



FEDERAL RESERVE BANK  
OF DALLAS

December 8, 1920

RICHARD L. VAN ZANDT  
GOVERNOR

Box 1470

33222

X-2074  
2077

Dear Governor Harding:

I have received and read with much interest the correspondence between Senator Owen and yourself, (Board's letters X-2074 and X-2077) and must say that your reply leaves him without "a leg to stand on".

I somewhat regret that you didn't see fit to "take a shot" at his statement to the effect that it is not necessary for Federal Reserve Banks to carry reserves against their deposits, "when as a matter of fact, the deposits in the Reserve Banks cannot be withdrawn under the statute". Probably it is best that the part of Section 19, which provides that the required balance carried by member banks with the Federal Reserve Bank may "be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities" be not quoted too freely just at this time, because, particularly in this district, we are finding it difficult, and in some cases impossible, to get our member banks to maintain their required balances with us.

I am pleased to note that you have spoken so freely and forcefully on the subject of Federal Reserve Bank rates as compared with current market rates. The margin of profit to a member bank in the western sections of this district, where even the largest and most secure loans are made at 10% and 12%, is so great as to tempt even the most conservative bankers to make loans which they absolutely know their bank is not able to carry.

Every time I think of this condition, the hope again arises within me that some day the Board may find it possible to base the reserve bank rediscount rates on the rate actually received by the member bank from its customers on the identical item rediscounted.

Rates which place a penalty on the rediscounting bank in some portions of our district offer attractive inducement to rediscount by banks in other sections, which condition is, in a measure, in my opinion, unsound.

Very truly yours

*R. L. Van Zandt*  
Governor

Hon. W. P. G. Harding, Governor,  
Federal Reserve Board,  
Washington,