

or turned into a direct loan, were carried along by the banks by means of continued renewals of acceptances. A national bank should not commit itself regarding renewals of acceptances at the time of the opening of the credit. Each application for a renewal should be judged upon its own merits at the maturity of the acceptance. It is found, however, that some banks have agreed to one or more renewals at the time of the opening of the credit. There have been a number of cases where acceptances have been renewed as many as five or six times against imports or exports of both raw materials and finished products. The tendency in such cases is for the bank to furnish working capital to concerns by means of acceptance credits rather than by making them a direct loan. \* \* \* Some member banks have not taken definite steps in connection with granting acceptance facilities against export transactions to assure themselves that there were actual and definite shipments involved. \* \* \*

"In a general way the abuses which have come up in connection with the granting of acceptance facilities against export and import transactions apply in the case of credits governing domestic acceptances. \* \* \* There have been instances when domestic acceptances have been given with practically no attention paid to the question of the accepting bank being secured during the life of the acceptance. \* \* \* Domestic acceptance credits have also been used for the purpose of securing continued finance. \* \* \*

*Domestic Trade*

"The above is a summary of the most common abuse of acceptances found in the recent examination of national banks. In view of the excellent material which has been issued by the Federal Reserve Board and the American Acceptance Council on the correct method of financing domestic and foreign business by means of acceptances, it would be quite useless to reiterate the clear and concise suggestions made by them. \* \* \* In spite of this, scarcely an examination is made of use of the larger accepting banks without finding some violations of the intent and purpose of the Federal Reserve Act in connection with acceptances. It is very difficult for the federal reserve banks to discriminate between acceptances which are drawn in accordance with the law and those which are not, when member bank acceptances are offered to them for rediscount. Furthermore, it is extremely awkward, if not impossible, for them to make inquiries regarding the transaction actually behind an acceptance when the bill is presented to them for rediscount through a third party, as it would necessarily have to be."

The preferences given to bankers' acceptances by the federal reserve system have included liberal support through purchase. In the years from 1916 to 1923 there was a marked tendency for the reserve banks to hold approximately one-half of these acceptances which were outstanding. Since 1923 the volume of outstanding bankers' acceptances has grown from the neighborhood of \$650,000,000 to \$1,284,000,000 at the end of 1928 and \$1,541,000,000 at the end of October, 1929—the latest date for which these figures are yet available, although it is estimated that at the end of November, 1929, the total outstanding was about \$1,600,000,000. At the end of 1928 the holdings purchased in open market by federal reserve banks for their own account and the account of foreign correspondents were \$816,000,000, of which \$489,000,000 were for their own account. On November 27, 1929, the total holdings were \$766,000,000, of which \$257,000,000 were for the account of the reserve banks themselves—this latter figure having grown to \$392,000,000 on December 31, 1929.

*Bankers' Acceptances  
Outstanding*

The government receives such services from the reserve banking system that there is no valid reason why the government, which contributes none of the capital, should take any part of the earnings of the reserve banks.

*Earnings*

Under the Federal Reserve Act the Secretary of the Treasury may use the reserve banks as the government's fiscal agents. The Secretary utilized this permission and the

*Fiscal Agency  
Operations*

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