

GRADUATE THESIS

"THE FEDERAL RESERVE SYSTEM"
"

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"

68698

OUTLINE

I - Introduction

A. What this thesis shall do or what it shall include (briefly)

1. Brief history of the origin of the banking business

- a. Beginning with the early banking in Bablonia and Rome and traced thru to their control by the public

2. Weaknesses of the old National banking system

- a. The reason for calling the FEDERAL RESERVE SYSTEM into being

3. Main features of the FEDERAL RESERVE SYSTEM'S organization

4. What the FEDERAL RESERVE SYSTEM has accomplished

B. The origin of banking

1. Things which were exchanged as money

- a. Skins
- b. Dried Fish
- c. Live stock
- d. Agricultural products

2. Advantages and disadvantages of these

- a. "Barter exchange" overcome
- b. No exact division of
- c. Commerce was hindered

C. The introduction of metals

1. Early metals used for exchange

- a. Copper
- b. Tin
- c. Zinc
- d. Iron

2. Gradual decline in their use

- a. Became obsolete

3. Use of ornaments as money

a. Gold and silver most important

1. Advantages of

- (a) Easy division**
- (b) Easily refined**
- (c) Valuable**
- (d) Durable**
- (e) Do not corrode**

b. Platinum and diamonds

1. Not good as money

- (a) Too scarce**
- (b) Not uniform quality**

4. Our money system

a. Central idea of

1. Dollar

- (a) Definition (U.S. Statutes)**
- (b) Worth of**

b. Other forms of money in our system

1. Gold

- (a) Quarter-eagle**
- (b) Three-dollar piece**
- (c) Half-eagle**
- (d) Eagle**
- (e) Double-eagle**

2. Silver

- (a) Silver dollar**
- (b) Half-dollar**
- (c) Quarters**
- (d) Dimes**
- (e) Nickels**

3. Paper money

- (a) U.S. notes or greenbacks**
- (b) Gold certificates**
- (c) Silver certificates**
- (d) Currency certificates**

- (e) Treasury notes of 1890
- (f) Fractional currency notes
- (g) Old demand notes, compound interest notes
- (h) National bank-notes
- (i) Federal Reserve bank-notes
- (j) Federal reserve notes

4. See Table #13

D. What this exchange of skins, dried fish, etc. lead to

1. The banking business

E. Early banking and its first developments

1. In Bablonia

2. In rome

3. The money changers

a. The Jew linder and the Lombard banker

F. Organizing this private business into more powerful associations

1. Placing them under public control

a. Establishment of first public banks

(1) Services or functions of these

G. Definition of a bank

1. By Dewey

2. By Johnson

II - Financial Condition of the U. S. Prior to the passage of the FEDERAL RESERVE ACT

A. The first bank of the U. S.

B. The second bank of the U. S.

C. The state bank system at the outbreak of the Civil War

1. Number of state banks

2. New financial conditions which the Civil War produced

3. Same weaknesses of the state banks

4. Controversy over the third bank of the U. S.

D. The establishment of a new system of banking under the "National Banking Act"

1. Origin of this new system
2. Chief exponents of this system
3. When established
4. See Table #14
5. See Table #15

E. Principle weaknesses of this system

1. Decentralization of American banking
 - a. Reserves scattered
 - b. Reserves
2. Inelastic currency
3. Panic breeders
4. National banks only National in name
5. No team work
6. Lack of efficient leaders
7. Circulation of money unequally distributed among the states
8. No established market for agricultural, industrial, and commercial paper
9. Fictitious reserves
10. Banks lacked ability to increase their lending power to meet unusual demands

F. Panic of 1907

1. Causes
2. Results
3. Possible way of preventing

G. The National Monetary Commission

1. Reasons for appointing

2. When and by whom appointed
 3. Purpose of commission
 4. What the commission did
- H. Early movements for a new, safe, efficient banking system
1. When started
 2. By whom
 3. Work of the National Monetary Commission
- I. Result of these early movements for a new, safe, and efficient banking system
1. Presentation of a bill to Congress
 - a. Originators of this bill
 - b. Failure to be acted upon in 1912
 - (1) Split in Republican Party
 2. Democratic Party ascends to power - renewed efforts to pass this bill
 - a. Leaders
 - b. Passage of the bill - establishment of the FEDERAL RESERVE SYSTEM
 - (1) Date of passage
 - (2) To whom credit is due
 - (3) Fundamental principle embodied in the FEDERAL RESERVE ACT

III - The FEDERAL RESERVE ACT and Amendments to date, January 1, 1924

- A. The Act as adopted by Congress December 23, 1913
- B. Amendment of August 15, 1914
- C. Amendment of March 3, 1915
- D. Amendment of September 7, 1916
- E. Amendment of June 21, 1917
- F. Amendment of March 3, 1919
- G. Amendment of April 13, 1920
- H. Amendment of February 27, 1921
- I. Amendment of June 14, 1921
- J. Amendment of February 6, 1923

K. The pending Pepper - McFarland Bill

1. Substance of the advantages to member banks

- a. Permit national banks to operate on terms of their "good behavior" instead of chartering them for a certain number of years**
- b. Will allow national banks to take care of customers by taking mortgages which run for five years on city real estate instead of limiting them to those which can run only one year**
- c. Will allow national banks to operate in cities over 100,000 population with a capital less than \$200,000**

IV -Elements of the FEDERAL RESERVE SYSTEM

A. The FEDERAL RESERVE BOARD

- 1. What it is, when and how constituted**
- 2. Its powers and duties**

B. Federal Advisory Council

- 1. Purpose and how constituted**
- 2. Powers, meetings, and by-laws of**

C. Federal Reserve Banks

- 1. Number of**
- 2. Districts**
 - a. See map #2**
 - b. See map #3**
- 3. Functions**
 - a. Capacity as fiscal agents for Government**
 - (1) Handling war bonds**
- 4. Management**
 - a. Controller of currency**
 - (1) See Table #1**
- 5. Directors**
 - a. Election of**
 - b. Term of office**

- c. Compensation
- 6. Officers
 - a. How chosen
 - b. Salaries of
 - (1) How determined
- 7. Currency issues of
 - a. Federal reserve notes
 - (1) How issued
 - (2) Denomination
 - (3) Status as legal tender of
 - b. Federal reserve bank-notes
 - (1) How issued
 - (a) Bonds as collateral against
 - (2) Retirement of
 - (3) Status as legal tender
- 8. Capital stock of
 - a. Minimum required by law
 - (1) Increase and decrease
 - b. Subscription of
 - (1) In legal tender
 - (2) By member banks
 - (3) By public subscription
 - c. See table #4
- 9. Branches of
 - a. Buildings
 - b. Directors and managers of
 - c. Operations, volume of
- 10. See table #6

V - Membership in the FEDERAL RESERVE SYSTEM

A. Eligibility

1. National banks

- a. Membership required by the act
- b. Withdrawal from the system

2. State banks

a. Urged to Join

(1) Number of state banks in the U. S.

(a) Resources of

(2) Number of state banks in the U. S. members of the system

(3) Number of state banks in the U. S. not members of the system

(a) Due to

(1) Low capitalization and other features affecting their organization

(3) Trust-companies

(a) Urged to join

B. Advantages of

1. Increased security

2. Greater ability of a member bank to grant accommodations to its customers

3. Increased ability to obtain rediscounts

4. Easy transfer of funds by draft and telegraph

5. Shipment of currency without cost

6. Participation in the free check collection service of the FEDERAL RESERVE SYSTEM

C. Objection to - and a possible way of removal

1. Loss of interest on the reserve balance carried with the Federal reserve bank

a. No practical way to remove this one

2. Loss of exchange, or rather that non-member banks are able, in some cases, to charge exchange while member banks are not
 - a. Extension of the par list of the FEDERAL RESERVE SYSTEM will soon obliterate this one
3. The impression that a great deal of "red tape" is involved in doing business with the federal reserve bank
 - a. This impression is due largely to ignorance. It is only by uniformity that continual mistakes and misunderstandings can be avoided. Proper investigation will show that this impression is not true.
4. The fact that statements to customers are required in connection with paper offered for rediscount
 - a. The federal reserve bank only wants the same information a banker obtains before he loans to his customer - we shall see that this objection has been exaggerated.
5. Additional expense and trouble due to explanations and reports
 - a. Proof that this objection is not well founded
6. It does not sufficiently recognize the farmer
 - a. How Hon. Carter Glass proves the falsity of this objection
7. Governors of the federal reserve banks have been reckless in their expenditures
 - a. New York Case
 - b. See Table #12
 - c. Statements and figures (to be given) will prove this one incorrect
8. Excessive salaries to officers of the FEDERAL RESERVE SYSTEM
 - a. Hon. Carter Glass proves this untrue

VI -Phases of the FEDERAL RESERVE SYSTEM which will be thoroughly discussed

- A. Impossibility of elaborating on all phases of the system
 1. Why certain phases were selected to elaborate upon
 2. Phases which were selected

- a. Stock
- b. Federal reserve agents
- c. Collections - i.e. par collections
- d. Discounts and rediscounts
- e. Banker's accept
- f. Trade "
- g. Silver certificates
- h. Earnings
- i. Reserve cities
- J. Reserves
- k. Penalties and forfeitures

B. Stock

1. Of Federal reserve banks

- a. National banks must subscribe
- b. Required of member banks
- c. Shares of member banks not transferable
- d. Increase of subscriptions required on increase of member bank's capital stock
- e. Limitation on cancellation
- f. Public subscriptions
- g. Amount to be held by a single stockholder
- h. Liability of stockholder
- i. Subscription
- J. Subscription of national banks
- k. Subscription of state banks
- l. Subscription required by new members
- m. Transfer of
- n. Voting power

2. Of banks organized in the United States for foreign business

- a. May be owned by national banks

3. Of member banks

- a. Increase
- b. Decrease

4. Of national banks

- a. Reduction
- b. Transfer of before failure

C. Federal reserve agents

- 1. Who they are**
 - a. By whom appointed**
 - b. Duties**
- 2. Qualifications**
- 3. How many**
 - a. Location of**
 - b. Salaries of**
 - c. Bond required of**
- 4. Relation to governor**
- 5. Conference of**
- 6. Assistants**
 - a. How appointed**
 - b. Duties**
- 7. Reports of**
 - a. How often issued**
 - b. Contents of**

D. Collections - I.E. Par collections

- 1. What is the par list**
 - a. Portion of the banks in the United States on the list**
 - (1) Portion of the banks in the fifth federal reserve district on the list**
 - b. Charges for collection**
- 2. What the federal reserve banks have done to provide the country with a practical and economical system for the prompt collection of checks**
- 3. By federal reserve banks**
 - a. Expenses**
- 4. Advantages of collecting checks thru a federal reserve bank**
 - a. Greater economy**
 - b. Avoiding the necessity of maintaining balances with correspondents in various cities in order to obtain check collection facilities**

- c. Direct routing of items made possible
- d. Reduces the length of time items are outstanding

5. Among the twelve federal reserve banks

6. By federal reserve banks from member banks

7. Benefits of the collection system of the federal reserve banks to industry and commerce

- a. Shortening the time necessary to make collections
- b. Reduces to a minimum the transfer of actual money in the settlement of exchanges

8. Extent to which the banks of the fifth federal reserve district are using the collection system

E. Discounts and rediscounts

1. Difference between interest, discount and rediscount

- a. Definition of each
- b. Illustration

2. Functions and features of a discount market

3. Regulation by FEDERAL RESERVE BOARD

4. Paper subject to

- a. Paper not subject to

5. Of acceptances

6. Of agricultural paper

7. Conditions of

8. Limitations of amount

9. Limitations of amount for state banks

10. Discount policy as reviewed by Governor Harding

11. See table #9 showing the discount rates of the twelve federal reserve banks in 1916

12. See table #10

F. Bankers' Acceptances

1. Definition of

a. Diagrammatical representation

2. Section thirteen of the Act

a. Amendments

- (1) September 7, 1916
- (2) June 21, 1917

b. Provisions applicable to national banks

- (1) National banks derive their power to accept from the Act
- (2) National banks can accept in connection with four general classes of transactions
 - (a) Imports and exports
 - (b) Domestic shipment of goods
 - (c) Domestic storage of ready marketable staples
 - (d) For the purpose of creating dollar exchange
- (3) Time limit for (a), (b), and (c) is six months and (d) is three months
- (4) Total amount of acceptances under (a), (b), and (c) must not exceed 50% of the accepting banks' capital and surplus
- (5) Acceptances under (d) outstanding at any onetime can equal 50% of the capital and surplus of the accepting bank
- (6) No limit to the amount a bank can accept for one customer
- (7) Acceptances under (b) must grow out of transactions involving the shipment of goods within the United States and must be secured at the time of acceptance by shipping documents
- (8) Acceptances under (d) made for any one drawer must not at any time exceed 10% of the capital and surplus of the accepting bank.

3. Attitude of the twelve banks to banker's acceptances

a. Attitude of the twelve banks to member banks

b. Attitude of the member banks to each other

4. Abuses of banker's acceptances

- a. Abusage, gradually, step by step, has developed this acceptance into a piece of accomodation paper
- b. Large banks "working" the acceptance market "for all it was worth" and "dumping" upon reserve banks slow paper in the form of acceptances
- c. Renewing acceptances

5. See Table #11

G. Trade acceptances

1. Definition of

- a. Illustration of usage of

2. An important ruling with respect to this type of acceptance

3. Advantages from the standpoint of the seller

- a. The exact amount of the claim of the seller against the buyer, as well as the exact due date of his claim, has been fixed. And after the buyer accepts the draft he can dispute neither of these
- b. Claims for inferior quality or shortage will be promptly made by the buyer (when necessary)
- c. More accounts will be paid when due and less on accounts greatly reduced
- d. Buyers who accept drafts payable on specific dates will be less likely to over-buy
- c. The seller who offers acceptances to his bank for discount instead of his unsecured note will create a good impression upon the bank and they will lend to him more freely

4. Objections from the standpoint of the seller

- a. His trade is not acquainted with the trade acceptance system
- b. Introduction of trade acceptances would involve radical changes in his system of accounts
- c. More work and greater complication to discount large numbers of acceptances than to borrow on a simple note

5. Advantages from the standpoint of the buyer

- a. Eliminates the cash discount
- b. When he agrees to pay his account on a fixed date he will be more careful as to the amount he purchases
- c. Claims for shortage and inferior goods will be made promptly and promptness in this respect will aid every buyer
- d. Better credit with sellers will result

6. Objections from the standpoint of the buyer

- a. He thinks that his credit will be affected by giving a negotiable instrument for every purchase
- b. He has been in a habit of paying his accounts when he desires to do so

7. Advantages from the standpoint of the banker

- a. Bank obtains double name paper
- b. The user of trade acceptances will not be able to hypothecate his open accounts to anyone else
- c. The discounting banker is in a position to pass judgment upon the credit risks taken by his customers in selling goods on time
- d. Banker can help his customer select acceptances of his (customer's) most reliable customers and therefore make his customer's statement good and loan him more money
- e. Banks can rediscount with the federal reserve bank without regard to the 10% limit fixed by Section 13 of the Act

8. Objections from the standpoint of the banker

- a. Discounting a large number of trade acceptances instead of one note involves additional work

9. Abuses of the trade acceptance system

- a. Drawing acceptances when no goods are actually passed
- b. An acceptance given to renew another

H. Silver certificates, substitution of federal reserve bank notes for

1. Purpose of "Pittman Act"

2. Effect of "Pittman Act"

- a. Gold supply
- b. Silver supply
- c. Retiring silver certificates

3. Method of retirement

- a. Retired at rate of

4. Issue of federal reserve bank notes to take place of silver dollars and silver certificates retired

5. Federal reserve bank notes to be retired when standard silver dollars are again coined from purchased bullion

I. Earnings of federal reserve banks

1. How distributed

2. Dividends of federal reserve banks

- a. Amount
- b. Payment of

- (1) Rate of
- (2) Frequency of

3. Franchise tax on federal reserve banks

4. Surplus fund of federal reserve banks

5. Application of

6. See table #5 showing the net earnings of the federal reserve banks from 1916 to 1920 inclusive

J. Reserve cities

1. Control and classification by FEDERAL RESERVE BOARD

2. Reserves of national banks under the old law

- a. Country banks

- (1) Definition of and location of

b. Reserve city banks

(1) Definition and location of

c. Central reserve city banks

(1) Definition of and location of

3. Reserves under the federal reserve law

a. Distinction between reserves and cash

4. Amount of reserves required to be carried by member banks with a federal reserve bank

a. Reserve cities in the fifth federal reserve district

b. Member banks checking on its reserve account

(1) Penalty for a deficient reserve

K. Reserves

1. Banks in Alaska, dependencies or possessions

2. Of federal reserve banks

a. Against deposits

b. Against federal reserve notes

c. Gold deposit may be counted as part of

d. How maintained

e. Maximum and minimum reserves

(1) See Table #7

3. Of member banks

a. Amount required

b. Computation of balances

(1) See tables and diagrams #17

c. Must be maintained

d. How maintained

e. May be checked against

f. Limitation of amount deposited with non-member banks

4. Suspension of the reserve requirements by the FEDERAL RESERVE BOARD
5. Tax upon delinquencies in reserves
6. How our reserves preserved/parity of all forms of money in circulation in the United States during the World War
the
7. See table #8
8. See table #16

L. Penalties and forfeitures

1. Non-compliance with act
2. Penalty against a federal reserve bank for paying out notes of another
3. Failure of state banks to make reports
4. Examinations
 - a. By whom
 - b. How often
 - c. Disclosing confidential information
 - d. Loans or gratuities to examiners
5. Certified checks against insufficient funds
6. Forfeiture of membership
7. Survival of penalties against dissolved banks

VII - Conclusion

- A. A brief review of the advantages of membership in the system
- B. A brief review of how the establishment and operation the FEDERAL RESERVE SYSTEM has remedied the defects of the old national banking system
- C. A brief review of the objections to the system, how they can be remedied - criticisms and how they are unjust
- D. The increasing use of banker's and trade acceptances
 1. Attention is again called to table #11

- E. Democracy of the federal reserve bank's organization
 - 1. Administration control of federal reserve banks democratic
 - a. One bank, one vote
- F. How the FEDERAL RESERVE SYSTEM saved the country during the World War
- G. Provisions by which the operations of federal reserve banks may be changed to meet changing conditions
 - 1. Various amendments to the Act proof of
- H. An appeal for the system

VIII - Tables and Diagrams

- 1. Combined balance sheet of the twelve federal reserve banks on November 30, 1921 (with a brief explanation of the various items) [ABC]
- 2. Map of the United States showing the twelve federal reserve banks and their districts
- 3. Map showing by states, the percentage of non-membership banks to the total number of banks (National and state) in 1921
- 4. Table showing the paid in capital of the twelve federal reserve banks in 1920
- 5. Table showing the net earnings of the twelve federal reserve banks from 1916 to 1920 inclusive
- 6. Table showing the amount of franchise taxes paid to the United States Government by federal reserve banks from 1917 to 1922 inclusive
- 7. Table showing the yearly maximum and minimum reserve requirements of the twelve federal reserve banks from 1917 to 1921 inclusive
- 8. Table showing the amount of Government funds in each sub-treasure - the volume of the total transactions annually preformed by them and the cost of maintaining these institutions in 1916

9. Table showing the discount rates of the twelve federal reserve banks in 1916
10. Table showing the volume of discounts of the twelve federal reserve banks from 1915 to 1920 inclusive
11. Table showing the total volume of banker's acceptances purchased annually in the open market by federal reserve banks, from 1951 to 1920 inclusive
12. Table showing the cost of bank premises of the twelve federal reserve banks to September 1921
13. Table showing the volume of different kinds of currency in circulation on January 1, 1923 and January 1, 1924
14. Table showing the growth in the number of banks (National, state, private, savings banks, loan and trust companies) from 1870 to 1919 inclusive
15. Table giving the comparison of capital, surplus and undivided profit of all banks in the United States in 1919
16. Table showing the reserve position of national banks in September 1919
17. Form showing method of computing reserve to be carried with the federal reserve bank by member banks

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In this thesis an attempt will be made to show why the Federal Reserve System was called into being, the main features of its organization, how it works, what the System has accomplished and how it has and is removing the evils of the old banking system.

The Federal Reserve Act of December 23, 1913 may be considered one of the most important pieces of financial legislation that has been enacted in the last two decades. This Act has been in effect for a little over eleven years (and during this period has been amended several times) and even now, comparatively few people are familiar with its simplest phases. The majority of people look upon it as being too technical and complicated to be understood by anyone other than bankers or economists. As a consequence there has been a great lack of public interest in the workings of the System and in the important legislative and administrative modifications which the System has undergone since it was established.

Before going into the National Banking System, its weaknesses, and the Federal Reserve System and how it works, it should be wise to go back and see how this business of banking originated, see what a bank really is and trace briefly its origin up to the passage of the National Banking Act of 1863.

Banking originated from the exchange of various things

that were used for money. Some of these mediums of exchange were skins, dried fish, live stock and agricultural products.

In a given community those things will be used for money that are easy to exchange. First look at the people who were hunters. Each family grew a little corn, had a few horses or cattle, possessed various crude weapons or utensils for domestic use and provided shelter for themselves. This type of tribe was migratory and possessed a fairly large number of horses--and a large variety of crude weapons, whose users were skilled in their use. Among such a people the things best adapted for use as money were the skins of various animals.

Another people may live under similar conditions, except that the greater part of their subsistence is derived from fishing. Obviously the things which best lend themselves for use as money are dried and smoked fish and clams.

A pastoral life may be developed by still another class of people, due to certain circumstances and localities. Obviously, their flocks and herds furnish that which serves them best as money.

And now last but not least of those things which were exchanged and used for money are agricultural products. Naturally, in communities where agriculture prevailed, some forms of agricultural products were found to be more useful in making exchanges; in Europe wheat, oats, barley, etc. were used for centuries; and among the Indians of Central America maize or corn was used almost entirely.

Both the advantages and disadvantages of the use of these primitive forms of money are apparent. By their use many difficulties

of barter were overcome--but still commerce could not be carried on with ease. All of these things used possessed qualities essential to money--but none possessed them to a high degree. Everyone admitted division, but division could not be made exactly--there was little uniformity and their durability was not great; yet, they were the best that the people using them could provide. It required centuries of social and industrial progress for these people to acquire those things which would serve them better.

With the growth of intelligence, with the higher development of industrial processes and artistic skill, metals were brought into use which possessed qualities adapted to serve as funds. Copper, tin, zinc, brass and iron were the first metals employed. Iron was about the first used but the objections to the use of this is easily seen--it found its main use in the making of weapons. Due to the large amount of copper, tin, zinc and brass (which were almost worthless) necessary for an exchange they in time became unfit for use as money. Strange to say, the world's best moneys have come from ornaments, because those things used for decorative purposes are not common, and things which will serve a particular people will be desired by all, i. e. they possess qualities which will cause them to be highly valued. Gold and silver were first used for ornament alone. Under modern industrial conditions these metals have become to be generally accepted as money in civilized nations because they are adapted to money uses better than other metals. They admit of accurate division, their units

of value are easily determined, they are easily refined, they possess great durability and do not easily corrode, and funds of these metals are highly valuable and may easily be passed from hand to hand. It is obvious that these metals are more useful as money in civilized countries than the "baser metals" or the other "precious metals" such as platinum or diamonds. Platinum is too scarce and diamonds are easily broken and destroyed, nondivisible into parts and not uniform quality.

From the development of higher intelligence, broader association and improved methods of social, political and industrial cooperation our present money system has been evolved. The central idea of the American money system is the "dollar". Immediately we ask, what is a dollar? Adroit reasoning shows that this question has been the subject of volumes of discussion and the answer to the said question has been more or less lost in a wilderness of theory. But fortunately we do not have to read all this literature--the answer is given by one Section of the United States statutes. The Act of February 12, 1873 (sec. 14), establishes "25.8 grains of gold" $\frac{900}{1000}$ fine (or 23.22 grains of fine gold) which bears the required stamp and impress--is a dollar. The statute says that this does not resemble a dollar or may be considered a dollar--but is a dollar. Furthermore, the statute settles the controversy regarding the worth of a dollar; for it says that the dollar (the printed piece of gold containing 25.8 grains of gold $\frac{900}{1000}$ fine) "shall be the unit of value" in our money system.

But what about the other forms of money in our complex system? In the first place, there are six kinds of gold coins, viz. the "dollar", the "quarter eagle", the "three-dollar" piece, the "half-eagle", the "eagle" and the "double-eagle". The statute does not say what each will be worth but they pass "at par" by virtue of their exact proportion of gold having the same quality and fineness and are "valued" by business men at \$1, \$2.50, \$3, \$5, \$10 or \$20, as the case may be.

Our system also contains "silver dollars", "half-dollars" "quarters", "dimes", etc. The statute provides the amount of silver and the fineness for each, while the Government holds itself ready to exchange a silver "dollar" for a gold "dollar."

There are also minor coins (such as the "nickel" and "cents") which greatly aid in making exchange. The Government will redeem them in gold at the rate stamped upon their faces.

Besides the gold and silver moneys there are 10 classes of paper money in circulation, each of which has a definite provision for form and design. Each is in the nature of a promise of the Government (either directly or indirectly) to deliver the number of dollars (gold) for which it is issued. It is not necessary here to describe each and go into a detailed discussion, therefore, they are only listed:

1. United States notes or greenbacks
2. Gold certificates
3. Silver certificates
4. Currency certificates

5. Treasury notes of 1890
6. Fractional currency notes
7. Old demand notes; compound interest notes
8. National bank-notes
9. Federal reserve notes
10. Federal reserve bank-notes.

A glance at tables and diagrams #13 will show the volume of the different kinds of currency in circulation on January 1, 1923 and January 1, 1924.

In the development of the mechanism of exchange which has been previously described, a distinct branch of business, known as "banking" has been created. This branch of business covers a great variety of operations; and some of its practices date from the very beginning of man. Of course, as is known, new functions have been added to meet the changing needs of various phases, such as commerce and industry.

The use of credit instruments, as transfer checks, promissory notes and bills of exchange were known several centuries before Christ. And as trade developed between different countries, the exchange of money became a specialized trade. Assyria, Babylonia, Greece and Rome were familiar with money changers. In Rome they accepted money for deposit, loaned money and even dealt in foreign bills of exchange. And from this a special law was developed which related to these subjects. The downfall of Rome, followed by the Dark Ages, greatly

checked these operations. But in the 11th century Italy regained her commercial stability and the simple operations of the banking business again became important--but now largely in the hands of the Jews and Lombards.

Naturally the next progressive step was to organize this private business or occupation into associations which were more powerful. Therefore, the individual money changer (the Jew lender and the Lombard banker) gradually gave way to public banks under official authority. As early as 1587 public banks were established in Venice, and in Amsterdam, in 1609. These banks were not concerned so much in organizing and supplying credit but in providing a convenient currency and aiding governments by loans. The gradual evolution of more recent years has brought about the creation and supply of credit thru the issue of banks' promissory notes based not upon a metallic reserve but upon public confidence. It has been during the past century that a specialization of these various activities. (Foreign exchange, advance of credit, care of deposits and the creation of currency that is widely accepted) has taken place; so that today there are many different kinds of banking institutions, some covering all, and some covering only an integral part of these functions.

It has been shown that the development of the mechanism of exchange brought about a distinct form of business known as "banking". Now it would be wise to define a bank. Many definitions

have been given. Dewey says, "the business of a bank is said to be to lend or discount, and to hold deposits. But with these two functions may be combined a third, that of issuing bank notes, or the banks' own promise to pay, for use in general circulation as a substitute for money." A great many people think a bank is a place to store money and when you want it you can go and get it--that is not a bank--it is only a safe deposit box. According to J. F. Johnson, "a bank is an institution which deals in credit."

The National Banking System and the financial conditions of the United States prior to the passage of the Federal Reserve Act will now be considered. Alongside of the First Bank of the United States (1791-1811) and its successor, the Second Bank of the United States (1816-1836), the system of state banks operating under state charters had taken possession of the banking field. When the Civil War broke out all incorporated banks were organized under state charters. It can very easily be seen that this was not a good way to stabilize our currency and aid the Federal Government, when there were 1,642 banks in the United States, established by the laws of 28 different states; and these laws were not uniform by any means. The Civil War introduced new credit and financial tasks, and the state banks were not able to perform them adequately. The Government would not accept the state bank notes in payment for the national loans

of 1861--and the banks did not have gold to pay for them. The only course open to both Government and state banks was to suspend specie payments--and this they did. In time of war the Government's revenue income is not sufficient to meet expenses and it is forced to turn to the banks for immediate help. This help could not be given adequately because these state banks, operating under different statutory requirements and grants of power, could not be quickly organized into an effective agency for national aid. From this discussion it can be seen what a disordered banking "system" existed at the outbreak of the Civil War--if such may be called a "system"! Thirty years before the Civil War, Congress, in Jackson's administration, had refused to renew the charter of the Second Bank of the United States, and therefore there was little demand for attempting a third centralized institution. Something must be done and done immediately! It was believed by many that a more stable market for Government securities could be established by basing the circulation of bank notes upon the ownership and pledge of United States bonds. Therefore, Congress determined to create a new national system--not by the establishment of one powerful centralized institution--but by keeping the principle of local independent banks. The system owes its origin to Secretary Chase who first suggested it in 1861. His suggestions were referred to the Committee on Ways and Means. Shortly afterwards, E. G. Spaulding and Hopper, after many investigations framed a bill which did not pass. Senator Sherman then introduced a similar bill which was passed on February 25, 1863--and

has been amended considerably since its passage. The name given to this act was, "The National Banking Act."

Tables and diagrams #14 will show the growth in the number of banks (national, state, private, savings banks, and loan and trust companies), from 1870 to 1919 inclusive. The decade from 1900 to 1910 marks the largest increase in the number of banks--the increase was from 10,382 in 1900 to 23,095 in 1910. A comparison of the capital, surplus and undivided profits of all banks in the United States in 1919 is given in tables and diagrams #15.

This National Banking System has proved inadequate in many respects and had it been in effect during the World War (1914-1918) it is hard to predict what would have happened. Its weaknesses necessitated the passage of the Federal Reserve Act, just as the weaknesses of the state banks resulted in the passage of the National Banking Act. This discussion is not concerned with the National Banking Act itself, and its application--but mainly with its weaknesses which caused the passage of the Federal Reserve Act, and the weaknesses of the old National Banking System should be thoroughly understood in order to see and appreciate the outstanding features of our present Federal Reserve System.

A great many weaknesses of the National Banking System are evident and still there are quite a few which are not, therefore, no attempt will be made to explain all of them, the most outstanding weaknesses were:

1. The reserves were scattered
 - a. In 1912 the United States had more commercial banks than any other country in the world; official figures at this time place the number of independent banks of all kinds at 30,000. Obviously, with these 30,000 banks our reserves were scattered.
2. A great majority of the national banks were national only in name
3. There was little team work
4. They lacked efficient leadership at times when it was most needed
5. The reserves were immobile, i. e. there was no effective way of massing them at the points of financial danger
6. The circulation of money was unequally distributed among the states
7. The country was hampered by an inelastic currency chiefly made up of bank note issues, the issues of which were usually dependent upon the amount of United States bonds held by the issuing bank and the price of bonds.
8. There was not an established market for agricultural, industrial and commercial paper which encouraged speculation and seriously disturbed our reserves.

9. There was a marked lack of inequality in the credit facilities between different sections of the country.
10. It was a rank panic breeder
11. The reserves were more or less fictitious, and
12. Banks lacked the ability to increase their lending power to meet unusual demands.

Having pointed out the main weaknesses of the National Banking System, let us consider for a moment something which resulted from these weaknesses--namely, the panic of 1907. Naturally these three important questions arise: what caused such a panic? What were its results? And how can we prevent panics? The panic of 1907 was called a "banker's panic", because it took the country by surprise and because they led the panic themselves. The Government was partly to blame because the Federal law at that time required banks to keep only a 25% reserve. Between 1885 and 1910 there was a large increase in the number of trust companies, and at the same time there was a tendency for certain of these important institutions in New York to engage in unsound banking practices. These trust companies were depositing large amounts of money in New York banks in case a crisis should arise--but these New York banks did not keep their cash reserves but a little higher than the minimum required by law. Not only did the New York banks have the funds of these trust companies, but also an accumulation of the reserve funds of National Banks all through the country. These New York banks were suddenly

subjected to the withdrawal of large sums of money--this condition was brought about by the reckless operations of these large trust companies in New York. The natural result was a money panic, and of course the usual period of business depression. Every one is aware of the fact that a panic is very detrimental in many ways and the only way to safeguard against panics is by providing adequate protection. If the public understands that means have been provided so that bank deposits can be paid as they are desired--the reason for panics is removed.

In the preceding paragraph two results of the panic of 1907 have been cited, but there is another result which was produced, and probably the most important one--that of the appointing of a National Monetary Commission. It was on May 30, 1908 that Congress appointed this commission, consisting of 16 members from the Senate and House of Representatives to investigate and report to Congress what changes were necessary or desirable in the monetary system of the United States. Senator N. W. Aldrich of Rhode Island, was the author of the bill for the commission and was appointed as its chairman. This commission visited the principal countries of Western Europe and invited prominent financiers and economist to explain the monetary systems of those countries and asked them for suggestions which might aid us in the establishment of an efficient system in this country.

This commission rendered its report in January 1912, comprising between fifteen and twenty volumes--not only did they render a report but submitted a plan of reorganization of our banking

and monetary system. But at this time the Republican party was in power, and this plan was not acted upon due to a division of this party which resulted a year later in dividing it in the Presidential campaign; and the whole question went over to be dealt with by a Democratic administration and Congress. But the efforts of this commission were finally appreciated and materialized in the adoption of the Federal Reserve Act, which contained the chief recommendations of this or the said committee.

The following year, when the Democrats were in power lengthy discussions were held, and work began in earnest for the passage of an act which would efficiently revise our monetary and banking system. Under the leadership of Hon. Carter Glass, from Virginia, who was at that time chairman of the House Committee on Banking and Currency, a bill which provided for the establishment of the Federal Reserve System, substantially as it exists now, was promptly passed by the House. In the Senate, the bill was under the guidance of Senator Owen--and after a lengthy hearing and a few amendments it was finally approved and became a law on December 23, 1913.

There exists today much controversy over the question, to whom is most credit due for the conception and passage of the Federal Reserve Act? Some call Hon. Carter Glass the "father of this Act." Is this true? It has been noted that Senator Aldrich was author of the bill which created the National Monetary Commission, and also

chairman of the said committee. Through untiring investigation this Commission was able to present to Congress a bill which, after much discussion and a few amendments was passed. To Senator Aldrich and the Monetary Commission much credit is due.

Most authorities do not consider Hon. Carter Glass the "father of this bill." When this bill failed to pass under a Republican Administration in 1912 it was the following year, under a Democratic Administration, that Hon. Carter Glass earnestly started working for the passage of this act--and it is due to him that it passed the House, and to Senator Owen that it passed the Senate. Both men deserve much credit!

Here is quoted a passage from Hon. Carter Glass' speech at the Jefferson Day celebration in Washington:

"As to the Federal Reserve Act itself there has been occasional speculation as to who most deserves credit for its conception and its enactment into a law. I know very well that the chairman of the Banking and Currency Committee of the House has been given an undue part of the praise. It has been with outward gravity and inward amusement that I have heard myself accused of statesmanship, and have liked it. But, gentlemen, the serious fact is that the master mind of the whole performance was Woodrow Wilson's. It was his infinite prescience and patience; it was his admirable courage and wisdom; it was his patriotism and power--his passion to serve mankind--that gave zest and inspiration to the battle for financial freedom. And when, on the evening of December 23, 1913, he affixed his signature and seal to House bill 7837, there was consummated in the offices of the White House the greatest legislative miracle of our time."

One will find that a great many ask the question, did the establishment of the Federal Reserve System involve the incorporation in the American Banking System of new and untried banking principles?

It did not! Not only was the National Monetary Commission thoroughly studying banking methods in this country but of many other countries which had successful banking systems. The Federal Reserve Act is the adoption to American conditions those banking principles in the banking systems of England, Germany, France and other industrial and commercial countries which long experience has proved to be the best.

Here should be noted the fundamental principle which is embodied in the Aldrich plan and the Federal Reserve Act. This principle is that back of the banks which do the public's business, receiving deposits and making loans, there shall be a central organization, of which the local banks shall be members, and in which they shall keep their reserves--in other words, the central organization is a common reservoir of cash and credit.

THE FEDERAL RESERVE ACT

(As adopted)

An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS

Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: Provided, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal Reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district

or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States shall be paid for at par out of the money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organiz-

ation committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000 or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES

Sec. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

FEDERAL RESERVE BANKS

Sec. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When a minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed

or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such certificate, shall have power -

First. To adopt and use a corporate seal

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

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

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal reserve board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stock-holder of any bank.

Directors of class A and class B shall be chosen in the following manner.

The chairman of the board of directors of the Federal reserve bank of the district in which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting be adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain under regulations to be established by the Federal Reserve Board a local officer of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of Class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the

chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B, and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter, every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL

Sec.5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on

account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. In case a member bank reduced its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and in case a member bank goes into voluntary liquidation it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and such member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

Sec.6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS

Sec.7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. One half of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid into a surplus fund until such fund shall amount to forty per centum of the paid-in capital stock of such bank, and of the remaining one-half, fifty per centum shall be paid to the United States as a franchise tax, and fifty per centum shall be paid to the United States as a trustee for the benefit of depositors in all failed member banks in the United States and failed member trust companies in the District of Columbia, the money to be kept in and losses from failures to be paid from it as a depositors' insurance fund under a division of the Treasury to be constituted and managed under such regulations as may be prescribed by the Secretary of the Treasury. Whenever the Secretary of the Treasury, out of said fund, shall pay any amounts due to depositors of failed member banks, the Secretary of the Treasury shall be subrogated to all the rights of said depositors, and in the settlement of the affairs of any such bank all dividends that would have been due to such depositors shall be paid to the Secretary of the Treasury, and the same shall be by him paid into and become a part of said depositors' insurance fund. All net

earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States, under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Every Federal reserve bank incorporated under the terms of this Act, the capital stock and surplus therein and the income derived therefrom shall be exempt from Federal, State, and local taxation, except in respect to taxes upon real estate.

Sec.8. That section fifty-one hundred and fifty-four, United States Revised Statues, be amended to read as follows:

"Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency, be converted into a national banking association, with any name approved by the Comptroller of the Currency: Provided, however, That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS

Sec.9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board or the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, and fifty-two hundred and eight, and fifty-two hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the Comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a banking association or trust company organized under the laws of any State or of the United States and having become a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such banking association or trust company to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said banking association or trust company from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD

Sec. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury, who shall be a member ex officio, and six members appointed by the President of the United States, by and with the advice of the Senate. In selecting the six appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different geographical divisions of the country. The six members of the Federal Reserve Board, appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000 together with actual necessary traveling expenses. The members of said board, the Secretary of the Treasury, the Assistant Secretary of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment conferred by any member bank. Of the six members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for one, one for two, one for three, one for four, one for five, and one for six years, and thereafter each member so appointed shall serve for a term of six years unless sooner removed for cause by the President. Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power 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 and salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the six members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire at the end of the next session of the Senate.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury."

Sec.11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: Provided, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: And provided further, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said board may prescribe.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: Provided, That nothing herein shall prevent the President from placing said employees in the classified service.

FEDERAL ADVISORY COUNCIL

Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Upon the indorsement of any of its member banks, with a waiver of demand, notice and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: Provided, that notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount or not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

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

OPEN-MARKET OPERATIONS

Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wherever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS

Sec. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: Provided, however, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES

Sec. 16. Federal Reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

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 and bills, accepted for rediscount under the provisions of section thirteen of this Act, and 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.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption

bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank, subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces, and so forth, and regulations relating to such examinations of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of

May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: Provided, however, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

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

Sec. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking associations shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

REFUNDING BONDS

Sec. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating

in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered; Provided, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

BANK RESERVES

Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults for a period of thirty-six months after said date six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months, after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be

held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board.

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this Act.

Sec. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS

Sec. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary; Provided, however, That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its

district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof, or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

Sec. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national-bank examiner. No national-bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this

section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this Act.

Sec. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS ON FARM LANDS

Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES

Sec. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside

for the conduct of its foreign business. The Federal Reserve Board shall have power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

Sec. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: Provided, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

Sec. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: Provided, however, that section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.

Sec. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by vote of the shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

Sec. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Sec. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

AMENDMENT TO SECTION OF THE FEDERAL RESERVE ACT RELATING TO RESERVES

(Approved August 15, 1914)

That section nineteen, subsections (b) and (c) of the act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, be amended and reenacted so as to read as follows:

"(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves equal to fifteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults for a period of thirty-six months after said date, six-fifteenths thereof, and permanently thereafter five-fifteenths

"In the federal reserve bank of its district for a period of twelve months after the date aforesaid, at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

"For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the federal reserve bank, or in national banks in central reserve cities, as now defined by law.

"After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the federal reserve bank, shall be held in its vaults or in the federal reserve bank or in both, at the option of the member bank.

"(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a reserve equal to eighteen per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults, six-eighteenths thereof.

"In the federal reserve bank, seven-eighteenths.

"The balance of said reserves shall be held in its own vaults or in the federal reserve bank, at its option.

"Any federal reserve bank may receive from the member banks as reserves not exceeding one-half of each installment, eligible paper as described in section thirteen properly indorsed and acceptable to the said reserve bank.

"If a state bank or trust company is required or permitted by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company or with a national bank, such reserve deposits so kept in such State bank, trust company, or national bank shall be construed within the meaning of this section as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situate. Except as thus provided, no member bank shall keep on deposit with any nonmember bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this act except by permission of the Federal Reserve Board.

"The reserve carried by a member bank with a federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purposes of meeting existing liabilities; Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

"In estimating the reserves required by this act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the bank deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

"National banks located in Alaska or outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain reserves, and be subject to all the other provisions of this act."

AMENDMENT TO THE FEDERAL RESERVE ACT RELATING TO ACCEPTANCES

(Approved March 3, 1915)

That section thirteen, paragraphs three, four, and five, of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve act, be amended and reenacted so as to read as follows:

"Any federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up and unimpaired capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board, under such general regulations as said Board may prescribe, but not to exceed the capital stock and surplus of such bank.

"The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

"Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said Board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike regardless of the amount of capital stock and surplus."

AMENDMENTS TO CERTAIN SECTIONS OF THE FEDERAL RESERVE ACT

(Approved September 7, 1916)

That the act entitled "Federal Reserve Act," approved December twenty-third, nineteen hundred and thirteen, be, and is hereby, amended as follows:

At the end of section eleven insert a new clause as follows:

"(m) Upon the affirmative vote of not less than five of its members the Federal Reserve Board shall have power, from time to time, by general ruling, covering all districts alike, to permit member banks to carry in the federal reserve banks of their respective districts any portion of their reserves now required by section nineteen of this act to be held in their own vaults."

That section thirteen be, and is hereby, amended to read as follows:

"Any federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, National-bank notes, federal reserve notes, or checks, and drafts payable upon presentation, and also, for collection, maturing bills; or solely for purposes of exchange or of collection, may receive from other Federal Reserve Banks deposits of current funds in lawful money, national-bank notes or checks upon other federal reserve banks, and checks and drafts payable upon presentation within its district, and maturing bills payable within its district.

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act. Nothing in this act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investment or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace.

"Provided, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

"Any federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight exclusive of days of grace, and which are indorsed by at least one member bank.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow 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. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus.

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

"Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or

in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the association.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

"Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the federal reserve act.

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

"That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located receiving for such services a reasonable fee or commission: Provided, however, That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal; And provided further, That the bank shall not guarantee the truth of any statement made by an assured in filing his application for insurance.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board 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 in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by federal reserve banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Federal Reserve Board; Provided, however, That no member bank shall accept such drafts or bills of exchange referred to in this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security; Provided further, That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus."

That subsection (e) of section fourteen be, and is hereby, amended to read as follows:

"(e) To establish accounts with other federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and with the consent of the Federal Reserve Board to open and maintain banking accounts for such foreign correspondents or agencies."

That the second paragraph of section sixteen be, and hereby 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 rediscounted under the provisions of section thirteen of this act, or bills of exchange indorsed by a member bank of any Federal Reserve District and purchased under the provisions of section fourteen of this act, or bankers' acceptances purchased under the provisions of said section fourteen, 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."

That section twenty-four be, and is hereby, amended to read as follows:

"Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal Reserve District or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines; and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits, and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

"The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section."

That section twenty-five be, and is hereby, amended to read as follows:

"Sec. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said Board, either or both of the following powers:

"First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

"Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

"Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

"Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the comptroller of the currency upon demand, and every member bank investing in the capital stock of banks or corporations described under subparagraph two of the first paragraph of this section shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

"Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Federal Reserve Board shall ascertain that the regulations prescribed by it are not being complied with, said Board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpoena witnesses, and administer oaths, in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Federal Reserve Board, such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

"Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

"Any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any such bank or corporation above mentioned in the capital stock of which such member shall have invested as hereinbefore provided, without being subject to the provisions of section eight of the Act approved October fifteenth, nineteen hundred and fourteen, entitled, 'An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes.' "

AMENDMENTS TO THE FEDERAL RESERVE ACT RELATING TO ADMISSION OF STATE INSTITUTIONS TO MEMBERSHIP, DEPOSIT OF GOLD AGAINST FEDERAL RESERVE NOTES, RESERVES OF MEMBER BANKS, ETC.

(Approved June 21, 1917)

That section three of the act known as the federal reserve act be amended and reenacted so as to read as follows:

"Sec. 3. The Federal Reserve Board may permit or require any federal reserve bank to establish branch banks within the Federal Reserve District in which it is located or within the district of any federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the federal reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board."

Sec. 2. That section four in the paragraph relating to the appointment of class C directors and prescribing their duties be amended and reenacted so as to read as follows:

"Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said Board as chairman of the board of directors of the federal reserve bank and as 'federal reserve agent.' He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the federal reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said Board on the premises of the federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the Board when necessary. In case of the absence of the chairman and deputy chairman, the third-class C director shall preside at meetings of the Board.

"Subject to the approval of the Federal Reserve Board, the federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Federal Reserve Board shall

require such bonds of the assistant federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the federal reserve agent."

Sec. 3. That section nine be amended and reenacted so as to read as follows:

"Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the federal reserve system, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such federal reserve bank.

"In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act.

"Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the federal reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

"All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of unearned dividends. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the revised statutes, and shall be required to make reports of condition and of the payment of dividends to the federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of \$100 a day for each day that it fails to transmit such report; such penalty to be collected by the federal reserve bank by suit or otherwise.

"As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the federal reserve bank by examiners selected or approved by the Federal Reserve Board.

"Whenever the directors of the federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board; Provided, however, That when it deems it necessary the Board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, shall be assessed against, and paid by the banks examined.

"If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, it shall be within the power of the Board after hearing to require such bank to surrender its stock in the federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

"Any State bank or trust company desiring to withdraw from membership in a federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the federal reserve bank; Provided, however, That no Federal reserve bank shall except under express authority of the Federal Reserve Board, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the Board. Whenever a member bank shall surrender its stock holdings in a federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from the date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the federal reserve bank.

"No applying bank shall be admitted to membership in a federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national-bank act.

"Banks becoming members of the federal reserve system under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the revised statutes as amended by section twenty-one of this act. Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the federal reserve system shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created and shall be entitled to all privileges of member banks; Provided, however, That no federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. The federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the federal reserve bank.

"It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified on such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the federal reserve system upon hearing by the Federal Reserve Board."

Sec. 4. That the first paragraph of section thirteen be further amended and reenacted so as to read as follows:

"Any federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, federal reserve notes, or checks and drafts payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other federal reserve banks, and checks and drafts payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange

or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: Provided, Such nonmember bank or trust company maintains with the federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the federal reserve bank: Provided further, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the federal reserve banks."

Sec. 5. That the fifth paragraph of section thirteen be further amended and reenacted so as to read as follows:

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow 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. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus; Provided, however, That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus; Provided further, That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus."

Sec. 6. That section fourteen, subsection (e), be amended and reenacted so as to read as follows:

"(e) To establish accounts with other federal reserve banks for exchange purposes and, with the consent or upon the or-

der and direction of the Federal Reserve Board and under regulations to be prescribed by said Board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the Board."

Sec. 7. That section sixteen, paragraphs two, three, four, five, six, and seven, be further amended and reenacted so as 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 thirteen of this act, or bills of exchange indorsed by a member bank of any Federal Reserve District and purchased under the provisions of section fourteen of this act, or bankers' acceptances purchased under the provisions of said section fourteen, or gold or gold certificates; but in no event shall collateral security, whether gold, gold certificates, or eligible paper, 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.

Every federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its federal reserve notes in actual circulation: Provided,

however, That when the federal reserve agent holds gold or gold certificates as collateral for federal reserve notes issued to the bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its federal reserve notes in actual circulation. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each federal reserve bank. Whenever federal reserve notes issued through one federal reserve bank shall be received by another federal reserve bank, they shall be promptly returned for credit or redemption to the federal reserve bank through which they were originally issued or, upon direction of such federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the federal reserve banks through which they were originally issued, and thereupon such federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money, or, if such federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such federal reserve bank shall, so long as any of its federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold out of the redemption fund hereinafter provided, and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the federal reserve agents to the comptroller of the currency for cancellation and destruction.

The Federal Reserve Board shall require each federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold or gold certificates held by the federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The Board shall have the right, acting through the federal reserve agent, to grant, in whole or in part, or to reject entirely the application of any federal reserve bank for federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local federal reserve agent, supply federal reserve notes to the banks so applying, and such bank shall

be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding federal reserve notes less the amount of gold or gold certificates held by the federal reserve agent as collateral security. Federal reserve notes issued to any such bank shall, upon delivery, together with such notes of such federal reserve bank as may be issued under section eighteen of this act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any federal reserve bank may at any time reduce its liability for outstanding federal reserve notes by depositing with the federal reserve agent its federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the federal reserve agent to transmit to the Treasurer of the United States so much of the gold held by him as collateral security for federal reserve notes as may be required for the exclusive purpose of the redemption of such federal reserve notes, but such gold when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the federal reserve agent.

"Any federal reserve bank may at its discretion withdraw collateral deposited with the local federal reserve agent for the protection of its federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the federal reserve agent under regulations to be prescribed by the Federal Reserve Board. Any federal reserve bank may retire any of its federal reserve notes by depositing them with the federal reserve agent or with the Treasurer of the United States, and such federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against federal reserve notes which have been retired. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue."

All federal reserve notes and all gold, gold certificates, and lawful money issued to or deposited with any federal reserve

agent under the provisions of the federal reserve act shall hereafter be held for such agent under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the federal reserve bank to which he is accredited. Such agent and such federal reserve bank shall be jointly liable for the safe-keeping of such federal reserve notes, gold, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a federal reserve agent from depositing gold or gold certificates with the Federal Reserve Board, to be held by such board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

Sec. 8. That section sixteen be further amended by adding at the end of the section the following:

"That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any assistant treasurer of the United States when tendered by any federal reserve bank or federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the federal reserve bank or federal reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any assistant treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal Reserve Board to any federal reserve bank or federal reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such federal reserve bank or such federal reserve agent: Provided, however, That any expense incurred in shipping gold to or from the Treasury or subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

"The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Federal Reserve Board and included in its assessments against the several federal reserve banks.

"Gold deposits standing to the credit of any federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is re-

quired to maintain against outstanding federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

"Nothing in this section shall be construed as amending section six of the act of March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those acts."

Sec. 9. That section seventeen be amended and reenacted so as to read as follows:

"Sec. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of the United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed."

Sec. 10. That section nineteen be further amended and reenacted so as to read as follows:

"Sec. 19. Demand deposits within the meaning of this act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit, which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

"Every bank, banking association, or trust company which is or which becomes a member of any federal reserve bank shall establish and maintain reserve balances with its federal reserve bank as follows:

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the federal reserve bank of its dis-

district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as a medium or agent of a nonmember bank in applying for or receiving discounts from a federal reserve bank under the provisions of this act, except by permission of the Federal Reserve Board.

"The required balance carried by a member bank with a federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

"In estimating the balances required by this act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with federal reserve banks shall be determined.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the Reserve Districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this act."

Sec. 11. That that part of section twenty-two which reads as follows: "Other than the usual salary or director's fees paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for service rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank," be amended and reenacted so as to read as follows:

"Other than the usual salary or director's fee paid to any officer, director, employee, or attorney of a member bank, and other than a reasonable fee paid by said bank to such officer, director, employee, or attorney for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank: Provided, however, That nothing in this act contained shall be construed to prohibit a director, officer, employee, or attorney from receiving the same rate of interest paid to other depositors for similar deposits made with such bank: And provided further, That notes, drafts, bills of exchange, or other evidences of debt executed or indorsed by directors or attorneys of a member bank may be discounted with such member bank on the same terms and condition as other notes, drafts, bills of exchange, or evidences of debt upon the affirmative vote or written assent of at least a majority of the members of the board of directors of such member bank."

AMENDMENTS TO THE FEDERAL RESERVE ACT AND REVISED STATUTES OF THE
UNITED STATES.

(Approved March 3, 1919)

That that part of the first paragraph of section seven of the Federal Reserve Act which reads as follows: "After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank," be amended to read as follows:

"After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus."

Sec. 2. That that part of section ten of the Federal Reserve Act which reads as follows: "The members of said board, the Secretary of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency, shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank," be amended to read as follows:

"The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed."

Sec. 3. That section eleven of the Federal Reserve Act as amended by the Act of September seventh, nineteen hundred and sixteen, be further amended by striking out the whole of subsection (m) and by substituting therefor a subsection to read as follows:

"(m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section nine and section thirteen of this Act, but in no case to exceed twenty per centum

of the member bank's capital and surplus: Provided, however, That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April twenty-fourth, nineteen hundred and seventeen, or certificates of indebtedness of the United States; Provided further, That the provisions of this subsection (m) shall not be operative after December thirty-first, nineteen hundred and twenty."

Sec. 4. That section fifty-one hundred and seventy-two, Revised Statutes of the United States, be amended to read as follows:

"Sec. 5172. That in order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered such quantity of circulating notes in blank, or bearing engraved signatures of officers as herein provided, of the denominations of \$1, \$2, \$5, \$10, \$20, \$50, \$100, \$500 and \$1,000, as may be required to supply the associations entitled to receive the same. Such notes shall express upon their face that they are secured by United States bonds deposited with the Treasurer of the United States, by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury; and shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the written or engraved signatures of the president or vice president and cashier; and shall bear such devices and such other statements and shall be in such form as the Secretary of the Treasury shall, by regulation, direct."

AMENDMENTS TO THE FEDERAL RESERVE ACT

(Approved February 27, 1921)

That section 11 of the act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by striking out the whole of subsection (m) and by substituting therefor a subsection to read as follows:

"(m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section nine and section thirteen of this Act, but in no case to exceed twenty per centum of the member bank's capital and surplus: Provided, however, That all such notes, drafts or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April twenty-fourth, nineteen hundred and seventeen, for which the borrower shall in good faith prior to January 1, 1921, have paid or agreed to pay not less than the full face amount thereof, or certificates of indebtedness of the United States: Provided further, That the provisions of this subsection (m) shall not be operative after October thirty-first, nineteen hundred and twenty-one."

That the first paragraph of the act approved December 24, 1919, known as the Edge Act, amending the Federal Reserve Act, be amended by adding at the end a proviso, so that the paragraph as amended will read as follows:

"Sec. 25. (a) Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five: Provided, That nothing in this section shall be construed to deny the right of the Secretary of the Treasury to use any corporation organized under this section as depositaries in Panama and the Panama Canal Zone, or in the Philippine Islands and other insular possessions and dependencies of the United States."

AMENDMENTS TO THE FEDERAL RESERVE ACT

(Approved June 14, 1921)

An Act to amend the Act approved December 23, 1913, known as the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 25 (a) of the Federal Reserve Act, being the section added to said Act by the Act approved December 24, 1919, be amended so that the first sentence of the paragraph prescribing the amount of capital stock a corporation organized under that section is required to have and prescribing also the manner in which such capital stock must be paid in, said paragraph being the fourth paragraph following subparagraph (c) of said section, shall read as follows:

"No corporation shall be organized under the provisions of this section with a capital stock of less than \$2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in: Provided, however, That whenever \$2,000,000 of the capital stock of any corporation is paid in the remainder of the corporation's capital stock or any unpaid part of such remainder may, with the consent of the Federal Reserve Board and subject to such regulations and conditions as it may prescribe, be paid in upon call from the board of directors; such unpaid subscriptions, however, to be included in the maximum of 10 per centum of the national bank's capital and surplus which a national bank is permitted under the provisions of this act to hold in stock of corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended: Provided further, That no such corporation shall have liabilities outstanding at any one time upon its debentures, bonds, and promissory notes in excess of ten times its paid-in capital and surplus.

AMENDMENTS TO THE FEDERAL RESERVE ACT

(Approved February 6, 1923)

On February 6, 1923, section 10 of the Federal Reserve Act was amended as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the last paragraph of section 10 of the Federal Reserve Act as amended by the Act of June 3, 1922, is amended to read as follows:

"No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishing, and fixtures, is in excess of \$250,000: Provided, That nothing herein shall apply to any building under construction prior to June 3, 1922."

PROVISIONS OF THE PENDING MCFADDEN-PEPPER BILL

At the last session of Congress a bill was introduced into the House and the Senate by Messrs. McFadden and Pepper, respectively, and is now pending. This bill is intended to be an amendment to the Federal Reserve Act, and if passed, will change it in quite a few respects. The advantages which will be incurred by member banks will be very beneficial if such legislation is passed. Only the substance of the provisions of this pending bill can be given now.

There are innumerable handicaps under which the national banks are laboring in addition to the destructive competition of the branch banks. For instance, all national banks have a definite expiration date for their charters, and this makes it extremely embarrassing for the banks when they are asked to handle trusts which run beyond the date of their charter expiration. The pending bill proposes to do away with this and permit the banks to operate on the terms of their "good behavior."

There are certain rigid provisions in the National Bank Act regarding real estate. The intent was to keep the banks' assets fluid, but the result has been exactly the opposite, and the national banks have been prevented from taking care of the legitimate needs of their customers. They have had to put these real estate transactions in such form where they cannot be highly convertible. For example, the limit on city real estate is one-year; and a one-year mortgage on city real estate is not readily marketable. If they could take a five-year mortgage they would have a liquid, marketable security. The latter is the step which the proposed bill contemplates.

At the present time national banks cannot operate in cities of over 100,000 population unless they have a capital of \$200,000 or over. The pending bill desires to permit the establishment of banks with a capital of \$100,000 in outlying districts whose position is comparable with that of banks operating in independent municipalities.

At present, the national banks are greatly handicapped in the proper financing of their safe deposit vaults. The pending bill would relieve this situation.

The Federal Reserve System consists of three main elements, the Federal Reserve Board, the Federal Advisory Council and the Federal Reserve banks.

The Federal Reserve Board is the governing body of the Federal Reserve System and consists of seven members, five of whom are appointed by the President of the United States (by and with the consent of the Senate). The other two members of the Board are the Secretary of the Treasury and the Comptroller of the Currency, who are ex-officio members. Of the five appointed members, two must be experienced in banking or finance, and not more than one can be selected from any one Federal Reserve district. In making the selections, the President is required to have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. Each of the five appointed members hold office for a period of ten years, but the term of the first appointees were designated as two, four, six, eight and ten years, respectively, so that a new appointment or a reappointment occurs once in every two years. The President designates one of the five as Governor, and another as Vice-Governor of the Federal Reserve Board.

The Federal Reserve Board has general supervision over the twelve Federal Reserve Banks. Its function is to determine uniform policies of the twelve Federal Reserve Banks and to co-ordinate their

activities. Its powers are explained in detail in Sections 10 and 11 of the Federal Reserve Act.

The Federal Advisory Council is composed of twelve members, one from each Federal Reserve district, chosen annually by the board of directors of the Federal Reserve Bank of the district. The purpose of the Council is to give the Federal Reserve Board the benefit of the counsel and advice of men outside the active operations of the System.

The regular meetings of the Council are held at Washington, D. C., at least four times each year--and oftener if called by the Federal Reserve Board. It may meet, however, on its own initiative, and may hold special meetings at Washington or anywhere else it may deem necessary.

The powers of the Council are:

1. To confer directly with the Federal Reserve Board on general business conditions
2. To make oral or written representations concerning matters within the jurisdiction of the Board
3. To call for information and to make recommendations in regard to discount rates, discount business, note issues, reserve conditions in the various districts, the purchase and sale of gold, open market operations by the Reserve Bank and the general affairs of the Federal Reserve System.

The continental United States is divided into twelve Federal Reserve districts, each district containing a Federal Reserve city (that is, a city in which a Federal Reserve Bank is located). The districts are apportioned "with due regard to the convenience and customary course of business" and do not necessarily follow state lines. The districts in which these banks are located are indicated in the accompanying map, tables and diagrams #2. The districts thus created may be readjusted from time to time by the Federal Reserve Board (but not more than twelve Federal Reserve districts in all may be created).

One of the greatest services performed by the Federal Reserve Banks is that of Fiscal Agents. During all the Liberty Loan Campaigns, they acted in this capacity, received subscriptions for bonds, notes and certificates of indebtedness, made collections on these subscriptions and delivered securities to subscribers when they completed their payments. In each district an active War Loan Organization, of which the Governor of the Federal Reserve Bank was the head, conducted the practical operations of the campaigns. Thrift stamps, war savings stamps and treasury savings certificates were sold and distributed and are now being so handled.

The Federal Reserve Banks have, in their capacity as Fiscal Agents, performed for the Government services of the highest value. The extent of the work of the Federal Reserve Bank of Richmond as

Fiscal Agent is indicated by the fact that the Liberty Loan Department (including the War Loan Organization) had at one time approximately 150 employees. Liberty Bonds and Victory Bonds were sold in the Fifth District to an amount exceeding one billion dollars. In addition to this, a large volume of war savings stamps and Treasury savings certificates of various issues was successfully placed.

The management of each Federal Reserve Bank is vested in nine directors. These directors are divided into three classes of three each, known as class A, B, and C. The directors in class A are chosen by and are representatives of the member banks; the directors in class B are chosen also by the member banks, but must be actively engaged in their district in commerce, agriculture or some industrial pursuit; the directors in class C are selected by the Federal Reserve Board. It is obvious that the object of this classification is to secure a variety of interests in the management. The law bars any member of Congress from appointment, or any officer or employee of any bank from serving in class B and C. Every director shall hold office for a term of three years. One of the directors in class C, selected by the Federal Reserve Board, is designated by the Board as chairman and as "Federal Reserve Agent". He must be a person of "tested banking experience."

The salary of the Chairman of the Board and Federal Reserve Agent is fixed by the Federal Reserve Board. The other directors are

paid attendance fees (and expenses) which are fixed by resolution of the board of each Federal Reserve Bank and approved by the Federal Reserve Board. The salaries of all other officers of a Federal Reserve Bank are fixed by the board of directors of the bank, and the salaries of other employees are fixed by the same board or by the executive committee with the approval of the board. All salaries, however, are subject to the approval of the Federal Reserve Board, and each bank is required to make full reports to this board with reference to salary adjustments.

The most important officers of a Federal Reserve Bank are the Governor, who is head of the executive department, and under him are usually one or more Deputy Governors, a Cashier, and one or more Assistant Cashiers. Their salaries are fixed by the Board of Directors of that particular bank, to be approved by the Federal Reserve Board.

The currency issues of the Federal Reserve Banks are:

1. Federal Reserve notes
2. Federal reserve bank-notes..

Federal Reserve notes are notes issued by the Federal Reserve Board through the Federal Reserve Banks and are obligations of the Federal Government as well as of the banks. The types of securities used as a basis to issue are carefully prescribed by the Federal Reserve Board. These notes are not legal tender but are

receivable by the Federal Reserve Banks and also by the Government for taxes, customs and other public dues. Federal reserve notes have been, and are issued in the following denominations: \$5, \$10, \$20, \$50, \$100, \$500, \$1000 and \$10,000.

Federal reserve bank-notes are similar to national bank notes except that they are issued by the Federal Reserve Banks. They are secured by Government bonds or short time obligations deposited with the United States Treasury. Since 1918 they have increased rapidly, taking the place of a large number of silver certificates and silver dollars. These notes are not legal tender, but are receivable for all public dues except duties on imports. Federal Reserve bank-note denominations are: \$1, \$2, and \$5. On June 30, 1920 the Federal Reserve Bank of Richmond had outstanding (in denominations of \$1 and \$2) Federal reserve bank-notes amounting to \$9,614,741.

The law requires that each Federal Reserve Bank shall have a minimum capital of \$4,000,000 subscribed in gold or gold certificates by the member banks (though provision is made for public subscription if the member banks do not) at the rate of 6% of the capital and surplus of each member bank. Only one-half of this is immediately payable, the remainder is subject to call by the Federal Reserve Board. And as yet there has been no case where complete payment has been enforced. A glance at Tables and diagrams #4 will show what the paid-in-capital of the twelve banks was in 1920. It is readily seen that there is a great inequality in the size of the banks, the New York bank having more than one-fourth of the total capitalization. From this it would seem that one or more banks could

and would dominate the others, but all of the banks are under the supervision of the Federal Reserve Board, and must, if directed, cooperate as a unit, and this inequality does not mean that one bank or a few large banks can dominate the others.

Branch banks of Federal Reserve Banks may be formed in the United States, and branches and agencies in Foreign countries of banks organized in the United States. We are not concerned with the latter here; but reference may be given to Section 25 (a) of the Federal Reserve Act--which is known as the Edge Amendment and was enacted December 24, 1919, and amended February 27, 1921 and June 14, 1921.

The Federal Reserve Board may permit or require any Federal Reserve Bank to establish branch banks in the Federal reserve district in which it is located or in the district of any Federal Reserve Bank which may have been suspended. They are operated under the supervision of a board of directors, which consists of not more than seven nor less than three members; the Federal Reserve Bank of the district may appoint a majority of one and the remaining directors are appointed by the Federal Reserve Board. These directors are appointed for a term of one year and hold office during the pleasure of the Federal Reserve Board. The active head of the branch is called the Manager and is appointed by the directors of the Federal Reserve Bank of the district, from among the directors appointed by it. The activities of the branch are determined by by-laws framed by the

board of the Federal Reserve Bank and approved by the Federal Reserve Board.

The Federal Reserve Bank of Richmond has one branch, located in Baltimore, Maryland. The territory assigned to the Baltimore Branch is the entire State of Maryland and about one-half of the State of West Virginia. Nearly all of the Federal Reserve Banks have branches. These branches are almost essential and the volume of business handled by them is enormous.

That these Federal Reserve Banks are a source of revenue to the Government will be proved in tables and diagrams #6. This table gives not only the total amount of franchise taxes paid each year by the twelve banks, to the Government, but the amount that each bank paid from 1917 to 1920 inclusive. In 1917 the total amount paid to the Government was \$1,134,234 and in 1920 the total amount paid was \$60,724,742.

All national banks are required by law to be members of the Federal Reserve System, and eligible state banks and trust companies may become members with the approval of the Federal Reserve Board.

In order to broaden the rediscount market and to utilize the banking reserve of the country and thus make the new system effective to the highest degree, it was thought desirable, if possible, to

bring state institutions into the System. The Federal law provides that any bank incorporated under a state charter may become a member bank under the same rules and regulations to which a national bank is subject, without losing any of the statutory rights it may have under the state charter. But during the first two years of the operation of the law few state institutions joined the System. But with the new credit demands created by the World War, the need of a uniform system became more apparent--patriotic appeals were made to the state institutions to enter the System.

In October, 1917, President Wilson made a public statement,

in which he declared: "It is manifestly imperative that there should be a complete mobilization of the banking reserves of the United States - - - - . A vigorous prosecution and satisfactory termination of the war will depend in no small degree upon the ability of the Government not only to finance itself, but also to aid the governments associated with it in the war, which must be kept supplied with munitions, fuel, food and supplies of all kinds. The banking problem involved is one which concerns all banks alike. Its solution does not depend upon the national banks alone, nor upon the state banks. The burden and the privilege must be shared by every banking institution in the country."

Influenced by such appeals and by favorable legislation, both Federal and State, state institutions have begun to join slowly.

Besides the state banks there is another element desired in the System, namely, the trust company. Trust companies are urged to join the System just as state banks are. The number inside of the System as compared with the total number of trust companies outside of the System is very small, as can be seen.

In a great many cases figures or statistics speak louder

than words, and this will probably be true here. At the end of 1923 there were 9,640 eligible state banks and trust companies who were not members of the Federal Reserve System. There were 22,000 state banks in the United States with resources in excess of \$23,000,000,000 (their resources are greater by \$8,000,000,000 than the resources of the national banks--that are the backbone of the Federal Reserve System). Of these 22,000 state banks only 1,650 belong to the System--and about one-half of the 22,000 state banks are not eligible on account of their capitalization or other features affecting their organization. According to the report of the Comptroller of Currency in 1921, there were 30,139 banks (national, state and private) in the United States--with total resources about \$53,000,000,000. And of these only (roughly) one-third are members of the Federal Reserve System.

A glance at tables and diagrams #3 will reveal the situation more vividly. There are 16 states in which 75% or more of the banks are not members of the Federal Reserve System. There are 24 states in which between 50 and 75% of the banks are not members of the Federal Reserve System. And 8 states in which less than 50% of the banks are not members of the Federal Reserve System.

There are certain advantages and disadvantages of membership in the System: the advantages are so numerous and outstanding that they practically overrule the disadvantages presented. The principle

advantages of membership in the System are as follows:

1. Increased security
2. Greater ability of a member bank to grant accommodations to its customers
3. Well regulated system of rediscounts
4. Easy transfer of funds by draft and telegraph
5. Shipment of currency without cost
6. Participation in the free check collection service of the Federal Reserve System
7. Large gold reserves
8. Reserves mobile
9. Democratic plan of organization
10. Coordination and central control of banking facilities made available
11. Membership in the System is a substantial form of advertisement
12. More elastic currency
13. Rigid system of examinations for member banks
14. Greatly aids in the prevention of panics
15. Member banks may borrow on their own notes
16. The establishment of Foreign branches which will aid us as well as foster Foreign trade relations throughout the world.

A great many objections to membership in the System are due to prejudice and ignorance of the System. As may be seen, practically all of these objections can be removed. The principle objections to membership in the System and a possible removal of these objections are as follows:

1. The loss of interest on the reserve balance carried with the Federal Reserve Bank.
 - a. This objection is true. It is no more logical for a Federal Reserve Bank to pay interest on the reserve balance of a member bank than it would be for the member bank to pay itself interest on the cash in its own vaults.
2. Loss of exchange, or rather that non-member banks are able, in some cases, to charge exchange while member banks are not.
 - a. The extension of the par list will soon obliterate this one. The par list of the Federal Reserve System is being gradually extended, and on June 30, 1920 it included 27,996 of the 30,153 banks in the United States. The fact that the list will be further extended and will eventually embrace all of the solvent banks in the United States, is a foregone conclusion.

3. The impression that a great deal of "red tape" is involved in doing business with the Federal Reserve Bank.
 - a. A Federal Reserve Bank acts under the law and regulations of the Federal Reserve Board, and it is necessary that member banks in dealing with it should observe certain reasonable forms and transact their business with a reasonable amount of regularity. These requirements are only troublesome at first, if at all, and a very little practice makes all of them a matter of course. And it is only by observing a reasonable degree of uniformity that continual misunderstandings and mistakes can be avoided.
4. The fact that statements of customers are required in connection with paper offered for rediscount--it is also said that rediscounting is complicated and consumes much time.
 - a. On the contrary rediscounting is very simple. The member bank selects the paper it desires to rediscount, lists it on a rediscount application sheet (furnished by the Federal Reserve Bank) and sends the sheet, and paper, accompanied (when necessary) by copies of the statements of borrowers on file with

the bank. Upon receipt and acceptance the Federal Reserve Bank gives credit for the proceeds upon the same day and immediately notifies the member bank. The rediscount application has all necessary information on the back, and it is an easy matter to read this and fill out the sheet correctly.

5. Additional expense and trouble due to explanations and reports.

- a. It is believed that this objection is not well founded. It may be a slight expense and some trouble to banks that do not possess an efficient accounting system. But to efficient and well regulated banks the expense and trouble is almost negligible.

6. It does not sufficiently recognize the farmer.

- a. Senator Glass says that in fifty years no party had written a provision into the National Banking Act for as much as one dollar of rural credits. He says that he has not and never has had any objections to a "trained resourceful farmer" on the Federal Reserve Board--he is a farmer himself and refers to the fact that Virginia has produced such farmer-statesmen as George Washington, Thomas Jefferson,

Patrick Henry and John Marshall. Senator Glass approves of substituting the Secretary of Agriculture on the Board for the Comptroller of the Currency. He also points out the fact that the banks which have not responded to agricultural needs are banks outside of the Federal Reserve System.

7. Governor's of the Federal Reserve Banks have been reckless in their expenditures.

a. It has been said that the Federal Reserve Bank in New York City is proposing to spend \$25,000,000 on a new bank building. As a matter of fact, this building, which will house from three to four thousand employees, with the savings over the estimated cost of March, 1921, will be an outlay of less than \$15,000,000. There is a great private bank in Chicago, on the same scale of estimates, that would have cost \$14,000,000, and its business is only one-tenth of that of the New York Federal Reserve Bank. It should be remembered, however, that Congress passes on all bills for appropriations of money for building Federal Reserve Banks and branch banks. Tables and diagrams #12 shows the cost of bank premises of the twelve banks to September, 1921-- the figures given include the cost at the head office and the branches.

8. Excessive salaries to officers of the Federal Reserve System.

- a. In an address before the Senate, Senator Glass, by an array of figures, showed that the salaries of the Government officials of the Federal Reserve System are very much lower than the salaries of similar officers in private banks. The Governor of the Federal Reserve Bank of New York is now receiving a salary of \$10,000 a year less than he was paid before he took his present position. Another head of a Federal Reserve Bank with a salary of \$25,000 has outstanding open now two offers of \$50,000. These gentlemen have made this financial sacrifice to aid the Federal Reserve System and also because they wanted to devote themselves to public service.

The Federal Reserve System is an enormous, well regulated, efficient banking machine that involves the whole of the continental United States. From the combined balance sheet of the twelve banks in 1921 (see tables and diagrams #1) it may be seen that their resources were well over \$5,000,000,000--and today they are even larger. Including national and state banks, there are today over 10,000 banks members of the System. In the month of October, 1920,

in the midst of falling prices, the Federal Reserve Bank of Kansas City alone advanced the member banks of the single agricultural State of Nebraska over \$38,000,000, which was more than half the entire amount of rediscounts and bills payable to all the national banks in the United States when the great crash came in 1907.

This and other data could be given to prove that the scope of the Federal Reserve System is hardly conceivable--and that its phases are almost innumerable. Much has and is being written about the System and its varied and numerous phases--but the whole story has hardly yet been told. The most complete and reliable source of information regarding the workings of the System is a book written by Dr. H. P. Willis, "The Federal Reserve System." This book contains a total of 1765 pages, including an introduction by the Hon. Carter Glass. It covers all phases of the System and describes its workings completely. Obviously, to give all phases of the System and a description of the workings of the System is impossible here; therefore, certain important phases have been selected and will be discussed at some length. These important phases and the order in which they will be discussed are:

1. Stock
2. Federal Reserve Agents
3. Collections - i. e. Par Collections
4. Discounts and Rediscounts

5. Banker's Acceptances
6. Trade Acceptances
7. Silver Certificates
8. Earnings of the Federal Reserve Banks
9. Reserve Cities
10. Reserves
11. Penalties and Forfeitures.

Brief mention of the stock of Federal Reserve Banks has been made previously; but now this matter will be taken up in detail and covered more completely.

It must be remembered that all national banks were required to accept the terms of the Federal Reserve Act within sixty days after its passage and were required to join the System within one year after the passage of the Act or forfeit their charters. Within thirty days notice from the organization committee every national bank was required to subscribe to the capital stock of the Federal Reserve Bank in its district in a sum equal to 6% of its paid-up capital and surplus. One-sixth of the subscription was to be payable on call of the organization committee or the Federal Reserve Board, one-sixth within three months and one-sixth within six months. The remainder of the subscription, or any part of it remaining unpaid, was to be subject to call when deemed necessary by the Federal Reserve Board. These payments were to be paid in gold or gold certificates.

Shares of the capital stock of Federal Reserve Banks

owned by member banks cannot be transferred or hypothecated. When a member bank increases its capital stock or surplus, it must subscribe for an additional amount of capital stock of the Federal Reserve Bank of its district, equal to 6% of the increase, one-half of this subscription is to be paid in the manner previously described for original subscription and the other half is subject to call by the Federal Reserve Board.

Any state bank or trust company that desires to withdraw from membership in a Federal Reserve Bank can do so, after six month's written notice has been filed with the Federal Reserve Board, and upon the surrender and cancellation of all of its holdings of capital stock. These applications will be dealt with in the order in which they are filed with the Board. When a member bank surrenders its stock in a Federal Reserve Bank, or if it is ordered to do so by the Federal Reserve Board, all of its rights and privileges as a member bank cease. The member bank is refunded in cash, the amount of its subscription--but the amount refunded cannot exceed the book value of the stock at that time; and its deposits and any other balances due from the Federal Reserve Bank will also be paid.

The capital stock of each Federal Reserve Bank is divided into shares of \$100 each. And should the subscriptions by banks

to the stock of the Federal Reserve Banks (in the judgment of the organization committee), be insufficient to provide the amount of capital required by them, this organization committee may offer to the public at par, such an amount of stock in the Federal Reserve Banks as this committee may see fit. But this stock is subject to the same conditions as to payment and stock liability as member banks are.

No individual, partnership or corporation other than a member bank of its district can hold at any time more than \$25,000 par value of stock in any Federal Reserve Bank. This stock is commonly known as public stock and can be transferred on the books of the Federal Reserve Bank by the chairman of the board of directors.

Stock of the Federal Reserve Banks carries a double liability, i. e. each shareholder is held individually responsible for all contracts, debts, etc. of his bank to the extent of the amount of his subscription to his stock at the par value in addition to the amount he has subscribed for, whether he has paid up his subscription in whole or in part.

A non-member bank that desires to be admitted into the System must purchase a certain amount of stock in the Federal Reserve Bank in whose district it is located. The amount of stock it has to purchase is 6% of its paid-up capital stock and surplus. This stock must be purchased at its par value.

The Federal Reserve Board is given power to make all rules and regulations governing the transfer of stock of the Federal Reserve Banks.

Stock that is not held by member banks is not entitled to voting power. Obviously, some member banks have a capital and surplus larger than others and this compels them to purchase more stock in a Federal Reserve Bank than the small ones; this would, seemingly, give the larger banks more power and enable them to dominate the smaller one. But this is not the case because the small banks exert the same influence in the management of a Federal Reserve Bank, as the large banks. As Kemmerer (in his "A B C of the Federal Reserve System", p. 31) states it:

"The control of a Federal Reserve Bank is as democratic as our democracy itself. 'One bank, one vote' is the rule, and the vote of the First Bank of Jacksonville with its \$25,000 capital counts as much as that of the National City Bank of New York with a capital and surplus 2,880 times as large."

Section 25 (a) of the Act, (added December 24, 1919, as an amendment) is popularly known as "the Edge Amendment." This law authorizes the establishment of financial institutions under Federal Charter, to aid in the financing of Foreign trade. Corporations formed under this Edge Amendment are affiliated with the Federal Reserve System in only a few ways:

1. These corporations cannot become regular member banks
2. These corporations are under the supervision of the Federal Reserve Board

3. No bank that is a member of the System can invest in the securities of these corporations in an amount over 10% of its capital and surplus.

One of the directors in Class C. (who is selected by the Federal Reserve Board) is designated by the Board as Chairman and as 'Federal Reserve Agent.' He must be a practical, experienced banker. His duties are (in addition to his duties as chairman of the Board)

1. To maintain on the bank premises a local office of the Federal Reserve Board
2. To issue Federal reserve notes to the Federal Reserve Bank
3. To hold the securities against which the notes are issued.

He is the official representative of the Federal Reserve Board.

There are twelve Federal reserve districts, twelve Federal reserve cities, and therefore, twelve Federal Reserve Agents. Each agent resides in the Federal reserve city of the Federal reserve district, in which he is located. Their salaries are fixed by the Federal Reserve Board and vary according to their duties, and the size of the Federal Reserve Banks. In 1922 the combined salaries of the Federal Reserve Agents were \$223,000 and in 1923, it was \$229,000. The Federal Reserve Agent of the Federal Reserve Bank of New York, Mr. Pierre Jay, is the highest paid Reserve Agent--receiving \$16,000 a year. Mr. William Inge, Reserve Agent of the Federal

Reserve Bank of Richmond receives \$10,000 a year.

It is true in most cases that the Reserve Agent tried to maintain his leadership with dignity, while at the same time he was yielding to the Governor on all questions of practical operation. It soon became evident that the Reserve Agent must choose between practical isolation on the one hand and complete subordination to the Governor of the bank on the other. And it was the latter attitude which in most cases was adopted. Cases have been known in which Federal Reserve Agents have changed places with Governors--the latter becoming Federal Reserve Agents and the former taking over the Governorship, but always on the ground that the Reserve Agent who drove out the Governor had first succeeded in obtaining control of the bank and had shown himself the "stronger" man of the two.

Not long after the formation of the original Council of Governors, the Board thought it wise to summon the Federal Reserve Agents in conference; and this plan was immediately put into operation. In these conferences attention was given to problems especially affecting the department of the Federal Reserve Agent, and in the succeeding conferences these discussions were continued. This Federal Reserve Agents' Association met only when the Board called a meeting or after arrangement for a meeting had been made with the Board. It had no formal organization, but did name a chairman who appointed committees and managed the general organization and operation of the

meetings. The meetings have continued at regular intervals up to the present, and have alternated with those of the Governors, except cases in which the Board has summoned a joint session.

The Federal Reserve Agent has some assistants who work with and aid him very much. There is the Assistant Federal Reserve Agent, who acts in the place of the Federal Reserve Agent in his absence, and is appointed by the Federal Reserve Board. There is also the Governor, who is head of the executive department of the bank, who is appointed by the Board of Directors of that particular bank; and under him are usually one or more Deputy Governors, a Cashier, and one or more Assistant Cashiers.

The present collection system was established on June 15, 1916. In addition to all the national and state bank members, a very large portion of state banks (not members of the Federal Reserve System) have agreed to remit at par, for all checks that are drawn upon them. The list of these banks is called the "par list." The names of the state banks on the par list are published twice a year by the Federal Reserve Board, and the changes each month are noted in a supplement issued in connection with the "Federal Reserve Bulletin", which is published by this Board. With the establishment of the present collection system in 1916, all the Federal Reserve Banks made vigorous efforts to increase the number of non-member banks on the par list, and in practically every district additions were made each year. The first Federal Reserve Bank to succeed in

placing its entire district on the par list was the Federal Reserve Bank of Boston. In 1918 the Federal Reserve Bank of New York "cleaned up" its district also. In October, 1916, the Federal Reserve Bank of Richmond issued to its member banks a circular regarding the clearing operations, and according to that circular the collection system included all member banks in the United States, 7,618 in number, while the non-member state banks were 7,449 in number. Obviously, at that time, collections could be made on more than 15,000 banks without any deduction for exchange charges. As we shall see, the number of non-member banks included on the par list has grown steadily.

The volume of checks handled by the Federal Reserve Banks during 1917 increased enormously, although there was no great addition to the number of non-member banks which remitted at par to the Federal Reserve Banks. During this year, the total number of items that was handled by the twelve banks (excluding Government and clearing house items and eliminating duplications) was 84,696,968; and the total value of these items was \$51,000,000,000. The cost per item was \$0.011, and the cost per thousand dollars was \$0.018. In October 1921, the Federal Reserve Clearing System was handling about 1,781,000 checks a day (exclusive of those forwarded to other Federal Reserve Banks, and their branches) amounting to approximately \$400,000,000--or a sum equal to over one-third of the total clearings of all the clearing houses in the country.

During the year 1919 a marked degree of success was made in the direction of universal par collection. On January 1, of that year, the number of banks on the par list (including member and non-member banks) was 18,905. And the number of banks that were not remitting at par was 10,191. By December 31, 1919 the number of banks on the par list (including member banks) was increased to 25,486, while the number of non-par banks was reduced to 4,015. In June, 1920 the par list contained 27,996 of the 30,135 banks in the United States. That the list will be extended to include all solvent banks in the United States seems to be a foregone conclusion, from the above discussion. The portion of banks in the United States on the par list was 95% in 1922. Statistics compiled by the Federal Reserve Bank of Richmond, in 1920, show 64% of the banks in the Fifth Federal Reserve District were on the par list. There were 2,143 banks in the District, of which 1,367 were on the par list.

Mr. Kemmerer (in his "A B C of the Federal Reserve System" p. 71) briefly summarizes the main features of the new clearing and collection System (as revised to date, 1921) as follows:

*Each Federal Reserve Bank exercises the functions of a clearing house in its district for member banks and for qualified non-member banks, known as clearing member banks. From such banks in its district the Federal Reserve Bank will receive at par checks drawn on all member and clearing member banks and on all non-member banks, which agree to remit at par through the Federal Reserve Bank of their district. Clearing and collection services for member and clearing member banks and for other Federal Reserve Banks are also rendered by each Federal Reserve Bank in the case of checks received from outside the district, which are drawn upon member and clearing

member banks of the district and upon all non-member banks of the district, whose checks can be collected at par by the Federal Reserve Bank. These two provisions make the field of the par clearing and collection system coextensive with the United States and provide a machinery for the handling of checks received from practically all important points without the district as well as from within the district. All banks belonging to the clearing system are required to pay without deduction checks drawn upon themselves when presented by a Federal Reserve Bank - - - -.

"The old evil of carrying "float" (which is the volume of items in transit) as a part of a bank's legal reserve is eliminated by a provision to the effect that, although checks received by the Federal Reserve Bank will be immediately credited (subject to final payment) to the bank sending them, the proceeds thereof will not be counted as part of the minimum reserve, nor become available to meet checks drawn against them until a sufficient time has elapsed to allow for their actual collection. If the bank sending in checks is not to be permitted to draw against the credit which they create until a sufficient time has elapsed for their collection, obviously the checks should not be charged by the Federal Reserve Bank against the reserve account of the bank upon which they are drawn until sufficient time has elapsed for the checks to have reached the member bank and for returns in due course to have reached the Federal Reserve Banks. This is the rule now in force. - - - -

"In handling items for member and clearing member banks, a Federal Reserve Bank acts as agent only.

"Under the Federal Reserve clearing and collection system checks are sent to Federal Reserve Banks and to member and clearing member banks in the most direct routes, and the number of par collection points in the United States made almost equal to the number of places of any considerable size where commercial banks are located. The result is that the new system is rapidly doing away with the old evil of routing checks.

"The cost of collecting and clearing checks for member and clearing member banks is borne by the Federal Reserve Banks. For some time service charges of so much per item were imposed. But these charges, so far as they relate to cash items, were discontinued by an order of the Federal Reserve Board effective June 15, 1918.

"Recently the collection service has been extended to items other than checks such as promisory notes, trade bills, time drafts, coupons, acceptances and the like, an obvious need if the Federal

Reserve Banks are to serve member banks as adequate substitutes for the member banks' former reserve agents. Such items, when payable at places where the Federal Reserve Banks have satisfactory arrangements for collecting checks through banks, are collected by Federal Reserve Banks for member banks without any charge other than any exchange charge that may be made by the collecting bank. Upon items returned unpaid, however, there is imposed an additional charge of 15 cents, with the object of preventing the clogging of the Federal Reserve collection system with dunning drafts."

Some of the advantages of collecting checks through a Federal Reserve Bank are:

1. Greater economy
2. Avoids the necessity of maintaining balances with correspondents in various cities in order to obtain check collection facilities.
3. Direct routing of items made possible
4. Reduces the length of time items are outstanding.

The benefits of the collection system of the Federal Reserve Banks to industry and commerce are:

1. Shortens the time necessary to make collections
 - a. Settlements are now made by wire
2. Reduces to a minimum, the transfer of actual money in the settlement of exchanges
3. Establishment of the Gold Settlement Fund in Washington.

Interest which is collected or deducted by the lender at the time the loan is made is called "discount." In distinguishing

between discount and interest, it can be said that interest is payable at maturity, or, in the case of demand loans or long-time loans, at stated intervals (monthly, quarterly, etc.)--or at the payment of the loan. "To discount" means either to buy or to sell bills and notes before their maturity.

The following two problems will show very clearly the distinction between interest and discount:

1. An Interest Problem. A merchant has borrowed from his bank on a 2 month's note for \$10,000 bearing interest at 7%. What amount will be required to pay the debt at maturity?

Interest for one year on \$10,000 at 7% is \$700.

Interest for 2 months, which is $\frac{1}{6}$ of a year = $\frac{1}{6}$ of \$700, or \$116.67

The amount required to pay the debt is:

Principal - - - - -	\$10,000.00
Plus interest - - - - -	<u>116.67</u>
Amount due at maturity - \$	10,116.67

2. A Discount Problem. A merchant has sold to his bank a sight bill for \$10,000, 60 days before maturity and on the basis of a discount rate of 7%. What is the amount of discount charged by the bank and what amount does the merchant receive?

Discount for one year on \$10,000 at 7% is \$700.

Discount for 60 days ($\frac{1}{6}$ of a year) = $\frac{1}{6}$ of \$700, or \$116.67

Discount and Proceeds (to merchant):

Face of sight bill - - - -	\$10,000.00
Discount for 60 days (deducted)	<u>116.67</u>
Proceeds (to merchant) - - -	9,883.33

A glance at tables and diagrams #10 will show the volume of discounts by the twelve Federal Reserve Banks, from 1915 to 1920 inclusive. In 1915, bills discounted for member banks amounted to

\$161,353,000 and in 1920, the amount discounted was \$85,320,874,000.

The discount rates for each Federal Reserve Bank are fixed by its own board of directors--but are subject to review by the Federal Reserve Board. In practice, discount rates vary slightly with different classes of paper and in some cases for different maturities. If a Federal Reserve Bank makes a change in one or more of its rates, the change must be submitted to the Federal Reserve Board for approval, and, after it has been approved, all of the member banks are notified not only of the new rate but also of all existing rates at that time. These rates are, of course, applied impartially to all member banks regardless of their size.

Tables and diagrams #9 gives the discount rates in effect on December 3, 1916. No comment need be made on this table--it is very clear and self-explanatory.

The most important function of a discount market is to furnish a central reservoir of commercial credit whereby the individual banks may regulate their investment and cash position. And the essential factors of a discount market are:

1. The banks that create the acceptance
2. The banks and others who purchase and sell acceptances
3. The central bank of rediscount (in the United States the twelve Federal Reserve Banks)
4. Discount houses, brokers and other middlemen.

Not only do Federal Reserve Banks rediscount for member banks but they also rediscount for each other. If the demand for accommodation is heavy in one section of the country and light in another, the district in which the demand is light may be called upon to aid the district in which the demand is heavy. These rediscount transactions between Federal Reserve Banks are carried on by wire through the leased wire system that connects all Federal Reserve Banks as well as their branches. At one time the Federal Reserve Bank of Richmond had rediscounts with other Federal Reserve Banks amounting to \$55,000,000. And at other times the Federal Reserve Bank of Richmond has rediscounted for other Federal Reserve Banks.

Certain classes of paper are eligible for rediscount with a Federal Reserve Bank and certain others are not. Notes, drafts, and bills of exchange, which arise out of actual commercial transactions, or seasonal agricultural requirements (i. e. those issued or drawn for agricultural, industrial, or commercial purposes) are eligible for rediscount. But these notes, drafts and bills of exchange drawn for industrial or commercial purposes must have a maturity of not more than ninety days, (exclusive of days of grace), at the time of discount. And those drawn for agricultural purposes or based on live-stock, at the time of their discount, must have a maturity not to exceed six months, (exclusive of days of grace). It is possible for such paper to be drawn for a longer time when it is discounted or

purchased by the member banks, but when such paper is offered to the Federal Reserve Banks for rediscount the maturities must not be longer than ninety days for commercial and industrial paper and six months for agricultural or live-stock paper. There is another class of paper eligible for rediscount with a Federal Reserve Bank, namely paper that is secured by United States bonds, Treasury certificates, or United States notes. But this class of paper must not have a maturity of over ninety days, (exclusive of days of grace) at the time it is offered for rediscount.

Paper that is not eligible for rediscount is notes, drafts, or bills of exchange when the proceeds have been or are to be used for a permanent investment or for an investment which is of a purely speculative character.

The board of directors of a Federal Reserve Bank fix a limit to the amount of paper a member bank may rediscount with them, considering such factors as, sound banking principles, the purpose for which the proceeds are to be used, etc.

Before the passage of the Act national banks were not allowed to accept banker's acceptances. Now, the rules and regulations regarding the discount and purchase of them is prescribed by the Federal Reserve Board.

A banker's acceptance, within the meaning of the Federal Reserve Regulations is defined as a draft or bill of exchange of which

the acceptor is a bank or trust company, or a firm, individual, corporation, etc. engaged in the business of granting banker's acceptance credits. The following example will show clearly how one type of banker's acceptance is created:

Assume that the seller, x, does not desire or is not satisfied to deliver the goods to the buyer, y, and to receive in return the bare obligation of y as represented by his acceptance of the draft that is drawn on him by x, or it may be that the seller, x, wants to get a negotiable instrument that he can sell easily or one which he can sell at a higher rate to his bank or some other purchaser than he can his draft that is drawn upon and accepted by y. In such a case, y would go to his banker and ask him to accept x's draft. Then x, instead of drawing his trade acceptance draft upon y, the purchaser of the goods, would draw his draft upon y's banker, and when y's banker accepts it the instrument would become what is known as a banker's acceptance.

Section 13 of the Act has been amended twice with respect to the acceptance powers of member banks. The Act as originally passed, provided that member banks were allowed to accept only in the case of transactions growing out of the importation or exportation of goods. But on September 7, 1916 the Act was amended and allowed acceptances to be created in connection with domestic as well as foreign transactions. And at the same time another provision was added to Section 13 which allowed member banks to accept, when the purpose of such acceptance was to create dollar exchange. On June 21, 1917 Section 13 of the Act was still further amended regarding Foreign

and domestic acceptances--and this amendment authorized the Federal Reserve Board (under certain conditions) to enlarge the acceptance powers of certain member banks; (see Section 13 of the Act and amendments of September 7, 1916 and June 21, 1917).

Statements made in Section 13 of the Act--and especially paragraphs 5 and 15 (of Section 13) as well as regulations of the Federal Reserve Board that are applicable thereto, contain a number of separate statements, some of which are interwoven and complex. And in order to understand this subject clearly an attempt will be made to restate the most important ones as a number of separate propositions, making each one as clear and as brief as possible.

A. Provisions applicable to national banks

1. National banks derive their power to accept from the Act
2. National banks can accept in connection with four general classes of transactions
 - a. Imports and exports
 - b. Domestic shipment of goods
 - c. Domestic storage of readily marketable staples
 - d. For the purpose of creating dollar exchange
3. Time limit for A, b, and c is six months, and for d, it is three months (exclusive of days of grace)
4. Total amount of acceptances under a, b, and c must not exceed 50% of the accepting bank's capital and surplus, unless, the Federal Reserve Board grants

permission to exceed this amount.

5. Acceptance under d, outstanding at any one time can equal (but not exceed) 50% of the capital and surplus of the accepting bank
6. Acceptances under b, must grow out of transactions involving the shipment of goods within the United States and must be secured at the time of acceptance by shipping documents
7. Acceptances under d, made for any one drawer must not at any time exceed 10% of the capital and surplus of the accepting bank unless the excess is accompanied with adequate security.

B. The status of state bank members

1. A state bank member is not authorized to accept unless such authority is conferred by its charter or the laws of the state in which it is operating
2. The acceptance powers conferred upon a state bank member by its charter are not altered by the Act, except:
 - a. They cannot, without the permission of the Federal Reserve Board, accept in cases a, b, and c, to a total amount at any one time beyond 50% of its capital and surplus

3. A state bank cannot accept for the purpose of creating dollar exchange unless it is authorized to do so by its charter or the laws of its state
4. A state bank cannot accept for any bank or banker an amount greater than 10% of its capital and surplus--unless the draft is secured.

C. Abstracts of rulings by the Federal Reserve Board

1. Acceptances can be renewed--but the circumstances should be such that a new acceptance could be created without violation of the law or of the rulings of the Board
2. It is not illegal for a bank to purchase its own acceptances
3. Acceptances on which the proceeds are to be used to make advances to other persons are illegal.

Not only have credit facilities been extended through

rediscounts, but also by the greater use of banker's acceptances. This development is shown by tables and diagrams #11, which gives the total volume of acceptances that was purchased annually in the open market by the twelve Federal Reserve Banks. In 1915 they purchased \$5,000,000 worth of these acceptances and in 1920 their purchases amounted to \$3,218,000,000. That the banker's acceptance is popular and that its usage is increasing is obvious. And with the removal of

certain abuses it should be more popular and more universally used. Some of the most outstanding abuses are:

1. Renewing acceptances
2. Large banks "working" the acceptance market "for all it is worth" and "dumping" upon reserve banks slow paper in the form of acceptances
3. Gradually, abuse has developed this acceptance into a piece of accommodation paper.

A trade acceptance is a bill of exchange drawn to order, having a definite maturity and payable in dollars in the United States, and bearing on its face or accompanied by satisfactory evidence that it is drawn by the seller of the goods on the purchaser of such goods. To illustrate the use of the trade acceptance let us assume that a Richmond firm called Buyer has purchased some goods from a Philadelphia firm called Seller. When Seller renders an invoice he also sends a trade acceptance form properly filled out. Buyer will then stamp across the face of the trade acceptance the date and the words "Accepted, payable at _____ Bank", sign it and return it to Seller. Seller may then dispose of the acceptance in a number of ways. He may hold it until a few days before it becomes due and then turn it over to his bank for collection, he may borrow from his bank on his single-name promissory note and use the acceptance as collateral or he may sell it to his banker or in the open market.

The trade acceptance has certain advantages and objections from the standpoint of the seller, certain advantages and objections from the standpoint of the buyer, and certain advantages and objections from the standpoint of the banker as well as certain general abuses.

Advantages from the standpoint of the seller are:

1. The exact amount of the claim of the seller against the buyer, as well as the exact due date of his claim; has been fixed. And after the buyer accepts the draft he can dispute neither of these
2. Claims for inferior quality or shortage will be promptly made by the buyer (when necessary)
3. More accounts will be paid when due and loss on accounts greatly reduced
4. Buyers who accept drafts payable on specific dates will be less likely to over-buy
5. The seller who offers acceptances to his bank for discount instead of his unsecured note will create a good impression upon the bank and they will lend to him more freely.

Objections from the standpoint of the seller are:

1. His trade is not acquainted with the trade acceptance system
2. The introduction of trade acceptances would involve radical changes in his system of accounts

3. There is more work and greater complication to discount large numbers of acceptances than to borrow on a single note.

Advantages from the standpoint of the buyer are:

1. Eliminates the cash discount
2. When he agrees to pay his account on a fixed date he will be more careful as to the amount he purchases
3. Claims for shortage and inferior goods will be made promptly--and promptness in this respect will aid every buyer
4. Better credit with sellers will result.

Objections from the standpoint of the buyer are:

1. He thinks that his credit will be affected by giving a negotiable instrument for every purchase
2. He has been in the habit of paying his accounts when he desires to do so.

Advantages from the standpoint of the banker are:

1. Banks obtain double name paper
2. The user of trade acceptances will not be able to hypothecate his open accounts to any one else
3. The discounting banker is in a position to pass judgment upon the credit risks taken by his customers in selling goods on time

4. The banker can help his customer select acceptances of his (customer's) most reliable customers and therefore make his customer's statement good and loan him more money

5. Banks can rediscount with a Federal Reserve Bank without regard to the 10% limit fixed by Section 13 of Act (see amendment to the Act of September 7, 1916).

Objections from the standpoint of the banker are:

1. Discounting a large number of trade acceptances instead of one note involves additional work.

And now the principle abuses of the trade acceptance system may be said to be:

1. Drawing acceptances when no goods are actually transferred
2. Giving one acceptance to renew another

Every one is aware of the fact that it is almost impossible to carry about a large sum of silver; even small sums are very inconvenient to handle. By allowing a deposit to be made in the Treasury and certificates of deposit to circulate as money in their stead, the public is served in every way the same as if they had the use of the coin itself. These certificates of deposit that circulate as money are known as silver certificates--and are redeemable in either silver or gold.

It was rather early in the year 1918 that Great Britain

discovered trouble in the Indian currency system--due to the fact that there was a tendency to hoard specie, which was obtained by presenting notes for payment or redemption. The stock of specie behind the notes had become so greatly reduced that the Indian Government was seriously considering ceasing the conversion of the notes into silver. With the unrest and dissatisfaction which prevailed in India such a development was considered serious. India was therefore determined to try to obtain a supply of silver elsewhere, but on account of the hoarding and other unusual conditions that accompanied the war, the world's markets did not possess enough to satisfy her demand. The greatest visible supply of silver coin was to be found in the United States Treasury Department--who at that time held silver behind silver certificates and other public currency in an amount of nearly \$400,000,000. This silver was, of course, a trust fund held behind silver certificates that were in circulation or in the hands of the banks. The only way to take or release this silver was to acquire the silver certificates. A good many of these could be obtained without delay and the suggestion was therefore made to the Treasury authorities that they retire the certificates, give up the silver to Great Britain, and permit it to be exported. Great Britain was to give her obligations in exchange; and to fill the "gap" Federal Reserve Banks were to issue Federal reserve bank-notes (which have been previously discussed) on the strength of United States certificates of indebtedness or bonds to be acquired by them as needed.

Therefore on April 23, 1918, the "Pittman Act", which provided for the substitution of Federal reserve bank-notes for silver certificates, was passed by Congress. Its purposes were:

1. To conserve the gold supply of the United States
2. To permit the settlement in silver of trade balances adverse to the United States
3. To provide silver for subsidiary coinage and for commercial use
4. To assist Foreign Governments at war with the enemies of the United States, and
5. For the above purposes to stabilize the price and encourage the production of silver.

This act authorized the Secretary of the Treasury to break up or melt and sell as bullion standard silver dollars then and thereafter in the Treasury in an amount not to exceed \$350,000,000. And any silver certificates which were outstanding against such standard silver dollars that were melted or broken up were to be retired at the rate of \$1 face value. The sale of this bullion was to be made at a price not less than \$1 per ounce of silver one thousand fine and upon such terms as the Secretary of Treasury might fix from time to time.

Upon the sale of this bullion from time to time the Secretary of the Treasury was required to direct the Director of the

Mint to purchase more silver, in the United States, that was a product of mines situated in this country. Such purchases were to be made in accordance with the regulations of the Mint at the time of the purchase and at a fixed amount of \$1 per ounce, one thousand fine.

To prevent a "contraction" of our currency, the Federal Reserve Banks were to be permitted or required by the Federal Reserve Board, to issue Federal Reserve bank notes, in any denominations (including denominations of \$1 and \$2), in a total amount not to exceed the amount of standard silver dollars that were melted or broken up and sold as bullion. These Federal Reserve Banks were to deposit, with the Secretary of the Treasury, United States certificates of indebtedness or United States one year gold notes; which were to be held as security against these note issues.

When bullion was purchased in accordance with this Act and standard silver dollars were again coined, the Federal Reserve Banks were to be required by the Federal Reserve Board, to retire the outstanding Federal reserve bank-notes--in an amount equal to the amount of such silver dollars that were coined. And the Secretary of the Treasury was to pay off and cancel any United States certificates of indebtedness that were deposited as security for Federal reserve bank-notes that were retired.

During the first year or two of the reserve banking system, it seemed as though the institutions would not be able to do more than

pay expenses--and this was about true, as only one or two were able to pay dividends to their stockholders. But the war suddenly and entirely changed the whole situation by giving the Reserve Banks large volumes of business, (although it was taken at very low rates) which was sufficient to give them what appeared to be very large earnings. The earnings of these Reserve Banks may be conveniently surveyed at this point by referring to tables and diagrams #5, which give the net earnings of these banks from 1916 to 1922 inclusive. It is seen there that the net earnings in 1916 were \$2,751,000, and in 1921, there were \$86,798,000.

The Federal Reserve Act provides for the payment of an annual dividend of 6% on the paid in value of the stock--and this dividend is cumulative. From 1916 these Reserve Banks have paid this dividend and at present have a surplus fund large enough to insure the payment of the 6% dividends regularly in the future.

Under the original provisions of the Act, Federal Reserve Banks were required to pay all surplus earnings to the Government as a "franchise tax", (except one-half of their surplus earnings until a surplus fund of 40% of their paid-in capital had been accumulated.) But later the Act was amended, and now the Reserve Banks are allowed to keep all surplus earnings until they accumulate a surplus fund equal to 100% of the subscribed capital (obviously, this is 200% of the present paid-in capital.) And, after such a surplus has been established

10% of the surplus earnings (after the current dividends have been paid) is kept by the banks and the remainder is paid to the Government as a franchise tax. Here, attention may be again called to tables and diagrams #6, which shows the amount of franchise taxes paid to the Government by the Federal Reserve Banks from 1917 to 1922 inclusive.

The Federal Reserve Banks keep only a small part of the earnings after the surplus is once established; 90% goes to the Federal Treasury, and the Government is pledged to use this either to strengthen the gold reserve to protect the legal tender issues, or to purchase bonds that are outstanding.

The whole matter of control and classification of reserve and central reserve cities is placed in the hands of the Federal Reserve Board. The Board may add to the number of such existing cities, reclassify them or terminate their designation as such.

In order to understand the present law governing the character and amount of reserves required of national banks, it is desirable to describe briefly the older reserve system. Under this older system the following reserves were required to be carried by national banks:

1. Country banks, 15% of which three-fifths might be deposited in a bank in a reserve city

2. Reserve city banks, 25% of which one-half might be deposited in a bank in a central reserve city (New York, Chicago, or St. Louis)
3. Central reserve city banks, 25% in their own vaults.

A central reserve city must have a population of 200,000; and a reserve city 25,000. However, not all cities that can satisfy the population requirements are made central reserve cities or reserve cities. There are only three central reserve cities--New York, Chicago and St. Louis; and there are about 60 reserve cities. All banks that are outside of the central reserve cities and reserve cities are called "country" banks.

Lawful money included gold and silver coins, gold and silver certificates and legal tender notes. Therefore, a bank might carry part of its reserve in its own vaults, and a part with other banks that acted as their agents. In case of necessity--that is, to meet unexpected fluctuations in its deposits--the bank was allowed to draw on these reserves. But in case the reserve of a bank fell below the percentage required by law, as above, the bank was not permitted to make new loans or to pay any dividends until its reserve was restored. This reserve system worked fairly well in ordinary times, and under normal conditions, but when any unusual conditions arose it proved entirely inadequate.

Under the old law all cash held by a national bank might be counted as part of its reserve--but the Federal Reserve Act as

adopted, and amended June 21, 1917, changed this. And a distinction was made between cash and reserve. The reserve is kept in the form of credits with a Federal Reserve Bank--while cash in the bank no longer constitutes any part of the reserve, but simply serves the purpose of till money. The Act requires every member bank to maintain in a Federal Reserve Bank a deposit known as "reserve balance" or "due from Federal Reserve Bank"--the purpose of this being to secure the member bank's ability to its own depositors. Besides the reserve carried with the Federal Reserve Bank the member bank holds cash in its own vault--which is regarded as till money needed to meet the current demand of customers for actual cash.

The Act as amended June 21, 1917, requires every member bank to establish and maintain a reserve balance with its Federal Reserve Bank as follows:

1. Member banks in central reserve cities are required to maintain reserves of 13% against demand deposits and 3% against time deposits
2. Member banks in reserve cities are required to maintain reserves of 10% against demand deposits and 3% against time deposits
3. All other member banks are required to maintain reserves of 7% against demand deposits and 3% against time deposits.

It is essential that a distinction be made between demand and time deposits before proceeding further. Demand deposits comprise all deposits that are payable within thirty days; while time deposits comprise those that are payable after thirty days--savings accounts subject to not less than thirty days' notice, time certificates of deposit (until they are within thirty days of their maturity), and all postal savings deposits.

Member banks are not only allowed to check on their reserve account, but are encouraged to do so provided, however, that the reserve balance is not reduced below the point required by law. However, if the balance is reduced below the point required by law, the Federal Reserve Bank is required by law as well as by the regulations of the Federal Reserve Board to assess a penalty against the member bank for deficiency in its reserve. Any bank whose reserve is deficient cannot make new loans or pay any dividends until its balance required by law has been restored. The penalty at present prescribed by the Federal Reserve Board is an amount equal to an interest charge at a rate 2% above the current discount rate for ninety-day commercial paper. And the Board also provides that an additional penalty may be imposed if a member bank is repeatedly deficient in its reserve. A form showing the method of computing the reserve to be carried by a member bank, with its Federal Reserve

Bank will be found in tables and diagrams #17. The Act also places a limit upon the deposits which a member bank may keep with other banks. No member bank can keep on deposit with any state bank or trust company, which is not a member bank, a sum in excess of 10% of its own paid-up capital and surplus.

At times the maintenance of the reserve required by law has been a serious task, due to the rapid increase in the deposits of member banks and the expansion of notes, each of which must be protected by a reserve. The relationship between deposits, notes, and reserve for the whole system is shown in tables and diagrams #7, which gives figures for two dates in each year, first, date of the maximum reserve ratio within the year, and second, date of minimum reserve.

When war was declared on April 6, 1917, the combined reserves against deposits and note issues of all Federal Reserve Banks averaged 84.7%. It was due to this condition that the United States was able to meet all incurred financial obligations without any impairment of its own ability or that of the banks, to redeem currency in gold; thus the parity of all forms of money in circulation was preserved. This achievement was impossible to accomplish during the Civil War when the current prices were quoted in terms of money that was not redeemable, and which was not brought back to a parity

with gold until fourteen years after the close of the war.

A glance at tables and diagrams #16 will show the reserve position of the national banks in September 1919. Tables and diagrams #8 shows the total amount of Government funds in each Subtreasury, the volume of the total transactions annually preformed by them and the cost of maintaining these institutions in 1916.

A clear understanding of the various penalties and forfeitures is absolutely essential--especially by Federal Reserve Banks and member banks. The provisions regarding them are found mostly in the Act itself and the regulations of the Federal Reserve Board. In order that they may be brought out more clearly and forceably they will be listed as follows:

1. National banks forfeit their charters for not joining the System
 - a. Should any national banking institution in the United States fail to become a member bank within one year after the passage of the Act or comply with the provisions of the Act, all of its rights, privileges and franchises granted it under the National-Bank Act, or under the provisions of the Federal Reserve Act, shall be forfeited.

2. Survival of penalties against dissolved banks
 - a. Any noncompliance with or violation of the Act shall be determined by any court of the United States, in a suit which is brought for that purpose in the district where the bank in question is located. However, it must be brought under the direction of the Federal Reserve Board, by the Comptroller of the Currency, and in his own name, before the association is declared dissolved. Such dissolution cannot take away from the association its stockholders or officers, any liabilities that they have previously incurred.
3. Penalty against a Federal Reserve Board for paying out notes of another
 - a. Whenever Federal reserve notes are issued through one Federal Reserve Bank and are received by another, they must be promptly returned for credit to the Federal Reserve Bank through which they were originally issued. And any Federal Reserve Bank which pays out notes which are issued through another is subject to a tax of 10% on such notes paid out.
4. Failure of member banks to make reports

- a. All banks which are admitted to membership in the System are required to make reports of their condition and of the payment of dividends, to the Federal Reserve Bank of their district. There cannot be less than three of these reports each year, and the dates on which they are to be sent to the Federal Reserve Bank are fixed by the Federal Reserve Board. If a member bank fails to make such reports within 10 days after their due date, they are subject to a penalty of \$100 a day for each day that its report is late. This penalty is to be collected by the Federal Reserve Bank--even by suit if necessary.
5. Loans or gratuities to bank examiners
 - a. Any officer, director or employee of a member bank who makes any loan or grants any gratuity to any bank examiner is considered guilty of a misdemeanor and liable for one year imprisonment or a fine of not over \$5000, or both; and even liable to an additional fine equal to the money that was loaned or gratuity given. Any bank examiner who accepts such, is liable for the above imprisonment and fines, and besides, shall be forever disqualified from

holding office as a national-bank examiner.

6. **Examiners disclosing confidential information**

- a. No examiner, public or private, shall disclose any confidential information (such as the names of borrowers, etc.) to any one except the proper authorities of such bank, unless he has a written permission from the Comptroller of the Currency or from the board of directors of such bank, except, when he is ordered to do so by a court or by Congress. And any examiner who violates these provisions is subject to an imprisonment of not over one year or a fine not to exceed \$5,000, or both.

7. **Forfeiture of membership**

- a. The Federal Reserve Bank may require a bank which fails to comply with the provisions of the Act or even the regulations of the Federal Reserve Board to give up its stock in the Federal Reserve Bank and forfeit all of its rights and privileges of membership; but membership may be restored if there is sufficient proof that the bank in question has complied with the conditions which were imposed upon it.

Even here a summarized epilogue is almost useless, but a brief review of the most outstanding phases may not be amiss.

Adroit reasoning will convince even those who are unfamiliar with the workings of the System that many advantages accrue to those who are members. Suffice it to say that 15 of the principle advantages have been named in this paper.

The establishment and operation of the Federal Reserve Banks under the Federal Reserve Act and the various amendments thereto, have completely remedied many of the defects incident to the inefficiency and inadequacy of the National Banking System as it existed before the establishment of the Federal Reserve Banks. Other conditions have been greatly modified, and it is confidently believed that, as the Federal Reserve System is expanded and developed still further, many if not all of the remaining defects will be corrected--this is a foregone conclusion which may be easily seen by all, except possibly the idiocy.

It has also been the writers privilege to comment upon the objections to the System as well as its unjust criticisms. It was with outward gravity and inward amusement that this phase was previously elaborated upon in its turn. Here, this discourse can only call attention to this fact, and quote briefly from the Hon. Carter Glass' speech in the Senate on January 16 and 17, 1922: "If some Senators will go home and talk sense to bankers who remain outside the pole of protection, instead of talking nonsense to farmers and arousing prejudice against the Federal Reserve Banking

System, which has afforded them protection, something worth while will be accomplished."

The democracy of the Federal Reserve Banks' organization is as democratic as our democracy itself--what more need be said! "One bank one vote" is the rule; and this means that no one bank or group of banks can dominate in any way whatsoever. Proof that provisions by which the operations of the Federal Reserve Banks may be changed to meet changing conditions is shown vividly and adequately by the various amendments to the Act--as well as the fact that the Pepper-McFadden bill, an amendment to the Act, is pending at this writing

In its dialectic conclusion, this essay stands true to its foreword. One of its fundamental aspirations is to recall to the mind of our reader that the System did put an end to the old disastrous "money panics"; that it brought us safely through the chaos of the World War and the delirium of a boom period afterwards and the doldrums of an industrial depression still later. It has given us an elastic credit and currency system, competent to take care of the merchant and the manufacturer when they need to be taken care of, and deserve it. Oh, yes, the Federal Reserve System is all right! The business man, having heard this many times and perhaps having said it a good many times, sighs wearily. What nation on this troubled world has a Banking System that carried them through the

Great Crisis without leaving their specie at a discount? Look at the English pound today, the French franc, the German mark! Even granting that our System is not the best in the world, it has proved to be the best that can be adapted to our beloved nation.

Tables and diagrams #1

Combined Balance Sheet of Twelve Federal Reserve Banks,
November 30, 1921, And Brief Explanation of the Various Items

Resources

Gold coin and certificates in vault ¹ - - - - -	\$488,917,000
Gold settlement fund - federal reserve board ² - - - - -	465,236,000
Gold with foreign agencies ³ - - - - -	<u> </u>
Total gold held by banks - - - - -	954,153,000
Gold with federal reserve agents ⁴ - - - - -	1,779,605,000
Gold redemption fund ⁵ - - - - -	<u>115,639,000</u>
Total gold reserve - - - - -	2,849,397,000
Legal tender notes, silver, etc. ⁶ - - - - -	<u>139,745,000</u>
Total reserves - - - - -	3,989,142,000
Bills discounted: ⁷	
Bills secured by Government war obligations - - - - -	476,360,000
All others - - - - -	705,941,000
Bills bought in open market ⁸ - - - - -	<u>72,954,000</u>
Total bills on hand - - - - -	1,255,255,000
U.S. Government bonds and notes ⁹ - - - - -	32,253,000
U.S. Government certificates of indebtedness: ¹⁰	
One-year certificates (Pittman Act) - - - - -	126,000,000
All others - - - - -	46,291,000
Municipal warrants ¹¹ - - - - -	<u>67,000</u>
Total earning assets - - - - -	1,459,866,000
Bank Premises ¹² - - - - -	32,241,000
Uncollected items ¹³ - - - - -	534,872,000
Five percent redemption fund against federal reserve bank notes ¹⁴ - - - - -	7,941,000
All other resources ¹⁵ - - - - -	<u>19,334,000</u>
Total resources - - - - -	5,044,396,000

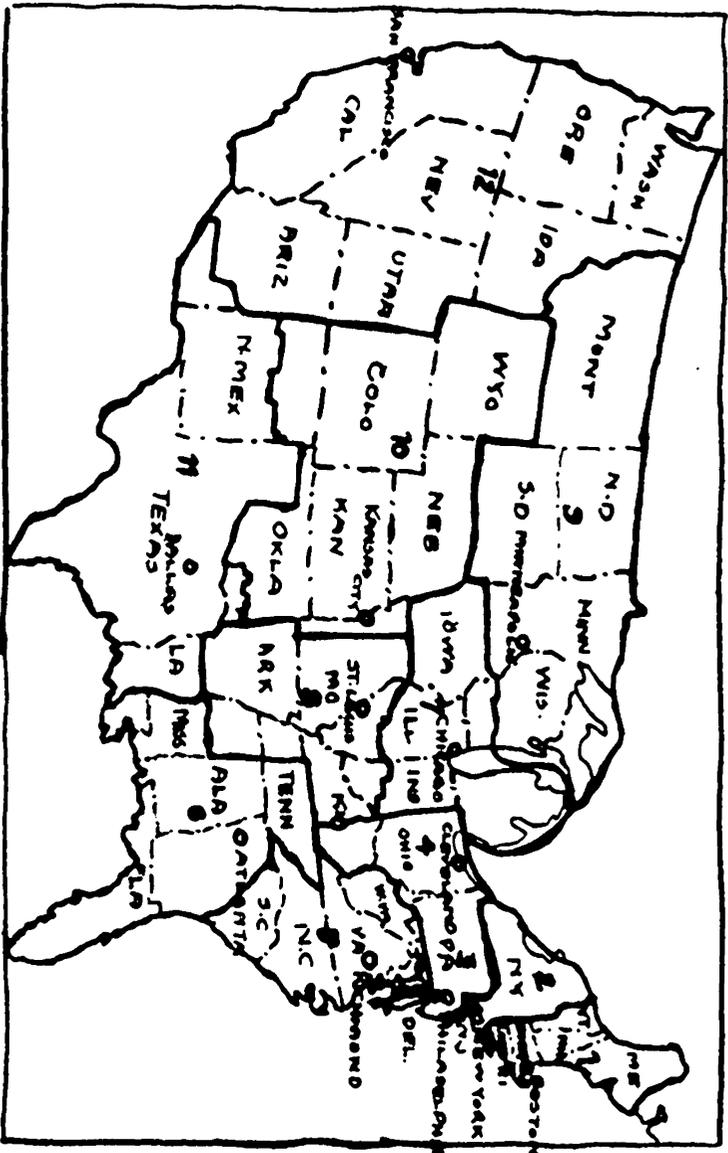
Liabilities

Capital paid-in ¹⁶ - - - - -	\$103,104,000
Surplus ¹⁷ - - - - -	213,824,000
Reserved for Government franchise tax - - - - -	55,119,000
Deposits:	
Government ¹⁸ - - - - -	45,913,000
Member banks - reserve accounts ¹⁹ - - - - -	1,670,362,000
All other ²⁰ - - - - -	<u>26,555,000</u>
Total - - - - -	1,742,830,000
Deferred availability items ²¹ - - - - -	462,795,000
Federal reserve notes in actual circulation ²² - - -	2,366,006,000
Federal reserve bank notes in actual circulation - net liability ²³ - - - - -	75,862,000
All other liabilities ²⁴ - - - - -	24,856,000
Total liabilities - - - - -	5,044,396,000

1. This represents reserve money held in the vaults of federal reserve banks against deposits and federal reserve notes.
2. This is a gold fund held in the United States Treasury by the FEDERAL RESERVE BOARD, in trust for the Federal reserve banks.
3. This is gold kept by agencies of Federal reserve banks (abroad) for convenience and to avoid shipping risks and expenses.
4. This is gold deposited with Federal reserve agents as collateral for the issue of Federal reserve notes.
5. The gold redemption fund is a fund held by the Treasurer of the United States for the redemption of Federal reserve notes on demand. It is made up of deposits of gold from each federal reserve bank.
6. This item covers all kinds of money held by Federal reserve banks except gold coin, gold certificates, Federal reserve notes and Federal reserve bank notes.
7. This item represents advances made by Federal reserve banks to member banks.
8. The kind of open-market operations which Federal reserve banks may carry on are described in section 14 of the Act.
9. These are chiefly Liberty Bonds and Victory notes owned by the Federal reserve banks.
10. These are usually short-time treasury certificates of indebtedness issued to back federal reserve bank notes under the Pittman Act.
11. These municipal warrants are bought by Federal reserve banks as investments in the open market.
12. Most of the Federal reserve banks own their own premises and those who do not are planning to do so.
13. These are items in process of collection, chiefly under the Federal reserve clearing and collection system.
14. Federal reserve bank notes are bond-secured bank notes, issued by Federal reserve banks, in place of bond-secured national bank notes and silver certificates retired.
15. This represents the net debit balance on a variety of accounts, including profit and loss account, expense account, etc.

16. This item in the balance sheet represents three per cent of the combined paid-in capital and surplus of all member banks.
17. This surplus has been accumulated out of profits.
18. The law authorizes the Secretary of the Treasury to use Federal reserve banks as depositories for public funds.
19. Member banks are required by law to keep their entire legal reserves on deposit in the Federal reserve bank of their district.
20. This covers deposit credits of certain non-member banks in the United States, of certain foreign banks of which the Federal Reserve banks are the American agencies and of certain foreign governments.
21. This represents items in the process of collection, the proceeds of which are not yet available to be drawn by the creditor banks.
22. This represents the total amount of Federal reserve notes issued to the Federal reserve banks and now outstanding.
23. These are the Federal reserve banks notes described above in note 14.
24. This represents the net credit balance on a variety of miscellaneous accounts.

Tables and Diagrams No. 2



Map showing the twelve Federal Reserve Districts

Tables and diagrams 4

Table showing the paid-in capital of the twelve Federal reserve banks in 1920

BANKS	PAID-IN CAPITAL
Boston	\$7,718,000
New York	26,376,000
Philadelphia	8,485,000
Cleveland	10,654,000
Richmond	5,269,000
Atlanta	4,053,000
Chicago	13,912,000
St. Louis	4,364,000
Minneapolis	3,457,000
Kansas City	4,456,000
Dallas	4,098,000
San Francisco	6,927,000
	Total - - - - - \$99,770,000

Tables and diagrams 5

Table showing the net earnings of the twelve federal reserve banks from 1916 to 1922 inclusive.

	Year	Amount	
	1916	\$2,751,000	
	1917	11,202,993	
	1918	55,446,979	
	1919	82,038,785	
	1920	82,087,000	
	1921	86,798,000	
	1922	<u>20,931,000</u>	
		\$341,255,857	Total earning from
			1916 to 1922 in-
			clusive

Tables and Diagrams '6

Table showing the amount of franchise taxes paid to the United States Government by Federal reserve banks from 1917 to 1922 inclusive.

Federal Reserve Bank	1917	1919	1920	Total*
Boston	\$75,000		\$2,473,499	\$2,548,599
New York	649,563	\$2,703,894	39,318,511	42,671,768
Philadelphia - - - - -	- - - - -	- - - - -	363,662	363,662
Richmond	116,472		204,585	321,057
Atlanta	40,000		2,136,288	2,176,288
Chicago	215,799		10,394,480	10,610,279
Minneapolis	37,500		524,234	561,734
Kansas City - - - - -	- - - - -	- - - - -	2,240,228	2,240,228
San Francisco - - - - -	- - - - -	- - - - -	3,069,255	3,069,255
Total	\$1,134,234	\$2,703,894	\$60,724,742	\$64,562,870

Totals transferred for 1921 and 1922 were \$59,974,406 and \$10,850,604 respectively.

Tables and diagrams #7.

Table showing the yearly maximum and minimum reserve requirements of the twelve federal reserve banks from 1917 to 1920 inclusive.

(In millions, except last column)

Year	Deposits, Net		Notes in Circulation		Total Deposit and Notes	Required Reserve	Total Cash Reserve Held	Gold in excess of Required Reserves (Free Gold)	Ratio of cash Reserves to Deposits and note. Liability combined.
	Amount	Required Reserve of 35 per cent	Amount	Required Reserve of 40 per cent					
1917									
Max. March 30 - - - -	\$707	\$247	\$358	\$143	\$1,065	\$390.	\$947	\$557	88.9
Min. December 21 - - -	1,466	513	1,228	491	2,694	1,004	1,694	689	62.9
1918									
Max. February 21 - - -	1,404	491	1,281	512	2,685	1,004	1,819	815	67.7
Min. December 6 - - -	1,704	597	2,585	1,034	4,289	1,630	2,121	491	49.5
1919									
Max. June 6 - - - - -	1,712	599	2,513	1,005	4,225	1,604	2,270	666	53.7
Min. December 26 - - -	1,704	597	3,058	1,223	4,762	1,820	2,136	316	44.8
1920									
Max. December 30 - - -	1,604	661	3,345	1,338	4,949	1,889	2,249	360	45.4
Min. May 14 - - - - -	1,839	644	3,083	1,233	4,923	1,877	2,078	201	42.2

Tables and diagrams #8

Table showing the amount of Government funds in each sub-treasury - the volume of the total transactions annually performed by them and the cost of maintaining these institutions in 1916.

Sub-treasury	Government funds held June 30, 1916	Total transactions, fiscal year 1916	Expense of Maintenance, fiscal year 1916
Baltimore	\$12,573,371.07	\$108,215,675.59	\$33,749.53
Boston	34,452,695.22	217,020,680.17	52,051.29
Chicago	1 Boston 89.79	597,365,033.95	84,325.04
Cincinnati	31,388,654.90	105,703,081.30	28,819.14
New Orleans	31,917,751.13	73,990,519.44	27,481.22
New York	329,402,485.45	2,264,715,492.12	187,587.75
Philadelphia	26,183,266.27	473,623,903.18	57,792.76
St. Louis	48,629,847.19	193,370,692.54	37,385.63
San Francisco	99,088,010.01	291,058,033.53	25,812.27
Total	\$734,173,671.05	\$4,525,063,111.82	\$535,004.63

Tables and diagrams# 9. Table Showing the Discount Rates of the Twelve Federal Reserve Banks in 1916

	Maturities										Commodity Paper Bought in Open Market	Member Bank's Collateral Loans	
	Discounts						Trade Acceptances						
	Within 10 Days	With- in 10 Days	11 to 30 Days	16 to 30 Days	31 to 60 Days	61 to 90 Days	Agri- cultural and live- stock paper over 90 days	To 30 Days In- clusive	31 to 60 Days In- clusive	61 to 90 Days In- clusive			Paper Maturing Within 90 Days
Boston	3½	-----	4	-----	4	4	5	3½	3½	3½	4	-----	4
New York	-----	3	-----	4	4	4	5	3½	3½	3½	-----	-----	3
Philadelphia	-----	3½	-----	4	4	4	4½	3½	3½	3½	3½	-----	3½
Cleveland	-----	3½	-----	4	4½	4½	5	3	3½	4	-----	-----	3½
Richmond	-----	4	-----	4	4	4	4½	3½	3½	3½	3½	-----	3½
Atlanta	-----	4	-----	4	4	4	5	3½	3½	3½	3	3½-5½*	3½
Atlanta (New Orleans Branch)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	3½-4**	3½
Chicago	-----	3½	-----	4	4	4½	5	3½	3½	3½	-----	-----	3½
St. Louis	-----	3½	-----	4	4	4	4½	3	3	3½	3½	-----	3½
Minneapolis	-----	4	-----	4	4	4½	5	3½	3½	3½	3½	-----	4
Kansas City	-----	4	-----	4½	4½	4½	5	4	4	4	4	-----	4
Dallas	-----	4	-----	4	4	4	4½	3½	3½	3½	3	3-5	3½
San Francisco	3	-----	3½	-----	4	4½	5½	3	3	3½	***	-----	4

* Rate for bills of exchange in open-market operations.

** Rate for trade acceptances bought in open market without member bank's indorsement.

*** Rate for commodity paper maturing within thirty days, 3½%; over thirty to sixty days, 4%; over sixty to ninety days, 4½%; over ninety days, 5%.

Note: Rate for banker's acceptance, 2 to 4 per cent.

Table and diagram #10

Table showing the volume of discounts of the twelve federal reserve banks from 1915 to 1920 inclusive.

Date	Bills discounted for member banks	Yearly increase of bills discounted
1915	\$161,353,000	- - - - -
1916	207,870,000	\$46,518,000
1917	8,968,990,000	8,761,121,000
1918	39,752,934,000	30,783,943,000
1919	79,173,970,000	38,421,036,000
1920	85,320,874,000	6,146,904,000

Tables and diagrams #11.

Table showing the total volume of bankers' acceptances purchased annually in the open market by federal reserve banks, from 1915 to 1920 inclusive.

Year	Amount
1915 - - - - -	\$5,000,000
1916 - - - - -	386,000,000
1917 - - - - -	909,000,000
1918 - - - - -	1,810,000,000
1919 - - - - -	2,825,000,000
1920 - - - - -	<u>3,218,000,000</u>
Total - - - - -	\$9,153,000,000

Tables and diagrams # 12. Table Showing the Cost of Bank Premises of the Twelve Federal Reserve Banks to September 30 1921.

(000, omitted in last column.)

Federal Reserve Banks	Original Investment	Cost of Remodeling Bank Buildings	Cost of New Buildings in Course of Construction	Total Cost to September 30 1921	Depreciation Allowances Charged Off	Book Value Sept. 30 1921
Besten	\$1,296,380	-----	\$ 3,160,183	\$4,456,563	\$ 200,000	\$4,256
New York:						
Banking House	4,797,882	-----	758,072	55,555,954	1,841,618	3,714
Annex Building	681,531	-----	1,528,925	2,210,456	147,891	2,062
Philadelphia	600,000	1,099,638	-----	11,699,638	1,166,848	532
Cleveland	1,806,235	406,150	1,197,872	3,410,257	384,235	3,026
Richmond	659,922	-----	2,103,014	2,762,936	228,434	2,534
Atlanta	*568,750	-----	505,743	1,074,493	213,248	861
Chicago	2,936,149	-----	2,900,535	5,836,684	849,062	4,987
St. Louis	*1,311,197	560	-----	1,311,757	685,000	626
Minneapolis	615,000	-----	252,866	867,866	117,738	690
Kansas City	730,000	32,974	2,791,827	3,554,801	100,000	3,454
Dallas	399,749	39,246	1,775,180	2,214,175	159,344	2,054
San Francisco	520,785	232,895	448,776	11,202,456	530,795	671
TOTAL	\$16,923,580	\$1,811,463	\$17,423,013	\$36,158,056	\$ 6,684,213	\$29,473,

Tables and diagrams #13.

Table showing the volume of different kinds of currency in circulation on January 1, 1923 and January 1, 1924.

Kinds of Money	Amount (in millions)		Percentage Distribution	
	Jan. 1, 1923	Jan. 1, 1924	Jan. 1, 1923	Jan. 1, 1924
Gold and gold certificates	732	997	15.5	20.1
Silver and silver certificates	597	696	12.6	14.1
United States notes	286	307	6.0	6.2
Federal reserve notes	2,373	2,224	50.1	14.9
Federal reserve bank notes	37	14	.8	.3
National bank notes	<u>708</u>	<u>713</u>	<u>15.0</u>	<u>14.4</u>
Total - - - - -	4,733	4,951	100.0	100.0

Tables and diagrams #14

Table showing the growth in the number of banks (national, state, private, saving banks and loan and trust companies) from 1870 to 1919 inclusive.

Year	Number	Population	Ratio to Population
1870	2,457	35,558,000	1 to 15,700
1880	3,355	50,189,000	1 " 14,900
1890	7,999	63,070,000	1 " 7,800
1900	10,382	77,257,000	1 " 7,400
1910	23,095	93,403,000	1 " 4,000
1915	27,062	100,264,000	1 " 3,700
1919	92,080	107,690,000	1 " 3,700

Tables and diagrams #15.

Table giving the comparison of capital, surplus and un-divided profit of all banks in the United States in 1919.

(In millions)

	Number of banks	Capital	Surplus	Undivided Profits	Total
National banks	7,785	\$1,118.6	\$872.2	\$372.6	\$2,363.4
State banks	17,225	785.7	440.8	164.1	1,390.6
Mutual Saving banks	622	- - - -	333.4	65.0	398.4
Stock Saving banks	1,097	62.7	34.7	13.1	110.5
Loan and Trust Companies	1,377	450.4	491.9	96.8	1,039.1
Private banks	<u>1,017</u>	<u>19.8</u>	<u>8.9</u>	<u>4.7</u>	<u>33.4</u>
Total	29,123	\$2,437.2	2,181.9	\$716.3	\$5,335.4

Tables and diagrams #16.

Table showing the reserve position of national banks in September 1919.

Locality	Deposits	Reserve Required	Held by Federal Reserve banks	Per cent of Deposits
Central reserve cities:				
New York	\$2,586,604	\$336,259	\$362,743	14.02
Chicago	629,184	81,794	82,450	13.10
St. Louis	160,342	20,844	19,932	12.43
Reserve cities	3,604,661	360,466	365,920	10.15
Country banks	<u>5,293,481</u>	<u>370,842</u>	<u>398,488</u>	<u>7.53</u>
All banks	\$12,274,272	\$1,170,205	\$1,229,533	10.02

Tables and diagrams #17.

Form showing method of computing reserve to be carried with the federal reserve bank by member banks.

Demand Deposits

1.	Deposits, other than U.S. Government deposits payable within thirty days - - - - -	
2.	Balance due to banks, other than federal reserve banks - - - - -	\$
3.	Deferred credits due federal reserve bank - - - - -	\$
4.	Cashiers' checks on own bank outstanding - - - - -	\$
5.	Certified checks outstanding - - - - -	\$
	Total Due to Banks (Items 2,3,4 and 5) - - -	\$
Less:		
6.	Balance due from banks, other than federal reserve bank - - - - -	\$
7.	Items with federal reserve bank in process of collection - - - - -	\$
8.	Checks on other banks in same place - - - - -	\$
9.	Exchanges for clearing house - - - - -	\$
	Total Deductions (Items 6,7,8 and 9) - - -	\$
10.	Net Balance due to banks ^o - - - - -	\$
11.	Total Demand Deposits (Items 1 and 10) - - - - -	\$

Time Deposits

12.	Savings accounts (subject to not less than thirty days notice before payment) - - - - -	\$
13.	Certificates of deposit (subject to not less than thirty days notice before payment) - - - - -	\$
14.	Other deposits payable only after thirty days - - -	\$

I5. Postal savings deposits -----\$ _____

I6. Total time deposits(Items I2.I3 I4 & I5)-- \$ _____

Reserve Required

Bank in Reserve cities 10%; elsewhere 7% of

Demand deposits (Item II)-----\$ _____

Three per cent of time deposits (Item I6)-\$ _____

Total reserve to be maintained with

F
Federal Reserve Bank-----\$ _____

*If only one deferred account is carried with the Federal Reserve Bank the credit balance must be shown under item no. 3 or the debit balance under item no. 7.

**Should the aggregate "due from banks" (items 6 7 8 & 9) exceed the aggregate "due to banks" (items 2 3 4 & 5) both items must be omitted from the calculation.

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