. After consideration, however, the Board voted in March 1930, to disapprove the recommendation made on this point and stated its opinion that bills drawn under such circumstances are not to be considered as eligible for acceptance by member banks.

BOARD'S POLICY OF RULING ON ACCEPTANCE QUESTIONS ONLY AFTER CONSIDERATION OF FEDERAL RESERVE BANKS.

It has been the policy of the Federal Reserve Board for a number of years not to consider and pass upon questions with regard to

bankers' acceptances until such questions have been first submitted to and considered by the Federal reserve bank of the district in which the question arises. It is not clear when this policy was first adopted but it was definitely in force as early as 1922 and probably, at least in some cases, for some time before that.

Many acceptance questions, of course, have arisen in the New York District and accordingly the Federal Reserve Bank of New York has been frequently called upon to consider such questions; and much of the Board's correspondence regarding acceptance matters has been with this Federal reserve bank. In a number of cases where acceptance questions have arisen in other districts, the Federal Reserve Board in considering such questions has taken them up either formally or informally with Mr. Kenzel, the Chairman of the Committee on Bankers' Acceptances.

SUMMARY

For convenient reference there is given below a brief summary of the changes in the law, regulations and rulings regarding acceptances, which have been discussed above.

Provisions of the Federal Reserve Act.

Under the original Federal Reserve Act, member banks were authorized to accept drafts arising out of import and export transactions having not more than six months' sight to run and Federal reserve banks were authorized to discount such acceptances, indorsed by a member bank, with maturities of not more than three months. Federal reserve banks were also authorized to purchase bankers' acceptances with or without the indorsement of a member bank.

By the Act of September 7, 1916, member banks were authorized to make, and Federal reserve banks to discount, acceptances arising out of the domestic shipment of goods or out of the storage of

readily marketable staples; and by this Act, also, member banks were authorized to make, and Federal reserve banks to acquire, acceptances drawn for the purpose of furnishing dollar exchange.

By the Act of March 4, 1923, Federal reserve banks were authorized to discount acceptances with maturities up to six months when drawn for an agricultural purpose and secured at the time of acceptance by documents of title covering readily marketable staples.

Rulings and Regulations of the Federal Reserve Board.

In its regulation of February 8, 1915, the Board recognized as eligible for rediscount acceptances made, not only by banks and bankers, but also by others engaged in the acceptance business.

In a ruling published in the 1915 Bulletin at page 91, the Board gave approval to acceptances based on the shipment of goods between two or more foreign countries and between the United States and certain of its dependencies and possessions, as well as between the United States and foreign countries.

By regulation dated November 29, 1915, the Board authorized Federal reserve banks to purchase bankers' acceptances, when properly secured, covering the domestic shipment of goods or covering the warehouse storage of readily marketable staples. (This was prior to the amendment to the law permitting the discount of domestic acceptances.)

After the amendment to the law of September 7, 1916, the Board included in its regulations provisions regarding the acceptance by member banks of drafts drawn to furnish dollar exchange.

Under date of February 7, 1918, the Board addressed a letter to the Governor of the Federal Reserve Bank of New York stating its policy in dealing with acceptances drawn under credits extending over a period of one or two years.

In a ruling published in the 1919 Bulletin at page 740, the Board approved acceptances drawn in a foreign country payable in the United States in dollars and secured by staples stored in a foreign warehouse.

Under date of May 6, 1921, the Board amended its regulations so as to authorize the purchase by Federal reserve banks of bankers' acceptances growing out of transactions involving the importation or exportation of goods with maturities up to six months.

Under date of December 19, 1922, the Board amended its regulations so as to authorize Federal Reserve Banks to purchase bankers' acceptances with maturities not in excess of six months which are drawn by agricultural growers or by cooperative marketing associations and are properly secured.

On March 29, 1922, the Board amended its regulations so as to eliminate the requirements for the attachment or furnishing of documents in connection with acceptances arising out of import and export transactions.

By ruling published in the 1926 Bulletin at page 854, the Board held that national banks may legally accept drafts drawn upon them by other banks against the security of import or export bills of exchange previously discounted by such other banks provided that such drafts are drawn before the underlying import or export transactions are completed.

The Board ruled on November 28, 1927, that bankers' acceptances may properly be considered as growing out of import or export transactions when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

On October 9, 1928, the Board amended its regulations so as to make eligible for rediscount or purchase acceptances against warehouse receipts issued by grain elevator or warehouse companies duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn.

By a ruling published in the 1929 Bulletin at page 811, the Board ruled that a draft drawn by the purchaser of staples to finance the shipment of such staples is eligible for acceptance when it has a maturity consistent with the usual and customary credit time prevailing in the particular business.

On March 19, 1930, the Board stated its opinion that bills drawn for the purpose of financing the carrying of staples during the time they are being processed or converted are not eligible for acceptance.

It has been the policy of the Board for a number of years to consider and pass upon acceptance questions only after they have first been considered by a Federal reserve bank.

Respectfully,

George B. Vest,
Assistant Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7181

June 17, 1932.

SUBJECT: Holidays during July, 1932.

Dear Sir:

On Monday, July 4th, Independence Day, there will be neither Gold Settlement Fund nor Federal reserve note clearing, and the books of the Federal Reserve Board will be closed.

The following offices also will be closed on the dates indicated:

Tuesday, July 5	Oklahoma City	Primary Election Day
Wednesday, July 13	Nashville Memphis	Birthday of General Bedford Forrest
Saturday, July 23	Dallas El Paso Houston San Antonio	Primary Election Day
Monday, July 25	Salt Lake City	Pioneer Day
Tuesday, July 26	Oklahoma City	Primary Election Run-off

On the dates indicated the offices mentioned will not participate in either the Gold 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 in

the Gold Fund clearing and make no shipment of Federal reserve notes for account of the Federal Reserve Bank of Dallas on Saturday, July 23rd.

Please notify Branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F.R.BANKS.

Treasury Regulations Regarding Taxes

on Checks and Leases of Safe Deposit Boxes

Chapter III

TAX ON LEASES OF SAFE DEPOSIT BOXES

Section 741 (a) of The Revenue Act of 1932

(a) There is hereby imposed a tax equivalent to 10 per centum of the amount collected on or after the fifteenth day after the date of the enactment of this Act, for the use after such date of any safe deposit box, such tax to be paid by the person paying for the use of the safe deposit box.

ART. 30. Effective date. - The tax attaches to any amount paid on or after June 21, 1932, for the use after such date of any safe deposit box defined in article 31.

SAFE DEPOSIT BOX

Section 741 (b) of The Revenue Act of 1932

(b) For the purposes of this section any vault, safe, box, or other receptacle, of not more than 40 cubic feet capacity, used for the safekeeping or storage of jewelry, plate, money, specie, bullion, stocks, bonds, securities, valuable papers of any kind, or other valuable personal property, shall be regarded as a safe deposit box.

ART. 31. Definition of safe deposit box. - For the purpose of the tax, a safe deposit box is any vault, safe, box, or other receptacle such as is customarily leased by a bank, trust company, security dealer, investment company, or storage company to any person to be used for the safe-keeping or storage of jewelry, plate, money, specie, bullion, stocks, bonds, securities, valuable papers of any kind, or other forms of valuable personal property. By the terms of the statute the tax will not attach to the lease of any vault, safe deposit box, or similar receptacle if of a capacity in excess of 40 cubic feet.

ART. 32. Rate and basis of tax. - The tax imposed is at the rate of 10 per cent of the amount paid for the use of a safe deposit box and is to be paid by the person paying such amount.

ART. 33. Adjustment. - Where during the period of a lease of a safe deposit box the lessor enters into a new lease for another safe

deposit box at a higher rate and is given credit for the amount paid on the first lease, the additional tax is to be computed upon the additional amount paid under the new lease.

CHAPTER IV

TAX ON CHECKS, ETC.

Section 751 (a) of The Revenue Act of 1932

> (a) There is hereby imposed a tax of 2 cents upon each of the following instruments, presented for payment on or after the 15th day after the date of the enactment of this Act and before July 1, 1934: Checks, drafts, or orders for the payment of money, drawn upon any bank, banker, or trust company; such tax to be paid by the maker or drawer.

ART. 34. Effective period. - The tax attaches to all instruments specified in section 751 when presented for payment to a bank, banker, or trust company on or after June 21, 1932, and before July 1, 1934.

ART. 35. Use of Terms. - Checks, drafts, and orders for the payment of money include any order in writing, drawn upon a bank, banker, or trust company, requiring the person upon whom drawn to pay a sum certain in money, to order or to bearer, whether on demand, at sight, or at a fixed or determinable future time.

The term "bank, banker, or trust company" includes any person or institution carrying on the business of, or maintaining an establishment for, the custody, loan, exchange, or issue of money, the transmission of funds by checks, or the acceptance or payment of drafts or orders for the payment of money. The fact that the banking facilities afforded are incidental to any other business carried on will not avoid liability to the tax.

ART. 36. Scope of tax. - The tax imposed under section 751 attaches to all instruments of the kind described in article 35 presented for payment within the effective period of the section. It is immaterial whether the instrument is made or drawn in this country or abroad, but in order to be subject to the tax it must be drawn on, payable by, and presented to, a bank, banker, or trust company in the United States.

An order for the payment of money, in form drawn upon the drawer and made payable at a bank, is subject to the tax if such instrument, without more, constitutes an order to the bank to pay the instrument and charge the amount thereof against the account of the drawer.

Travel or traveler's checks are subject to the tax.

A check drawn by a cashier or other officer of a bank upon the bank of which he is such officer, is subject to the tax.

Coupons relating to bearer bonds, although payable at a designated bank in the United States, are not "checks, drafts, or orders for the payment of money" within the meaning of section 751.

The tax does not attach in the case of the withdrawal of money in savings accounts where the item is reflected as an entry on a pass book held by the depositor and where the withdrawal is merely evidenced by a receipt personally tendered to the bank by the depositor.

The checks, drafts, or orders drawn by officers of the United States or of a State, county, or municipality, or of a foreign government, in their official capacities, against public funds standing to their official credit and in furtherance of duties imposed upon them by law, are not subject to the tax.

If an instrument is not honored by the bank, banker, or trust company upon whom or which it is drawn, the tax does not attach.

LIABILITY TO TAX

Section 751 of The Revenue Act of 1932

> (a) There is hereby imposed a tax of 2 cents upon each of the following instruments * * * such tax to be paid by the maker or drawer.
>
> (b) Every person paying any of the instruments mentioned in subsection (a) as drawee of such instrument shall collect the amount of the tax imposed under such subsection by charging such amount against any deposits to the credit of the maker or drawer of such instrument, and shall on or before the last day of each month make a return, under oath, for the preceding month, and pay such taxes to the collector of the district * * *. Every person required to collect any tax under this section is hereby indemnified against the claims and demands of any person for the amount of any payments made in accordance with the provisions of this section.

ART. 37. Liability. - Under the terms of the Act the tax is payable by the maker or drawer of the instrument. Every person who pays the instrument as drawee shall collect the amount of the tax by charging the amount of the tax against any deposits to the

credit of the maker or drawer of the instrument. (See art. 44.)

ART. 38. Rate of tax. - The tax attaches at the rate of 2 cents to every check, draft, or order for the payment of money, presented for payment and honored by a bank, banker, or trust company within the effective period of section 751.

X-7183

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Morning Papers, Friday, June 24, 1932.

The following summary of general business and financial conditions in the United States, based upon statistics for the months of May and June, will appear in the forthcoming issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal reserve banks.

Volume of production in basic industries and employment at factories decreased further in May, and wholesale prices declined. Foreign withdrawals of gold, which had been in large volume in May and the first half of June, practically stopped after the middle of the month.

Production and employment - Production at mines and factories declined further in May, and the Board's seasonally adjusted index of industrial production showed a reduction from 64 per cent of the 1923-1925 average in April to 61 per cent in May. Output of coal was substantially reduced, particularly in the anthracite fields; shipments of iron ore showed less than the usual seasonal increase, production of iron and steel declined, and activity at textile mills and shoe factories was further curtailed. In the automobile industry output increased considerably.

In the first part of June activity in the steel and cotton industries was reported to have declined further, while output of automobiles continued at about the same rate as in the latter part of May.

Further reductions in employment and earnings of factory workers accompanied the smaller volume of manufacturing output in May, particularly in the steel and machinery industries, and in the textile and clothing trades. Employment at automobile plants and in the seasonally active food industries showed an increase.

Value of building contracts awarded, according to reports to the F. W. Dodge Corporation, after increasing somewhat in April and May, declined slightly in the first half of June, reflecting chiefly smaller awards for public works and other non-residential building.

Distribution - Railroad freight traffic decreased further in May, the largest reduction being in shipments of coal and miscellaneous freight. Sales of department stores in leading cities, which had increased substantially during April, were smaller in May.

Wholesale prices - Prices of commodities at wholesale were 1.7 per cent lower in May than in April, according to the Bureau of Labor Statistics. There were large decreases in prices of many domestic agricultural products and of hides and textiles. Prices of petroleum products advanced.

During the first three weeks of June, market quotations for a number of non-agricultural commodities were relatively steady, and prices of sugar, meats, and livestock increased. Prices of wheat, after considerable fluctuations, were at unusually low levels at the beginning of the third week in June.

Bank credit - Withdrawals of gold from the United States continued through May and the first half of June, and the country's stock of monetary gold declined by $435,000,000 between May 4 and June 15. After that date there was no further decline in the total stock of monetary gold, continued gold exports representing gold previously earmarked by foreign central banks. During the first part of May continued purchases of United States Government securities by the reserve banks enabled member banks further to reduce their discounts; in later weeks, however, funds released through these purchases

were absorbed by the demand for gold for export, and there was also a decrease in member bank reserve balances.

Loans and investments of reporting member banks in leading cities, which had declined sharply earlier in the year, showed wide fluctuations after the middle of May. In the middle of June total loans and investments were larger than a month earlier, the increase in holdings of United States securities being more than sufficient to offset declines in other investments and in loans.

Money rates in the open market remained at low levels. Rates on prime commercial paper were reduced to a range of 2 1/2 - 2 3/4 per cent in the second week of June.

X-7186

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. June 23, 1932.

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 2½ per cent on all classes of paper of all maturities, effective June 24, 1932.

X-7187

STATEMENT OF BUREAU OF ENGRAVING AND PRINTING

Federal Reserve Notes, Series 1928.

June 3 to 14, 1932.

	$5	$10	$20	Total Sheets	Amount
Boston,.....	36,000	30,000	-	66,000	$6,105.00
New York,.....	150,000	86,000	-	236,000	21,830.00
Philadelphia,...	53,000	25,000	20,000	98,000	9,065.00
Cleveland,.....	37,000	39,000	-	76,000	7,030.00
Atlanta,.....	30,000	14,000	-	44,000	4,070.00
Kansas City,....	-	20,000	-	20,000	1,850.00
	306,000	214,000	20,000	540,000	$49,950.00

540,000 sheets, @ $92.50 per M, . . . $49,950.00

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7188

June 24, 1932.

SUBJECT: New Issue Treasury Bills.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal reserve banks, the code word "NOXDEGRAD" has been designated to cover a new issue of Treasury Bills, dated June 29, 1932, and maturing September 28, 1932.

This word should be inserted in the Federal reserve telegraph code book, following the supplemental code word "NOXDEGEND" on page 172.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.

X-7189

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. June 24, 1932.

The Federal Reserve Board announces that the Federal Reserve Bank of Chicago has established a rediscount rate of 2 1/2 per cent on all classes of paper of all maturities, effective June 25, 1932.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7190

June 24, 1932.

SUBJECT: Assessment for General Expenses of the Federal Reserve Board July 1 to December 31, 1932.

Dear Sir:

Confirming telegraphic advice, there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board levying an assessment upon the several Federal reserve banks of an amount equal to nine hundred twenty-six ten thousandths of one per cent (.000926) of the total paid-in capital stock and surplus of such banks as of the close of business June 30, 1932, to defray the estimated general expenses of the Board from July 1 to December 31, 1932, and specifying how such assessment shall be paid.

Very truly yours,

J. C. Noell,
Fiscal Agent.

Enclosure.

TO CHAIRMEN OF ALL F. R. BANKS.

X-7190-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 to and considered by the Federal Reserve Board that it is necessary that a fund equal to nine hundred twenty-six ten thousandths of one per cent (.000926) 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 BY THE FEDERAL RESERVE BOARD, That:

(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to nine hundred twenty-six ten thousandths of one per cent (.000926) of the total paid-in capital and surplus of each such bank at the close of business on June 30, 1932;

(2) Such assessment shall be paid by each Federal reserve bank in two equal installments on July 1, 1932, and September 1, 1932, respectively; by crediting the amount thereof on the books of the Federal reserve bank in the General Account of the Treasurer of the United States, for credit to the Federal Reserve Board in an account designated and known as "Salaries and Expenses, Federal Reserve Board, Special Fund;"

(3) For each such installment of such assessment, each Federal reserve bank shall issue and send to the Treasurer of the United States a certificate of deposit evidencing said deposit and the fact that it is in payment of the assessment levied by the Federal Reserve Board for its general expenses and is to be credited to the Federal Reserve Board in an account designated and known as "Salaries and Expenses, Federal Reserve Board, Special Fund;" and

(4) A duplicate copy of each such certificate of deposit, together with a statement showing the amount of the capital and surplus of the Federal reserve bank at the close of business on June 30, 1932, shall be sent to the Federal Reserve Board on the date of the payment of each installment.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7192

June 27, 1932.

Dear Sir:

This will confirm the telegram of this date quoted below advising you that the Board has authorized the payment by your bank of the regular semi-annual dividend on June 30:

"This is to advise you that the Board has authorized the payment of the regular semi-annual dividend by your bank on June 30, 1932."

Very truly yours,

Chester Morrill,
Secretary.

TO ALL CHAIRMEN.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7193

June 30, 1932.

SUBJECT: Protest of Checks in Event of Closing of Drawee Bank.

Dear Sir:

I inclose herewith a copy of a letter received by the Federal Reserve Board from Mr. George DeCamp, Chairman of the Board of Directors of the Federal Reserve Bank of Cleveland, advising that his bank has decided to discontinue the practice of requiring the protest of checks for which actual payment has not been received due to the closing of the drawee bank and which have been treated as dishonored at the request of the indorsers under the provisions of the Uniform Bank Collection Code, together with a copy of the letter of advice used by the Federal reserve bank in such cases. This is submitted for the information and consideration of your bank.

Yours very truly,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMEN OF ALL F. R. BANKS EXCEPT CLEVELAND.

C O P Y

X-7193-a

FEDERAL RESERVE BANK

OF CLEVELAND

June 25, 1932.

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

I have your letter of June 22, with reference to your letter of April 4 and my reply of April 11, regarding the protest of a check for $28.00 drawn on the Citizens National Bank, Harlan, Kentucky, which was treated as dishonored under the Uniform Bank Collection Code in effect in the Commonwealth of Kentucky.

I advised you in my letter of April 11, that we had under consideration and would undoubtedly adopt a change in our instructions regarding the protest of checks dishonored as a result of the closing of the drawee bank. We have now definitely decided upon a policy which will make it unnecessary to change the provisions of our circular letter.

You will note from the enclosed current circular letter No. 7 on the subject "Collection of Cash Items" that the right is reserved to return without presentation any items drawn on banks which may have withdrawn, or may have been removed, from the par list, or which may have been reported closed. It has long been our practice to waive protest on checks which are returned as a result of the closing of the drawee bank; this disposes of the matter of protest in so far as it applies to checks which are actually returned before they are charged to the maker's account.

With respect to checks which have been charged to the drawer's account prior to suspension but for which actual payment has not been received, it was our practice as indicated in my letter of April 11 to require the protest of such checks as may have been treated as dishonored at the request of the endorsers under the provisions of the Uniform Bank Collection Code adopted in several of the states in this district. We have now definitely changed our practice in this regard, and shall hereafter when such checks are charged back to the endorsers under the provisions of Regulation J and our circular, notify the endorsers that the right to treat as dishonored may be exercised, but that in the event the

FEDERAL RESERVE BANK

OF CLEVELAND

endorsers elect to treat such checks as dishonored, protest will be waived unless we are instructed to the contrary. A specimen copy of our letter of advice in such cases is also enclosed.

Our counsel are of the opinion that this practice is sound and will avoid the repetition of complaints such as that which was the subject of your letter of April 4.

Very truly yours,

(S) Geo. DeCamp

Chairman of the Board.

C O P Y

X-7193-b

FEDERAL RESERVE BANK

OF CLEVELAND

Date

National Bank

Gentlemen:

We have charged your account to cover the items listed below forwarded to the _____ for collection and remittance, but that bank was placed in the hands of the National Bank Examiner before actual payment was received.

Unless you notify us to do otherwise, we will include these items in the claim which we will file against the assets of the failed bank.

Under the law now in effect we as the agent collecting bank are also permitted by giving notice to the Receiver or Examiner in charge to elect to treat checks drawn on a closed bank as dishonored and secure their return. In the event such checks are treated as dishonored the holders will have recourse against prior parties but they cannot be included in our claim.

The statute requires this election to be "exercised with reasonable diligence". Therefore, in the event you desire that we elect to treat any of the checks as dishonored, you must forward your instructions together with the name of the Drawer and Payee to us as soon as possible. Protest will be waived on all items so returned unless we are specifically instructed to the contrary.

Very truly yours,

Assistant Cashier.

Date and total of your cash letter | Amount of items

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 11, 1932.
B-636.

SUBJECT: Bank suspensions during 1931.

Dear Sir:

It will be appreciated if you will kindly have the number of banks, as shown for your district in the attached preliminary statements of bank suspensions and reopenings during 1931, checked against your records, and advise us whether or not they are in agreement therewith. In notifying us of differences, if any, kindly give the name, location, capital and deposits of each bank that should be added to or eliminated from the statements. The names of the banks included in the enclosed summary tables may be ascertained by referring to the lists of banks suspended and reopened, furnished you each month for checking purposes, as the summary is based on such monthly statements, after taking into account the corrections that are regularly shown on the last page of the statements.

The deposit figures given in the tables include preliminary data for December in the case of most banks, and accordingly will be revised upon receipt of additional reports on form St. 6386-b. If, however, the preliminary figures shown for any state in your district

differ materially from corresponding figures compiled by your bank, it will be appreciated if you will call attention to the differences and furnish a statement showing the deposits of each suspended bank in the state as given by your records.

As it is proposed to publish final figures on bank suspensions, for the year 1931, in the forthcoming February issue of the Federal Reserve Bulletin, it will be appreciated if you will call our attention, as early as convenient, to any necessary changes in the figures shown in the attached statements.

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

January 13, 1932.
B-639.

SUBJECT: Debits to Individual Accounts.

Dear Sir:

In compiling monthly figures of debits to individual accounts from weekly reports received in 1932, the figures for each city for those weeks that do not fall entirely within a given month will, as in the past, be prorated on the basis of actual business days. From data available at the Board's offices we have prepared the enclosed list of holidays included in those report weeks of 1932 which begin in one month and end in another, i.e., the report weeks for which the figures will be prorated between two months. If there are any additional holidays observed locally in cities in your district which should be included in the attached list, or if there are any other changes to be made therein, so far as it pertains to your district, 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.

Enclosure

TO ALL FEDERAL RESERVE AGENTS*

DATES THAT WILL BE OBSERVED AS HOLIDAYS IN 1932, INCLUDED IN THOSE REPORT WEEKS (ENDING WEDNESDAY) THAT BEGIN IN ONE MONTH AND END IN ANOTHER

JANUARY 1, 1932	- All states and the District of Columbia.
MARCH 2	- Texas
MAY 3	- California, South Dakota
MAY 30	- District of Columbia and all states except Alabama, Georgia, Louisiana, Mississippi, North Carolina, South Carolina.
JULY 4	- All states and the District of Columbia
JULY 5	- Oklahoma
JULY 30	- Texas
AUGUST 1	- Colorado
AUGUST 2	- Missouri
OCTOBER 31	- Nevada
NOVEMBER 1	- Louisiana
JANUARY 2, 1933	- All states and the District of Columbia

B-639a

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 29, 1932.
B-554.

SUBJECT: Preliminary classification of loans and investments of member banks as of December 31, 1931.

Dear Sir:

There is enclosed for your information and confidential use, a copy of a memorandum and statement prepared for the Board with respect to changes in the loans and investments of member banks during the fourth quarter of 1931 and the last two years, as disclosed by the December 31 condition reports. Figures for the December 1931 call are based on the preliminary data furnished by the Federal reserve agents and will be published in the forthcoming February issue of the Federal Reserve Bulletin.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 3, 1932.
B-651.

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 1932, if issued at your bank, there are shown in the attached statement corrections made in the weekly Federal reserve bank press statements issued during 1931, which were received too late to be shown in the comparative column of the following week's statement and of which you have not heretofore been advised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

CORRECTIONS IN CONSOLIDATED WEEKLY STATEMENT OF CONDITION OF FEDERAL RESERVE BANKS IN 1931, NOT SHOWN IN THE COMPARATIVE COLUMN OF THE FOLLOWING WEEK'S STATEMENT

		CHANGE FROM	CHANGE TO
		(In thousands of dollars)	
February 11	- Bills discounted - Secured by U.S. Govt. obligations	79,396	79,368
	Other bills discounted	142,793	142,821
	All other resources	19,243	19,293
	Total resources	4,790,502	4,790,552
	All other liabilities	12,741	12,791
	Total liabilities	4,790,502	4,790,552
February 18	- Bills discounted - Secured by U.S. Govt. obligations	66,101	66,067
	Other bills discounted	133,722	133,756
February 25	- Bills discounted - Secured by U.S. Govt. obligations	60,507	60,473
	Other bills discounted	129,340	129,374
June 3	- Ratio of total reserves to deposit and F. R. note liabilities combined	84.2%	84.3%
October 28	- Deferred availability items	428,861	428,863
	Capital paid in	164,650	164,648
December 30	- Other bills discounted	429,300	429,050
	Total bills discounted	1,024,133	1,023,883
	Other securities	30,830	31,130

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 11, 1932
B-676.

SUBJECT: Earnings and Expenses of Federal Reserve Banks - 1931

Dear Sir:

There is enclosed herewith for your confidential use, pending its publication in the February Federal Reserve Bulletin, a copy of a statement, B-663, showing the earnings, expenses, etc., of each Federal reserve bank during the calendar year 1931.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL GOVERNORS & F. R. AGENTS.*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 18, 1932.
B-684.

SUBJECT: Condition of member banks as of December 31, 1931.

Dear Sir:

For your information there is enclosed a statement showing the resources and liabilities of all member banks in each Federal reserve district as of December 31, 1931, also a statement giving a classification of loans, investments, deposits and borrowings of member banks in each district on the same date.

The Board's Member Bank Call Report (No. 54) giving detailed figures by states, cities and classes of banks, which will include the data shown in the enclosed statements, will be ready for distribution about the middle of March.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

February 23, 1932.
B-686.

SUBJECT: Description of Federal reserve districts.

Dear Sir:

The 1930 Annual Report of the Federal Reserve Board, beginning on page 341, contains a description of the territory constituting each Federal reserve district and each branch zone. It will be appreciated if you will kindly have the data shown for your district, except that relating to land area and population, checked as of December 31, 1931, and advise the Board of any necessary changes therein.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 2, 1932
B-695.

SUBJECT: Abstracts of Condition Reports of State Banks and Trust Companies.

Dear Sir:

It will be greatly appreciated if, in accordance with your usual practice, you will furnish the Federal Reserve Board with a copy of the abstract of condition reports of state banks and trust companies in your state on December 31, 1931, or on the call date nearest thereto.

A franked and addressed envelope, requiring no postage, is enclosed for use in transmitting the data requested.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO SELECTED STATE BANKING DEPARTMENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

March 4, 1932.
B-701.

SUBJECT: Bank Suspensions.

Dear Sir:

There is transmitted herewith for verification a copy of the preliminary list of banks that suspended or reopened during the month of February.

The Comptroller of the Currency now furnishes us currently with deposit figures of suspended national banks, as of the dates of suspension, and such figures are being used in our compilations instead of deposit figures as of the last call date or as reported on form St. 6386-b.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS*.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 9, 1932.
B-712.

SUBJECT: Functional Expenses,
Second Half, 1931.

Dear Sir:

There are enclosed herewith copies of the consolidated Functional Expense Exhibit for the half year ending December 31, 1931. 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 18, 1932
B-720

SUBJECT: Member Bank Call Report
for December 31, 1931

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Member Bank Call Report No. 54, showing the condition of all member banks on December 31, 1931. 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

March 21, 1932.
B-721.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Advances to member banks under Section 10-a and 10-b of the Federal Reserve Act.

Dear Sir:

In order that the Board may be kept currently advised of the amount, if any, of advances made by your bank under Sections 10-a and 10-b of the Federal Reserve Act, it will be appreciated if you will include the following information in your daily Condition telegram, Form B-1, if and when any such advances are made:

Holdings of paper acquired under Section 10-a	Code MANE
New loans made under Section 10-a	Code MARL
Payments of loans made under Section 10-a	Code MAST
Holdings of paper acquired under Section 10-b	Code MIND
New loans made under Section 10-b	Code MIRE
Payments of loans made under Section 10-b	Code MIST

Paper acquired under Sections 10-a and 10-b should be included on the face of the report, Form 34, in item "Other bills discounted" and should be shown separately on the reverse side of the form as follows: Paper acquired under Section 10-a of the Federal Reserve Act, Code MANE, Paper acquired under Section 10-b of the Federal Reserve Act, Code MIND.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL F. R. BANKS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 14, 1932.
B-778.

SUBJECT: Payment of Dividends on
June 30, 1932.

Dear Sir:

In accordance with established practice, please submit to the Federal Reserve Board, at your early convenience, a certified copy of the resolution of your Board of Directors with reference to the payment of the semi-annual dividend to member banks on June 30.

Very truly yours,

Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL BANKS EXCEPT MINNEAPOLIS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 28, 1932.
B-792.

SUBJECT: Form E - Functional Expense Report.

Dear Sir:

In accordance with the request contained in the reply to our letter B-515 of October 5, 1931, there are being forwarded to you today under separate cover copies of Form E for use during the current year. Pages 1, 2, 13, 16 and 18 have been revised.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

TO GOVERNORS OF ALL F. R. BANKS.*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 10, 1932.
B-826.

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 to be used by State bank members in submitting their reports of earnings, expenses and dividend payments for the six months ending June 30, 1932.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 14, 1932.
B-327.

SUBJECT: Call Condition Reports of Member Banks.

Dear Sir:

There have been forwarded to you under separate cover copies of Form 105 to be used by State bank members in submitting their condition reports as of the next call date. Kindly hold the blanks at your bank until you are advised by the Board to forward them to the State bank members, whereupon please mail three copies to each such bank with the request that they be held pending receipt of a call for condition reports.

A new schedule (AA) has been added to Form 105 in which State bank members should report the amount of assets pledged, rediscounted, loaned, or sold under repurchase agreement. In Schedule H, new items have been added to provide for the reporting separately of bills payable and rediscounts, respectively, with the Reconstruction Finance Corporation. Corresponding revisions have been made in the Comptroller's form 2130, used by national banks.

If any State bank member belongs to a group formed under Section 10(a) of the Federal Reserve Act, it should be instructed to report its pro-

portionate liability, based on gross deposits, on any advance made to the group by the Federal reserve bank as advances "from Federal reserve bank," item 1(a) of Schedule H of the quarterly condition report form 105, and, unless it has received the proceeds of such advance, should also report the same amount as "loans to banks and trust companies," item 4 of Schedule E. A bank which has received the proceeds of an advance made to the group by the Federal reserve bank should report the excess in the amount of its indebtedness to the group over the amount of its proportionate liability on such advance as advances "from other banks and trust companies," item 1(b) of Schedule H. The books of a bank that obtains an advance from the group should, of course, show that the note given by it to the group covers the full amount of such advance. We are informed by the Comptroller of the Currency that National banks also will be instructed to report liabilities under Section 10(a) in the manner described.

It will be appreciated if you will kindly arrange to have the usual preliminary classification of loans and investments of reserve city and of country banks in your district wired to the Board within three weeks, if practicable, from the date of the next call report. It is suggested that the figures be compared with corresponding data for the preceding call before they are telegraphed to the Board, in order that any obvious discrepancies may be detected and promptly reconciled.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS*

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 13, 1932.
B-328.

SUBJECT: July 1, 1932 Par List.

Dear Sir:

In accordance with the plan outlined in the Board's letter X-7166 of May 28, 1932, there are enclosed herewith two copies of the galley proof of the July Par List, so far as it relates to your district, in which all changes to June 1 have been incorporated.

The data contained in the galley proof should be carefully checked and one copy of the corrected proof returned to the Board in time to reach Washington by June 30, with changes between June 1 and the date of mailing indicated thereon. The other copy may be retained for your files.

The Board should be advised by wire on July 2 of any further changes to be made in the galley proof up to, and including, July 1, which is the date of issue of the Par List. If there are no further changes, the Board should be so advised.

Very truly yours,

Chester Morrill,
Secretary.

TO ALL GOVERNORS*