

PROPOSED UNITED STATES BANKING SYSTEM

Principal Divisions With Their Powers—National Banks May Open Foreign Branches

The organization of the United States federal reserve banking system as proposed in the Owen-Glass bill, has passed the house of representatives, but which may be **amended in the Senate**, has been outlined in a skeleton form by the Guaranty Trust Company of New York, showing the three principal divisions of the system—the federal reserve board, representing the government control of the general currency and banking system; the federal reserve banks, those "public utility" banks which, through the individual and privately-owned banks in districts will give a central organization for banking in their respective districts and hold reserves; and finally the grouped member banks, which will deal direct with the people in all kinds of banking business.

The federal reserve board consists of seven members. They are secretary of treasury (ex-officio chairman), secretary of agriculture, controller of currency, and four to be chosen by president with consent of senate to serve for eight years, not more than one from each district, not more than two from same political party, one experienced in banking, one to be manager and one vice-manager. No member shall be an officer, director or stockholder of any bank.

The powers of this board follow:—1. To examine federal reserve banks. 2. To permit or require federal reserve banks to rediscount paper of other federal reserve banks. 3. To suspend for stated periods reserve requirements, except with reference to notes. 4. To regulate the issue of notes. 5. To add to and reclassify reserve and central reserve cities. 6. To suspend and with approval of president to remove officials of federal reserve banks. 7. To require writing off doubtful assets of federal reserve banks. 8. To suspend and appoint a receiver for federal reserve banks violating this act. 9. To perform all duties, etc., specified or implied in this act. 10. Federal reserve board may exercise functions of clearing house and may require federal reserve banks to do the same for member banks. 11. To levy upon federal reserve banks semi-annual assessments sufficient to meet estimated expenses of the board. The federal advisory council is to be composed of as many members as there are federal reserve banks, one chosen by each bank. It may act in advisory capacity only, to federal reserve board.

Federal Reserve Banks and their Powers.

There are not less than 12 federal reserve banks to be formed in cities designated from among reserve and central reserve cities, incorporated for 20 years.

Each controlled by nine directors:—Three chosen by member banks representing banks, three chosen by member banks representing public interests of district, and three by federal reserve board.

The capital of which is to be not less than \$5,000,000. Shares \$100 par value; not transferable, subscribed for by member banks in district. Earnings:—5 per cent. cumulative dividends; after this half to surplus up to 20 per cent. of paid-in capital and half divided, 60 per cent. to United States and 40 per cent. to member banks in ratio to average balances. Said 60 per cent. to constitute a sinking fund for outstanding United States bonds.

The federal reserve bank must keep in its vaults 33 1-3 per cent. of demand liabilities in gold or lawful money.

The powers conferred on the federal reserve banks will be:—

All powers of national banks except as limited by this act.

Accepts deposits from government and member banks and other federal reserve banks, paying interest on government deposits only.

Upon indorsement of member banks, may discount notes and bills of exchange, except those drawn or issued to carry stocks or securities. These notes not to run for more than 90 days, but under certain reserve conditions they may run for 120 days. (Federal reserve board have right to define character of bills eligible.)

Upon indorsement of any member bank, may discount acceptances of such bank, bearing signature of one other member bank, based on exportation or importation of goods and maturing in not more than six months.

Under regulation of federal reserve board may buy and sell prime bankers' bills and bills of exchange of kind named above.

May deal in gold and bullion.

May invest in United States, state, county and municipal bonds.

May buy and sell two-name bills of exchange bearing signature of member bank payable in foreign countries (90 days to run).

May establish branches in district, one for each \$500,000 capital.

To establish each week a discount rate.

May open banking accounts and establish agencies in foreign countries to deal in two-name 90-day bills of exchange with consent of federal reserve board.

Collections by federal reserve banks to be flat.

Note Issue To Be United States Obligations.

The note issue is to be:—

Obligations of United States issued at discretion of federal reserve board—redeemable in gold or lawful money.

Issued to federal reserve banks—secured by an equal amount of paper accepted for rediscount, and to be a first lien on all assets of issuing bank.

Federal reserve banks allowed to substitute collateral.

Notes to be redeemed in gold or lawful money on demand at the United States treasury, or at any federal reserve bank; also must be redeemed when reaching treasury and must be forwarded for redemption when received at other federal reserve banks.

Federal reserve banks shall carry 33 1-3 per cent. gold or lawful money against outstanding notes—to be used to redeem these notes.

No federal reserve bank shall pay out notes of another bank under penalty of 10 per cent. face of notes.

Federal reserve board may require federal reserve banks to maintain on deposit in the United States treasury gold equal to 5 per cent. of notes issued—to be counted as part of above 33 1-3 per cent.

Federal reserve board has right to reject application of any federal reserve bank for notes.

Every federal reserve bank to pay interest not less than one-half of one per cent. per annum on notes issued to it.

National banks forbidden to issue or use clearing house certificates or other circulating obligations, except as above provided.

What National Banks Can Do.

Every national bank must within one year, and state institutions may at any time, join the federal reserve bank in their district, by subscribing to stock, a sum equal to 20 per cent. of their unimpaired capital, 10 per cent. to be paid in and 10 per cent. to be held subject to call.

National banks may open foreign branches if they have capital of \$1,000,000.

National banks may accept drafts or bills of exchange drawn upon them for exportation or importation of goods having not more than six months to run.

National banks, if not in reserve or central reserve city, may make farm loans up to 25 per cent. of capital and surplus, on not to exceed 50 per cent. of value of property, maturing in not to exceed 12 months.

Any national bank, which, after one year from passage of act, fails to join the federal reserve bank in its district, shall be dissolved.

Requirement that national banks shall deposit United States bonds with treasurer repealed.

The reserves of the various banks to be:—

Country banks 12 per cent. (not including savings deposits)	{	5-12—Own vaults.
		5-12—Federal reserve bank of home district—(for 14 months only 3-12).
Reserve city banks 20% for 60 days 18% thereafter (not including savings deposits)	{	2-12—In reserve or central reserve banks for 36 months, afterward either in own vaults or with federal reserve bank.
		9-18—Own vaults.
Central reserve city banks 20% for 60 days 18% thereafter (not including savings deposits)	{	5-18—Federal reserve bank of home district—(for 12 months only 3-18).
		4-18—In central reserve banks for 36 months, afterward either in own vaults or with federal reserve bank.
	{	9-18—Own vaults.
		5-18—Federal reserve bank of home district—(for 12 months only 3-18).
	{	4-18—Either in own vaults or with federal reserve bank.

Savings Department's Assets To Be Separate.

National banks may set apart for a savings department a portion of paid-up capital and surplus—not less than \$15,000 or than a sum equal to 20 per cent. of capital and surplus. Assets of savings and commercial departments to be kept separate.

May apply for power to act as trustee for mortgage loans.

Must keep reserve equal to 5 per cent. of deposits.

Savings department may:—1. Loan funds on real estate.

2. Purchase securities authorized by federal reserve board.

3. Pay interest on its deposits.

Federal reserve board to formulate rules governing this department.