SUMMARY OF CURRENCY BILL AS ENACTED BY LAW

The currency bill or the federal reserve act, which is its correct short title, is 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.

Herewith is printed a summary of the bill as it was enacted into law.

Federal Reserve Banks.

Organization.

The act incorporates for a period of 20 years not less than eight nor more than 12 federal reserve banks, each in a city in a federal reserve district determined according to the convenience and customary course of business, and the districts together to embrace the continental United States, including Alaska. The capital of a reserve bank, not to be less than $4,000,000 subscribed when the bank commences business is to equal six percent of the paid-up capital and surplus of member banks, the national banks being compelled to subscribe to this amount, within six months paying in by installments ½ of their subscriptions and being subject to call for the remainder. If banks do not make sufficient subscriptions to the stock of a reserve bank the organization committee may offer the remainder of the stock for public subscription, no stockholder other than a member bank, however, to hold more than $25,000 par in any reserve bank. this "public stock" may be transferred, but has no voting power. If the subscriptions of the banks and of the public are not sufficient the United States is to underwrite the balance. Only stock held by member banks has voting power. Stock subscribed for subsequently to organization is to be paid for at par and accrued interest. Stock owned by member banks cannot be transferred or hypothecated. Shareholders in a reserve bank are liable for the engagements of their bank to the par value of their stock, in addition to the amount they have subscribed.

Method of Organization.

The secretary of treasury, the secretary of agriculture, and the comptroller of the currency are to be the "reserve bank organization committee." Two members constitute a quorum. This committee is to indicate districts and the city in each district in which the reserve bank is to be situated, and to supervise the organization of the reserve banks. When the committee has fixed the geographical limits of the districts, it will file a certificate with the comptroller of the currency, who will then send to all national banks in each district, and to other eligible banks which have applied, blanks for subscriptions to stock in the reserve bank. National banks must make subscriptions within 30 days of notice from the organization committee that reserve districts have been designated. The reserve board may call meetings of bank directors in the several districts to consider questions that arise. When stock has been subscribed in any reserve bank the reserve board will appoint three of the nine directors and the organization committee will designate five subscribing banks to execute a certificate of organization, which will be filed with the comptroller of the currency. Thereupon the reserve bank will become a body corporate and may proceed to do business.

Upon announcement by the secretary of the treasury that a reserve bank has been established, subscribing banks in the district become subject to the requirements of the act in regard to reserves, etc.

Management.

Each reserve bank has a board of nine directors, three of whom are to be chosen through a system of electors and preferential ballots by stockholding banks as their representatives,—one from each of three groups into which the banks in a district will be divided, each group to contain approximately one-third of the member banks and to consist of banks approximately similar in capital—three chosen by the same banks and to be men actively engaged in their district in commerce, agriculture, or some other industrial pursuit, and three chosen by the reserve board, which is to designate one as chairman of the board of directors and federal reserve agent, he is to be a man of tested banking experience and is to act as the official representative of the reserve board. A second member appointed by the reserve board, likewise to be a person of tested banking experience, is to be designated as deputy chairman and deputy federal reserve agent. Directors appointed by the reserve board must have been residents of the district for two years. Directors of the second and third groups cannot be officers, directors, or employes of any bank and those of the third group cannot be stockholders in any bank. The term of one of the three members in each group of directors expires each year; i. e., the normal term of office is three years. Upon written notice of the cause, any officer or director of a reserve bank may be removed by the reserve board.

Operations.

Reserve banks may receive deposits from the United States and from member banks; one reserve bank may receive deposits from another only for exchange purposes; permissible deposits do not include checks or drafts on nonmember banks. From the U. S. reserve banks may receive on deposit the moneys held in the general fund of the treasury (except the redemption fund against notes) and the revenues as they accrue; they may act as fiscal agents of the U. S. It is compulsory with a reserve bank to receive on deposit at par from member and from other reserve banks checks and drafts drawn upon any member bank of any district, subject to rules of the reserve board, member banks may charge their actual expenses for collections and exchange and reserve banks may make charges for their services.

Discounts may be made by a reserve bank for member banks as follows: (1) paper with indorsement of member bank and waiver of demand, notice, and protest, drawn for agricultural, industrial, or commercial purposes, and maturing within 90 days of time of rediscount; (2) paper drawn for agricultural purposes or based on livestock and having not more than six months to run, the aggregate of this paper to be limited by the reserve board to a percentage of the capital of the reserve bank; and (3) acceptances of member banks based on importations or exportations of goods, maturing at not more than three months, and bearing indorsement of a member bank additional to the acceptance, the amount of acceptances discounted for a member bank not to exceed one-half its capital and surplus, and the amount bearing name of one firm, corporation, etc., not to exceed 10 percent of the member bank's capital and surplus, this latter restriction not to apply, however, in the case of bills drawn in good faith against actually existing values.

Discount rates will be established by each reserve bank, subject to review by the reserve board. To the rates of discount will be added the rate of any tax imposed on the reserve bank by reason of deficiency in its reserves.

In the open market, under rules of the reserve board, reserve banks may buy and sell exchange of the maturities eligible for rediscount; deal in gold; and invest in U. S. bonds and in warrants, etc., of states, municipalities, etc. (including irrigation and drainage districts) maturing in six months. For exchange purposes, one reserve bank may open accounts with other reserve banks.

Branch banks are to be established by a reserve bank within its district, and may be be established in the district of any reserve bank which has been suspended. These branches are to be operated by a board of directors, to have the same qualifications as directors of reserve banks, four to be appointed by the parent bank and three by the reserve board; these directors will hold office during the pleasure of the parent bank and the reserve board. Abroad, agencies may be established, with the consent of the reserve board, and through these agencies exchange may be bought and sold, if it bears two or more responsible signatures and has not more than 90 days to run.

The reserves of reserve banks, kept in vaults in gold or lawful money, are to equal 35 percent of deposits and 40 percent in gold against federal reserve notes, the 40 percent reserve to include the redemption fund of not less than five percent in the U. S. treasury. The net balance of amounts due to and from other banks is the basis of determining the deposits against which reserves are required.

Net Earnings.

From net earnings cumulative dividends of six percent are payable on the stock; the remainder of net earnings are to go to the U. S. as a franchise tax, except that ½ is to go into a surplus fund until this fund amounts to 40 percent of the paid-in capital of the reserve bank. If a reserve bank goes into liquidation, any surplus remaining after payment of liabilities will be paid to the U. S. All payments to the U. S. in its own right are to be used, in the discretion of the secretary of treasury, to supplement the gold reserves against U. S. notes or to reduce the outstanding bonded indebtedness.

Reserves Of Member Banks.

Member banks of all classes are to have a five percent reserve against time deposits, which are defined as not payable sooner than 30 days. The reserves against demand liabilities are to be 12 percent for country banks, 15 percent for banks in reserve cities, and 18 percent for banks in central reserve cities. Readjustment of reserves is to extend over a period of 36 months. At the end of this time member banks are to have with their reserve banks 5-12 (country banks,) 6-15 (reserve city banks,) and 7-18 (central reserve city banks) of their reserves. Of the balance of reserves, country banks are to have 4-12 in their own vaults, reserve city banks 5-15, and central reserve city banks 6-18; the remainder of reserve required may be in the vaults of member banks or with their reserve bank. When member banks place reserves with their reserve bank the reserve bank may accept to the amount of half the payment paper eligible for rediscount.

Against reserves with reserve banks member banks may check, under regulations and penalties fixed by the reserve board, but until the reserve required are replenished a member bank may make no new loans nor pay dividends.

Nonmember Banks.

Except under provisions of state law controlling state banks which may have become member banks, a member bank cannot have on deposit with a nonmember a sum in excess of 10 percent of its capital and surplus. Except with permission of the reserve board, a member bank cannot act as a medium for a nonmember in receiving rediscounts.

United States banks in Alaska or outside the continental U. S. may remain nonmembers, or such banks, except those in Philippine Islands, may with the consent of the reserve board become member banks in any one of the districts.

Federal Reserve Board.

Organization.

The federal reserve board will be composed of the secretary of treasury and the comptroller of the currency, who serve ex officio, and five persons appointed by the president and confirmed by the senate, serving for rotating terms of 10 years, receiving salaries of $12,000, and not to be officers, employes, or stockholders in any bank or trust company during tenure of office. In making appointments the president is to have regard to fair representation of commercial, industrial and geographical divisions of the country, select no more than one member from a federal reserve district, choose at least two who are experienced in banking and finance, and designate one as governor and one as vice governor of the reserve board. The governor is the active executive officer of the board.

Members of the board, the secretary of treasury, and the comptroller of the currency are ineligible for two years after termination of service on the board or for the government to occupy any office or position in any member bank.

Method of Organization.

Members of the reserve board are to take oath of office within 15 days of notice of appointment. As soon as possible, and at a date fixed by the organization committee, the first meeting of the board, with the secretary of treasury exofficio as chairman, is to be held in Washington.

Powers.

The reserve board may: Choose 3 directors for each reserve bank, designate the federal reserve agent who is also chairman of the directors, and remove any officer or director of a reserve bank, giving written notice of the cause; add to the cities classified as reserve and central reserve cities, and thus change reserve requirements of some member banks; require reserve banks to open branches in their districts and permit them to establish agencies abroad; require one reserve bank to rediscount the discounted paper of any other reserve bank at rates of interest fixed by the board, provided at least five members of the board vote affirmatively to make this requirement; suspend for 30 days and for subsequent periods of 15 days any reserve requirement in the act (establishing a graduated tax upon deficiencies—this tax, in case the gold reserve against notes falls below 40 per cent, to be not more than 1 per cent until the reserve falls under 32½ per cent, and then not less than 1½ per cent for each 2½ per cent of additional deficiency; the tax is to be paid by the reserve bank, but the reserve bank is to add an equal amount to its rates of interest and discount, as fixed by the reserve board); grant or refuse applications of reserve banks for federal reserve notes, and in discretion require additional security for notes; require a reserve bank to write off doubtful assets; suspend, for violation of any provision of the act, the operation of a reserve bank, and administer its affairs during suspension or to liquidate or reorganize such banks; define the character of commercial paper which reserve banks may discount for member banks, review the discount rates fixed by reserve banks, and prescribe rules under which reserve banks can buy and sell exchange in the open market; permit state banks to become member banks; maintain a clearing house for reserve banks or indicate a reserve bank which is to perform this function, and require a reserve bank to act as a clearing house for its member banks; examine reserve banks and member banks; add to the list of cities the banks in which cannot lend on farm lands; permit a national bank to act as trustee, executor, etc.

The reserve board is required to examine each reserve bank at least once a year, and to make a special examination of any reserve bank upon application of 10 member banks.

Weekly statements of condition of each reserve bank and a consolidated statement of all reserve banks are to be issued by the board. These statements are to show in detail the assets and liabilities, the character of reserves, and the amount, nature and maturities of paper and other investments held.

Any powers vested in the reserve board which conflict with the present powers of the secretary of treasury in the supervision, management and control of the treasury department and its bureaus are to be exercised subject to the control of the secretary.

Expenses of the reserve board will be assessed semiannually by the board on the reserve banks proportionately to their respective capital and surplus.

An annual report is to be made by the board to the speaker of the house of representatives.

Federal Advisory Council.

A federal advisory council is created, to consist of one member from each reserve district and to be elected by the directors of the reserve banks. Members of the council receive such compensation as is fixed and paid by their respective reserve banks. The council meets in Washington at least four times a year and may have additional meetings elsewhere. It has power, by itself or through its officers, to confer with the federal reserve board on general business conditions, to make recommendations concerning matters within the jurisdiction of the reserve board and to call for information.

Currency.

The act authorizes an issue of federal reserve notes, in denominations of $5, $10, etc. These notes are obligations of the United States, receivable by all national, member and reserve banks and for taxes, customs and other public dues; on demand payable in gold at the United States treasury or in gold or lawful money at any reserve bank; issued only as advances to reserve banks; and constitute a first and paramount lien on the assets of the issuing reserve bank.

Notes of each reserve bank will bear a distinctive letter and serial number. When received by a reserve bank other than the issuing bank they are to be returned for credit or redemption to the bank of issue; when received at the United States treasury, they will be paid out of the redemption fund which each reserve bank must maintain. No reserve bank can pay out notes of another, except under a penalty of 10 per cent on the face value of such notes.

In obtaining notes, a reserve bank will apply to its federal reserve agent for such an amount as it deems best, tendering as collateral security paper which is eligible for rediscount. The federal reserve board may grant or refuse the whole or any part of an application. Against notes so obtained, a reserve bank must hold a reserve of 40 per cent in gold (including such a redemption fund in gold, not less than 5 per cent, as the secretary of treasury may require to be kept in the United States treasury); if this gold reserve is permitted to fall below 40 per cent, there will be a tax of no more than 1 per cent; if it falls under 32½ per cent the tax is to be at least 1½ per cent for each 2½ per cent of additional deficiency. Upon notes the reserve banks are to pay such interest as the reserve board may require. A reserve bank may reduce its liability for notes by depositing with its federal reserve agent notes, lawful money, or gold.

Emergency Currency.

The Aldrich-Vreeland act, authorizing national currency associations and issue of emergency currency, is extended from June 30, 1914, to June 30, 1915, and the tax on emergency currency is made 3 per cent per annum for the first three months (instead of 5 per cent), advancing month by month by ½ per cent to a maximum of 6 per cent (instead of 10 per cent).

Gold Standard Act.

It is expressly provided that nothing in the act is to be construed to repeal the act of March 14, 1900, which fixed the gold dollar as a standard and required the maintenance of other money on a parity with this standard.

In order to obtain gold the secretary of treasury is authorized to use United States bonds or one year 3 per cent gold notes.

National Banks.

Within 30 days of notice from the organization committee that federal reserve districts have been designated, national banks have to subscribe, in an amount equal to 6 per cent of their paid-up capital and surplus, to the stock of the reserve bank in their respective districts, paying in one-sixth of the subscription on call of the organization committee, one-sixth in 3 months, and one-sixth in 6 months, and being liable on call by the reserve board for the remainder. All payments on subscriptions are to be in gold or gold certificates. Within 60 days of the passage of the act, national banks must signify acceptance of the act, or as a penalty for failure may upon a notice of 30 days be required to cease acting as reserve agents, in the discretion of the reserve board. National banks which within one year do not comply with all the requirements of the act are to be dissolved, after noncompliance has been established in a suit to be brought in the federal district court.

The powers of national banks have been extended to permit acceptance of bills of exchange based on importations or exportations of goods, and having maturity not to exceed 6 months sight, the aggregate not to be more than ½ the capital and surplus of the accepting bank. Together with state banks which have become member banks in reserve banks, national banks have exclusive right to the rediscount facilities offered by reserve banks. As member banks, they get advantage of the new issue of notes, through rediscounting paper with the reserve banks.

The reserves of national banks which become member banks have been outlined above. National banks can retire their circulation and dispose of United States bonds as indicated below. The 5 per cent deposit with the treasurer of the United tSates for redemption of national bank notes can no longer be counted in reserves. Upon organization national banks are no longer required to deposit United States bonds with the treasurer of the United States.

As shareholders in a reserve bank, national banks will have a double liability—i. e., to the amount of the par of their stock in addition to the amount they subscribe for the stock. Shareholders in national banks who transfer stock within 60 days before failure of their bank are made individually liable to the same extent as if they had made no transfer; this provision, however, does not prevent their recourse against transferees.

On farm lands that are improved, unencumbered, and situated in the same federal reserve district national banks outside central reserve cities may make loans at 50 per cent of the actual value, not to run for more than 5 years, and the aggregate for a bank not to exceed 25 per cent of its capital and surplus or 1-3 of its time deposits. The reserve board may add to the list of cities in which national banks may not make these loans.

Branches in foreign countries or in dependencies of the United States may with permission of reserve board, be established by national banks with capital of $1,000,000 or more, for the furtherance of commerce and to act, if required, as fiscal agents of the United States.

Examination of national banks which become member banks will occur under authority of the comptroller of currency at least twice a year, the cost to be assessed proportionately to the resources of the banks. Member banks may be examined, too, by the reserve bank of their district.

State Banks.

State banks with sufficient capital may be converted into national banks (if conversion does not contravene state law), with the approval of the comptroller of the currency and upon a vote of the holders of 51 per cent of the stock; the law formerly required a vote by holders of 66 2-3 per cent of the stock. Without becoming national banks state banks with requisite capital may, upon approval of the reserve board given according to by-laws to be adopted by the board, become member banks in their districts. As member banks they must comply with the capital, reserve and other requirements for such banks. After a hearing the reserve board may require a state bank or trust company, which has become a member bank but has not complied with the requirements, to surrender its stock, upon repayment of subscription payments.

Within 60 days of the passage of the act eligible state banks may signify acceptance of the act, and participate in the original subscription to the stock of reserve banks.

Bonds Securing Circulation.

At any time after 2 years and before 20 years, national banks which become member banks may file with the United States treasurer an application to sell United States bonds securing circulation. Every 3 months the reserve board will pass upon these applications and may require federal reserve banks to purchase such bonds at par and interest, the purchasing reserve bank to deposit the price with the United States treasurer and the treasurer to pay the selling bank any surplus over an amount necessary to meet national bank notes outstanding against bonds in question.

The total amount of bonds acquired in any one year by reserve banks is not to exceed $25,000,000.

Two per cent bonds against which there is no circulation outstanding may be exchanged by reserve banks for one year 3 per cent gold notes, renewable for 30 years, to the extent of half the face value of the bonds and 30 year 3 per cent gold bonds for the remainder of the value. Upon application of a reserve bank, approved by the reserve board, the gold notes may be exchanged for gold bonds. Neither notes nor bonds have the circulation privilege. The one year notes may be in denominations of $100 or its multiples, and coupon or registered. Interest is payable quarterly. The bonds are to be similar to the 3 per cent bonds without the circulation privilege now outstanding.