THE FRAUD OF BANK LOANS

THEFT OF LABOR BY THE U.S. BANKING SYSTEM

Mark Wasmuth
The Rabbit Hole Research Group
Consistently digging for the TRUTH

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DEFINITIONS
Part 1

18. **Barrower:**

    1) ***To obtain upon loan from the owner or other person having the right of disposition; to engage the use of money by contract.*** State ex rel. Kimball v School Dist. 13 NEB 82,88 *(Ballentines's Law Dictionary)*

19. **Lender:**

    1) ***He from whom a thing is borrowed****. The contract of loan confers rights, and imposes duties on the lender. 1. The lender has the right to revoke the loan at his mere pleasure*; 9 Cowen, R. 687; 8 Johns. Rep. 432; 1 T. R. 480; 2 Campb. Rep. 464; ***and is deemed the owner or proprietor of the thing during the period of the loan****. (Bouvier's)*

20. **Tenant**:

    1) ***One who occupies the premises of another in subordination to that other person's title and with his assent express or implied****.* 32 Am J1st L & T § 2. Broadly, any person having a tenancy.

    2) ***A tenant, although having exclusive possession, charge and control, is not a owner of the land within a statute making it unlawful for any person to hunt on the land of another without first having obtained permission of the owner****.* Anno: 2 ALR 799,s 95 ALR 1099 *(Ballentines's Law Dictionary)*

21. **Owner**:

    1) ***One who has complete dominion over particular property*****.** 42 Am J1st Prop § 37. ***The person whom the legal or equitable title rests***. Anno: ALR 779, s.95 ALR 1086. **In common understanding, the Person who, in case of destruction of property, must sustain the loss.** 42 Am J1st Prop § 37

    2) ***As to the Meaning of "owner" as used in statutes relating to the assessment and collection of taxes****, see Anno*: 2ALR 792 *(Ballentines's Law Dictionary)*

22. **Money:**

    1) UCC 1-201 (24) ***means a medium of exchange currently authorized or adopted by a domestic or foreign government. The term includes a monetary unit of account established by an intergovernmental organization or by agreement between two or more countries****.*

    2) I BET YOU THOUGHT David H. Friedman, Federal Reserve Bank of New York (4th ed. 1984), states: **Money is anything that has value that banks and people accept as money; money does not have to be issued by the government**. ***See Part 7*** of this Affidavit.

23. **Deposit:** Title 12 U.S.C. Section 1813 (*l*) (1) (definition of "deposit under Federal Deposit Insurance Act)

    1) ***the unpaid balance of money or its equivalent received or held by a bank or savings association in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to a commercial, checking, savings, time, or thrift account, or which is evidenced by its certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness,*** *or other similar name, or a check or draft drawn against a deposit account and certified by the bank or savings association, or a letter of credit or a traveler's check on which the bank or savings association is primarily liable: Provided, That, without limiting the generality of the term "money or its equivalent", any such account or instrument must be regarded as evidencing the receipt of the equivalent of money when credited or issued in exchange for checks or drafts or for a promissory note upon which the person obtaining any such credit or instrument is primarily or secondarily liable, or for a charge against a deposit account, or in settlement of checks, drafts, or other instruments forwarded to such bank or savings association for collection.*

24. **Credit Banking:** (3)***Bookkeeping entry representing a deposit of funds into an account.*** Thomas P. Fitch, Barron's Business Guide Dictionary Of Banking Terms,

U.S. CONSTITUTION ON DEBT

25. THE U.S. CONSTITUTION Article 1 Section 10 of the US CONSTITUTION states:

    1) ***No State shall*** enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; **make any Thing but gold and silver Coin a Tender in Payment of Debts**; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.

    2) It is impossible to **pay** a debt using Federal Reserve Notes:

        i. Federal Reserve Notes are debt instruments as evidence by the word NOTE [as in Federal Reserve Note] that is on the dollar bill,

            (1) NOTE: "*is a Debt instrument*" Blacks Law 4th edition

            (2) Federal Reserve Notes come into existence only by creating Debt.

                (a) The sale of T Bills, T Notes, T Bonds

                (b) Fractionalized Banking on Deposits

                (c) Creating Loans

MODERN MONEY MECHANICS

by the FEDERAL RESERVE BANK OF CHICAGO

(1961)

Part 3

The full document is available up on request

26. The UCC 3-102 (c) *"Regulations of the Board of governors of the Federal Reserve System and operating circulars of the* ***<u>Federal Reserve Banks supersede any inconsistent provision of this Article</u>*** *to the extent of the Inconsistency."*

27. page 3 states:

    1) *The actual process of money creation takes place primarily in banks.*
    2) *They are book entries which result from the crediting of deposits of currency and checks and the proceeds of loans and investments to customers accounts.*
    3) *Banks can build up deposits by increasing loans and investment...*

28. page 4 states:

    4) *…bankers discovered that they could make loans merely by giving borrowers their promises to pay (bank notes). In this way banks began to create money.*

29. page 6 states:

    5) *Of course, they do not really make loans out of money they receive as deposits. If they did this, they would be acting just like financial intermediaries and no additional money would be created.*
    6) *What they do when they make loans is to accept promissory notes in exchange for credits they make to the borrowers' deposit accounts'*

30. page 7 states:

    7) (3) Expansion take place only if the banks which hold these excess reserves increase their loans or investments. Loans are made by crediting the borrower's deposit account i.e., by creating additional deposit money.

31. page 8 states:

    8) *The lending banks, however, do not expect to retain the deposits they created through their loan operations.*
    9) *…loan-created deposits may be transferred to other banks, but they remain somewhere in the banking system.*
    10) *Any deposit he receives is new Money to him, regardless of its ultimate source.*
    11) *Deposits expansion can proceed from investments as well as loans.*

32. page 11 shows a chart and states:

    12) *Thus through stage after stage of expansion "money can grow to a total of 6 2/3 times the new reserves supplied to the banking system…*
    13) *…. As the new deposits created by loans at each state are added to those created at all earlier stages and those supplied by the initial reserve-creating action.*

33. Page 26 states:

    14) *These new loans add to banks deposits.*

MODERN MONEY MECHANICS

by the FEDERAL RESERVE BANK OF CHICAGO

(1961)

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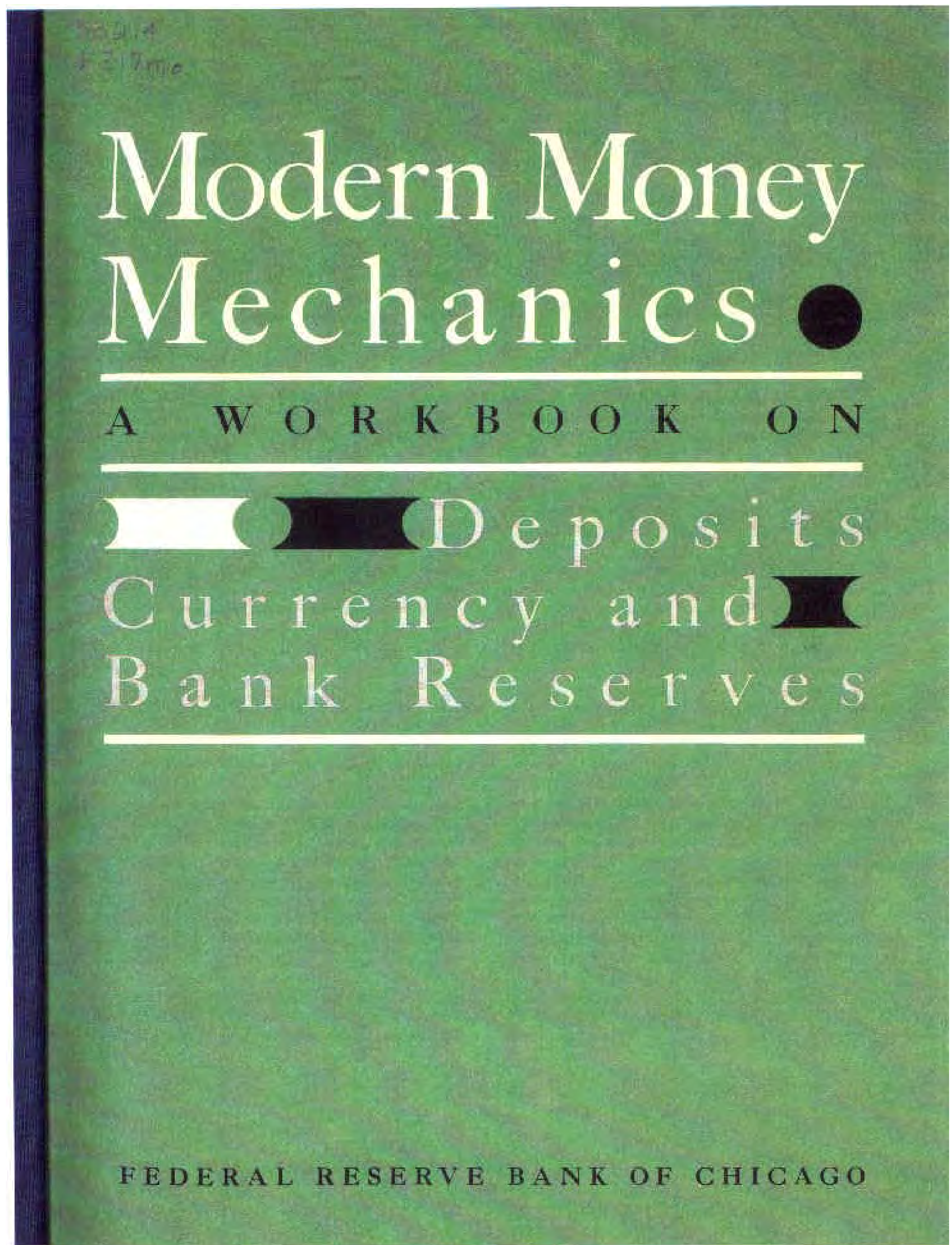

Modern Money Mechanics

Money is such a routine part of everyday living that its creation and acceptance are ordinarily taken for granted. Although a user may, upon reflection, sense that money must come into being automatically as a result of economic activity or, perhaps, as an outgrowth of some Government operation, just how this happens all too often remains a mystery.

This workbook is designed to help provide an understanding of the mechanics of money creation. While the process is not a simple one, it is hoped that the careful reader will gain a clearer picture of the fundamental nature of money and how the money system in the United States works.

What is money?

If money is viewed simply as a tool used to facilitate transactions, only those media that are readily accepted in exchange for goods, services and other assets need to be considered. Many things—from stones to cigarettes—have served this monetary function through the ages. Today, in the United States, there are only two kinds of money in use in significant amounts—**currency** (paper money and coins in the pockets and purses of the public) and **demand deposits** (checking accounts in commercial banks).

The amount of currency in use at any time depends solely on the public's preferences. Since currency and demand deposits are freely convertible into each other at the option of the holder, both are money to an equal degree. However, for specific transactions, one form may be more convenient than the other. When a depositor "cashes" a check, he reduces the amount of deposits and increases the amount of currency in circulation. Conversely, when more currency is in circulation than is needed, some is returned to the banks in exchange for deposits. Currency held in bank vaults is not a part of the money supply available for spending by the nonbank public.

While currency is used for a great variety of small transactions, most of the dollar volume of money payments in our economy is made by check. Eighty per cent, or $112 billion, of the $140 billion total money supply at the beginning of 1961 was in the form of demand deposits.

What makes money valuable?

Neither paper currency nor deposits have value as a commodity. Intrinsically, a dollar bill is just a piece of paper. Deposits are merely book entries. Coins do have some intrinsic value as metal, but considerably less than their face amount.

What, then, makes these instruments—checks, paper money and coins—acceptable at face value in payment of all debts and for other

monetary uses? Mainly, it is the confidence people have that they will be able to exchange such money for real goods and services whenever they choose to do so. This is partly a matter of law; currency has been designated "legal tender" by the Government. Paper currency is a liability of the Government, and demand deposits are liabilities of the commercial banks which stand ready to convert such deposits into currency or transfer their ownership at the request of depositors. Confidence in these forms of money seems also to be tied in some way to the fact that there are assets on the books of the Government and the banks equal to the amount of money outstanding, even though most of these assets themselves are no more than pieces of paper (such as customers' promissory notes) and it is well understood that money is not redeemable in them.

But the real source of money's value is neither its commodity content nor what people think stands behind it. Commodities or services are more or less valuable because there are more or less of them relative to the amounts people want. Money, like anything else, derives its value from its **scarcity** in relation to its usefulness. Money's usefulness is its unique ability to command other goods and services and to permit a holder to be constantly ready to do so. How much is needed depends on the total volume of transactions in the economy at any given time and the amount of money individuals and businesses want to keep on hand to take care of unexpected or future transactions.

In order to keep the value of money stable, it is essential that the **quantity** be controlled. Money's value can be measured only in terms of what it will buy. Therefore, changes in its value vary inversely with the general level of prices. If the volume of money rises faster (assuming a constant rate of use) than the production of real goods and services grows under the limitations of time and physical facilities, prices will rise because there is more money per unit of goods. Such a development would reduce the value of money even though the monetary unit were backed by and redeemable in the soundest assets imaginable. But if, on the other hand, growth in the supply of money does not keep pace with the economy's current production, either prices will fall or, more likely, some resources and production facilities will be less than fully employed.

Just how large the stock of money needs to be in order to handle the work of the economy without exerting undue influence on the price level depends on how intensively the supply is being used. All demand deposits and currency are a part of somebody's spendable funds at any given time, moving from one owner to another as transactions take place. Some holders spend money quickly after they get it, making these dollars available for other uses. Others, however, hold dollars for longer periods. Obviously, when dollars move into hands where they do little or no work more of them are needed to accomplish any given volume of transactions.

Who is responsible for the creation of money?

Changes in the quantity of money may originate with actions of the Federal Reserve System (the central bank), the commercial banks or the public, but the major control rests with the central bank.

The actual process of money creation takes place in the commercial banks. As noted earlier, the demand liabilities of commercial banks are money. They are book entries which result from the crediting of deposits of currency and checks and the proceeds of loans and investments to customers' accounts. Banks can build up deposits by increasing loans and investments so long as they keep enough currency on hand to redeem whatever amounts the holders of deposits want to convert into currency.

This unique attribute of the banking business was discovered several centuries ago. At one

time bankers were merely middlemen. They made a profit by accepting gold and coins brought to them for safekeeping and lending them to borrowers. But they soon found that the receipts they issued to depositors were being used as a means of payment. These receipts were acceptable as money since whoever held them could go to the banker and exchange them for metallic money.

Then, bankers discovered that they could make loans merely by giving borrowers their promises to pay (bank notes). In this way banks began to create money. More notes could be issued than the gold and coin on hand because only a portion of the notes outstanding would be presented for payment at any one time. Enough metallic money had to be kept on hand, of course, to redeem whatever volume of notes was presented for payment.

Deposits are the modern counterpart of bank notes. It was a small step from printing notes to making book entries to the credit of borrowers which could be spent by the use of checks.

What limits the amount of money banks can create?

If deposit money can be created so easily, what is to prevent banks from making too much, i.e., more than is needed to handle the volume of transactions resulting from optimum use of the nation's productive resources at stable prices? Like its predecessor, the modern bank must keep a considerable amount of currency (or balances with the central bank) on hand. It must be prepared to convert deposit money into currency for those depositors who request currency. It must make remittance on checks written by depositors and presented for payment by other banks (settle adverse clearings). Finally, a member bank* must maintain legal reserves equal to some prescribed percentage of deposits.

How do operating needs and legal requirements affect the amount of deposits that the commercial banking system can create? The public's demand for currency varies greatly, but generally follows a seasonal pattern which is quite predictable. The effects of these swings are usually offset by central bank action and are thus prevented from causing large temporary fluctuations in the quantity of money. Moreover, for all banks taken together, there is no net drain of funds through clearings. A check drawn on one bank will normally be deposited to the credit of another account in the same or another bank. The main factor, therefore, which limits the ability of the banking system to increase demand deposits by expanding loans and investments is the reserves that banks must hold against deposits.

Growth of deposits can continue only to the point where existing reserves are just sufficient to satisfy legal requirements. If reserves of 20 per cent are required, for example, total deposits can expand only until they are five times as large as reserves. Ten million dollars of "excess" reserves, i.e., reserves in excess of the 20 per cent requirement, could support up to $50 million of additional deposits. The lower the percentage requirement, the greater the expansion power of each reserve dollar. It is this "fractional-reserve system" that sets the potentials and the limits to money creation.

What are bank reserves?

Currency held in member bank vaults may be counted as legal reserves. The major part of member bank reserves, however, is in the form of deposits (reserve balances) at the Federal Reserve Banks. A bank can always obtain re-

*Throughout this booklet, for reasons of simplicity, all commercial banks are assumed to be members of the Federal Reserve System.

Let us assume that expansion in the money supply is desired. One way the central bank can initiate such an expansion is through purchases of securities in the open market, thus adding to the reserves of member banks. Such purchases (and sales) are called "open market operations."

How do open market purchases add to bank reserves and deposits? The Federal Reserve System, through its New York office, buys $1,000,000 of Treasury bills from a Government securities dealer in New York. The Federal Reserve Bank pays for the securities with a check issued on itself (and signed by one of its officers). The dealer deposits this check in his account with a commercial bank (Bank A) which sends it for collection and immediate credit to its reserve account at the Federal Reserve Bank of New York. The Federal Reserve System has added $1,000,000 of securities to its assets which it has paid for in effect by **creating** member bank reserves. On the commercial bank's books these reserves are matched by $1,000,000 of additional demand deposits (money) which did not exist before. [See illustration (1).]

How the multiple expansion process works

If the process ended here, there would be no "multiple" expansion, i.e., deposits and bank reserves have changed by the same amount. However, member banks are required to maintain reserves equal to only a fraction of their deposits. Reserves in excess of this amount may be used to increase earning assets—loans and investments. Under current regulations, banks in large cities are required to have a higher percentage of reserves against demand deposits than are banks in smaller communities, but the average for all member banks is about 15 per cent. Assuming, for simplicity, a uniform 15 per cent reserve ratio and further assuming that all commercial banks attempt to remain fully invested, we can now trace the process of **expansion** in demand deposits which can take place on the basis of the **additional** reserves provided as a result of the Federal Reserve System's purchase of securities.

The expansion process may or may not begin with Bank A, depending on what the dealer does with the money he received from the sale of securities. If he immediately writes checks for $1,000,000 and all of them are deposited in other banks, Bank A loses both deposits and reserves and shows no net change as a result of the System's open market purchase. However, other banks have received them. Most likely, part of the deposits will remain with Bank A and a part will be shifted to a number of other banks as the dealer's checks clear.

It does not really matter where this money is at any given time. The important fact is that **these deposits do not disappear.** They are in some deposit accounts at all times. All banks together have $1,000,000 of deposits and reserves that they did not have before. However, they are not required to keep $1,000,000 of reserves against the $1,000,000 of deposits. All they need to retain, under a 15 per cent reserve requirement, is $150,000. The remainder, $850,000, is "excess reserves." This amount can be loaned or invested. [See illustration (2).]

If business is active, these banks will probably have opportunities to loan the $850,000. Of course, they do not really make loans out of the money they receive as deposits. If they did this, they would be acting just like financial intermediaries and no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits they make to the borrowers' deposit accounts. Loans (assets) and deposits (liabilities) both rise by $850,000. Reserves are unchanged by the loan transactions. But the deposit credits constitute new additions to the total deposits of the banking system. [See illustration (3).]

This is the beginning of the deposit expansion process. In the first stage of the process total loans and deposits of the commercial banks rise by an amount equal to the excess reserves existing before any loans were made

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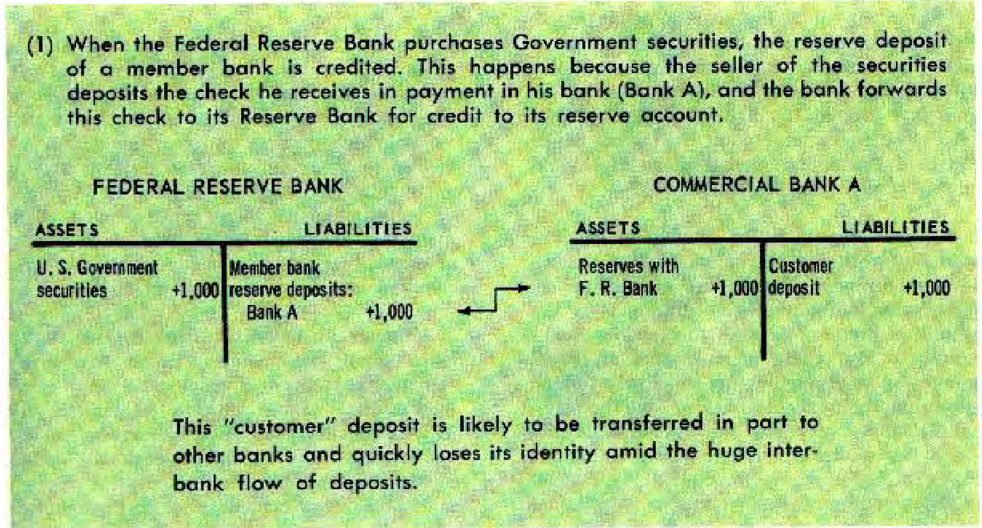
by the FEDERAL RESERVE BANK OF CHICAGO

(1961)

Part 3

Deposit Expansion

The amounts in the following illustrations are in thousands of dollars.



(1) When the Federal Reserve Bank purchases Government securities, the reserve deposit of a member bank is credited. This happens because the seller of the securities deposits the check he receives in payment in his bank (Bank A), and the bank forwards this check to its Reserve Bank for credit to its reserve account.

FEDERAL RESERVE BANK

ASSETS		LIABILITIES	
U. S. Government securities	+1,000	Member bank reserve deposits: Bank A	+1,000

COMMERCIAL BANK A

ASSETS		LIABILITIES	
Reserves with F. R. Bank	+1,000	Customer deposit	+1,000

This "customer" deposit is likely to be transferred in part to other banks and quickly loses its identity amid the huge inter-bank flow of deposits.

(2) Some banks now have "excess" reserves on the basis of which deposit expansion can take place.

Total reserves gained from new deposits	1,000
Required against new deposits (at 15%)	150
Excess reserves	850

Expansion—Stage 1

(3) Expansion takes place only if the banks which hold these excess reserves increase their loans or investments. Loans are made by crediting the borrower's deposit account, i.e., by creating additional deposit money.

STAGE 1 BANKS

ASSETS		LIABILITIES	
Loans	+850	Borrower deposits	+850

7

At the end of Stage 1 deposits have risen by $850,000, in addition to the original $1,000,000 provided by the Federal Reserve's action, and $127,500 (15% of $850,000) of excess reserves have been absorbed by this additional deposit growth. [See illustration (4).]

The lending banks, however, do not expect to retain the deposits they created through their loan operations. Borrowers write checks which will probably be deposited in other banks. As these are cleared the Federal Reserve Banks debit the reserve accounts of the paying banks (Stage 1 banks) and credit those of the receiving banks. [See illustration (5).]

Whether Stage 1 banks actually do lose the deposits to **other** banks or whether any or all of the borrowers' checks are redeposited in these **same** banks makes no difference in the expansion process. Because the lending banks **expect** to lose these deposits and an equal amount of reserves they are not likely to lend more than their excess reserves. Like the original $1,000,000 deposit, the loan-created deposits may be transferred to other banks, but they remain somewhere in the banking system. Whichever banks hold them also have equal amounts of reserves, of which all except 15 per cent will be "excess."

Assuming that the banks holding the $850,000 of deposits created in Stage 1 in turn make loans equal to their excess reserves, then loans and deposits will rise by a further $722,500 in the second stage of expansion. This process can continue until deposits have risen to the point where all the reserves provided by the purchase of Government securities by the Federal Reserve System are just sufficient to satisfy reserve requirements against those deposits. [See pages 10 and 11.]

An individual banker, of course, is not concerned as to the stages of expansion in which he may be participating. In his operations he is constantly experiencing inflows and outflows of deposits. Any deposit he receives is new money to him, regardless of its ultimate source, and investments equal to whatever reserves he has in excess of his legal requirements, he will be carrying on the expansion process.

How much can deposits expand in the banking system?

* The total amount of expansion that can take place is illustrated on page 11. Carried through to theoretical limits, the initial $1,000,000 of reserves is distributed throughout the banking system, gives rise to an expansion of $5,666,667 of commercial bank credit (loans and investments) and supports a total of $6,666,667 of deposits under a 15 per cent reserve requirement. The expansion factor for a given amount of excess reserves is thus the reciprocal of the required reserve percentage ($1/15\% = 6\frac{2}{3}$).

Although an individual bank can expand its loans only by the amount of its excess reserves, commercial banks as a group can expand credit by a multiple of any addition to their reserves. This is because the banks as a group are like one large bank in which checks drawn against borrowers' deposits result in credits to accounts of other depositors, with no net change in total deposits or reserves.

Expansion through bank investments

Deposit expansion can proceed from investments as well as loans. Suppose that the demand for loans at some Stage 1 banks is slack. These banks would then probably purchase securities. If the sellers of the securities are customers, the banks would make payment by crediting the customers' demand deposits; deposit liabilities would rise just as they did when loans were made. More likely, these banks would purchase the securities through dealers, paying for them with checks on themselves or on their reserve accounts. These checks would be deposited in the sellers' banks. In either case, the net effects on the banking system are identical with those resulting from the loan operations described above.

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As a result of the process so far, total assets and total liabilities of all commercial banks together have risen 1,850.

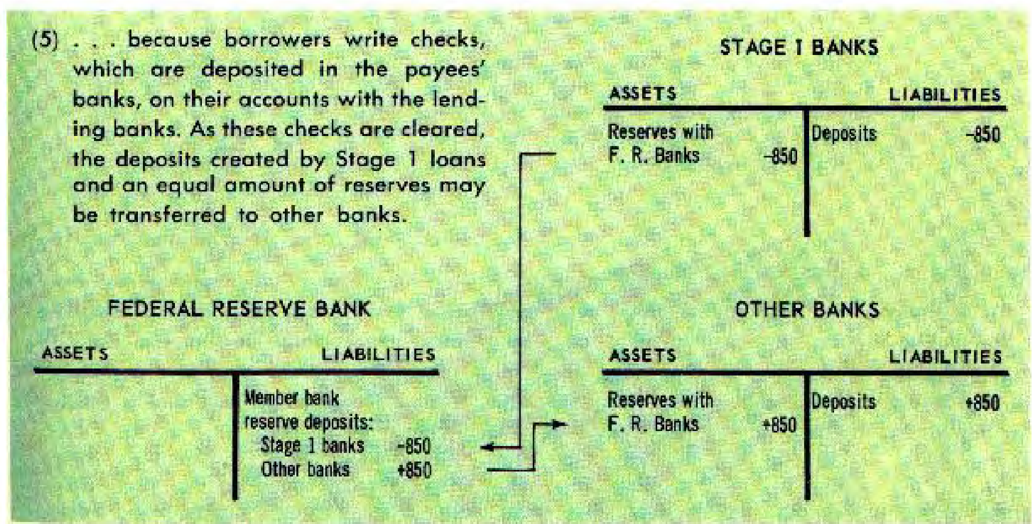
ALL COMMERCIAL BANKS

ASSETS		LIABILITIES	
Reserves with F. R. Banks	+1,000	Deposits: Initial	+1,000
		Stage 1	+850
Loans	+850		
Total	+1,850	Total	+1,850

(4) Excess reserves have been reduced by the amount required against the deposits created by the loans made in Stage 1.

Total reserves gained from initial deposits		1,000
Required against initial deposits	150	
Required against Stage 1 deposits	128	278
Excess reserves		722

Why did these banks stop increasing their loans and deposits when they still have excess reserves?



(5) . . . because borrowers write checks, which are deposited in the payees' banks, on their accounts with the lending banks. As these checks are cleared, the deposits created by Stage 1 loans and an equal amount of reserves may be transferred to other banks.

STAGE 1 BANKS

ASSETS		LIABILITIES	
Reserves with F. R. Banks	-850	Deposits	-850

FEDERAL RESERVE BANK

ASSETS	LIABILITIES	
	Member bank reserve deposits:	
	Stage 1 banks	-850
	Other banks	+850

OTHER BANKS

ASSETS		LIABILITIES	
Reserves with F. R. Banks	+850	Deposits	+850

Deposit expansion has just begun!

Part 3

Expansion—Stage 2

(6) Expansion continues as the banks which have the excess reserves increase their loans by that amount, crediting borrowers' deposits—creating still more money—in the process.

STAGE 2 BANKS

ASSETS		LIABILITIES	
Loans	+722	Borrower deposits	+722

Now the banking system's assets and liabilities have risen by a total of 2,572.

ALL COMMERCIAL BANKS

ASSETS		LIABILITIES	
Reserves with F. R. Bank	+1,000	Deposits: Initial	+1,000
Loans: Stage 1	+850	Stage 1	+850
Stage 2	+722	Stage 2	+722
Total	+2,572	Total	+2,572

(7) But there are still 614 of excess reserves in the banking system.

Total reserves gained from initial deposits		1,000
Required against initial deposits	150	
Required against Stage 1 deposits	128	
Required against Stage 2 deposits	108	386
Excess reserves		614

↓ to Stage 3 banks

(8) As borrowers make payments, these reserves will be further dispersed, and the process can continue through many more stages, in progressively smaller increments, until the entire 1,000 of reserves has been absorbed by deposit growth. As is apparent from the summary table on page 11, more than four-fifths of the expansion potential is reached after the first ten stages.

It should be understood that the stages of expansion do not occur simultaneously. Because some banks use their reserves incompletely or only after a considerable time lag, the process is in fact continuous. Expansion, moreover, may never reach its theoretical limits.

MODERN MONEY MECHANICS

by the FEDERAL RESERVE BANK OF CHICAGO

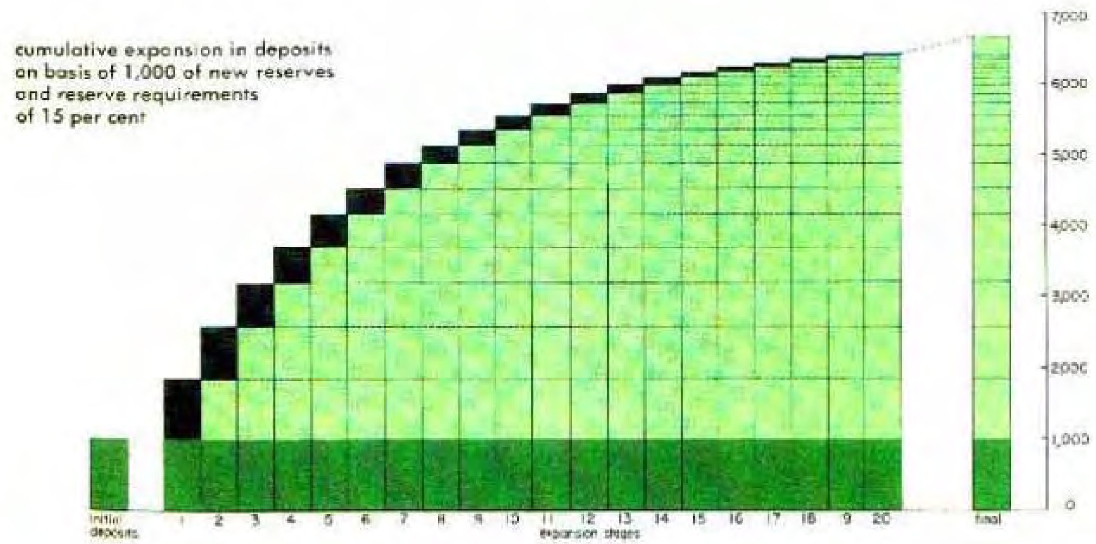
(1961)

Part 3

Thus through stage after stage of expansion, "money" can grow to a total of 6⅔ times the new reserves supplied to the commercial banking system . . .

	Assets				Liabilities
	Reserves			Loans and investments	Demand deposits
	Total	(Required)	(Excess)		
Initial reserves provided. . .	1,000	150	850	. . .	1,000
Expansion — Stage 1.	1,000	278	722	850	1,850
Stage 2.	1,000	386	614	1,572	2,572
Stage 3.	1,000	478	522	2,186	3,186
Stage 4.	1,000	556	444	2,708	3,708
Stage 5.	1,000	623	377	3,152	4,152
Stage 6.	1,000	680	320	3,529	4,529
Stage 7.	1,000	728	272	3,849	4,849
Stage 8.	1,000	769	231	4,121	5,121
Stage 9.	1,000	803	197	4,352	5,352
Stage 10.	1,000	833	167	4,549	5,549
.	.	.	.	.	.
Stage 20.	1,000	961	39	5,448	6,448
.	.	.	.	.	.
Final stage. . . .	1,000	1,000	0	5,667	6,667

. . . as the new deposits created by loans at each stage are added to those created at all earlier stages and those supplied by the initial reserve-creating action.



11

When a member bank borrows from its Federal Reserve Bank it borrows reserves. The acquisition of reserves in this manner differs in an important way from the cases already illustrated. Banks normally borrow only to make up reserve deficiencies, not to obtain excess reserves. Borrowed reserves, therefore, are reserves on which expansion has already taken place. How can this happen?

In their efforts to accommodate customers as well as to keep fully invested, banks sometimes make loans in anticipation of deposit inflows that fail to materialize or do so less rapidly than expected. These new loans add to bank deposits but not to bank reserves. Unless excess reserves can be tapped, there will not be enough reserves to meet the reserve requirements against the new deposits. Likewise, individual banks may incur deficiencies through unexpected deposit outflows and corresponding losses of reserves through clearings. Other banks receive these deposits and can increase their loans accordingly, but the banks that lost them may not be able to reduce outstanding loans or investments in order to restore their reserves to required levels. In either case, a member bank may borrow reserves temporarily from its Reserve Bank.

Suppose a customer of Bank A wants to borrow $100. On the basis of the management's judgment that the bank's reserves will rise sufficiently to provide the necessary funds, the customer is accommodated. The loan is made by debiting "loans" and crediting the customer's deposit account. Now Bank A's deposits are increased by $100. But, if reserves have not risen as expected, Bank A will have a $15 reserve deficiency, assuming requirements of 15 per cent [see illustration (1)]. It borrows that amount from its Federal Reserve Bank which makes a loan by giving the borrowing bank credit in its reserve account and debiting "discounts and advances." The member bank gains reserves and a corresponding liability, "bills payable" [see illustration (2)]. **Since only enough reserves were borrowed to support deposits already in existence, no further expansion on these reserves is possible.**

Federal Reserve loans to member banks are extended mainly to cover emergency-type needs. Borrowed reserves must, therefore, be repaid within a relatively short period of time. Even in periods when the total volume of member bank borrowing is rising, some individual banks are repaying debt while others are borrowing.

To repay borrowing, a bank must have gained reserves through either deposit growth or asset liquidation [see illustration (3)]. A bank makes payment by authorizing a debit to its reserve account at the Federal Reserve Bank. Repayment of borrowing, therefore, reduces both reserves and "bills payable" [see illustration (4)].

The adjustments made by some banks to get out of debt, such as sales of securities, tend to transfer reserve shortages to other banks and may force them to borrow, especially in periods of heavy credit demands. In the aggregate, borrowing usually increases in periods of rising business activity when the public's demands for credit are rising more rapidly than reserves are being provided by the System in other ways.

Discount policy is a tool of monetary control

Although reserve expansion through borrowing is initiated by member banks, the amount of reserves that banks can acquire in this way is limited by Federal Reserve discount administration and by control of the rate charged banks on these loans—the discount rate. Loans are made only for approved purposes, and borrowing for extended periods is discouraged. A higher discount rate tends to restrain borrowing by increasing its cost.

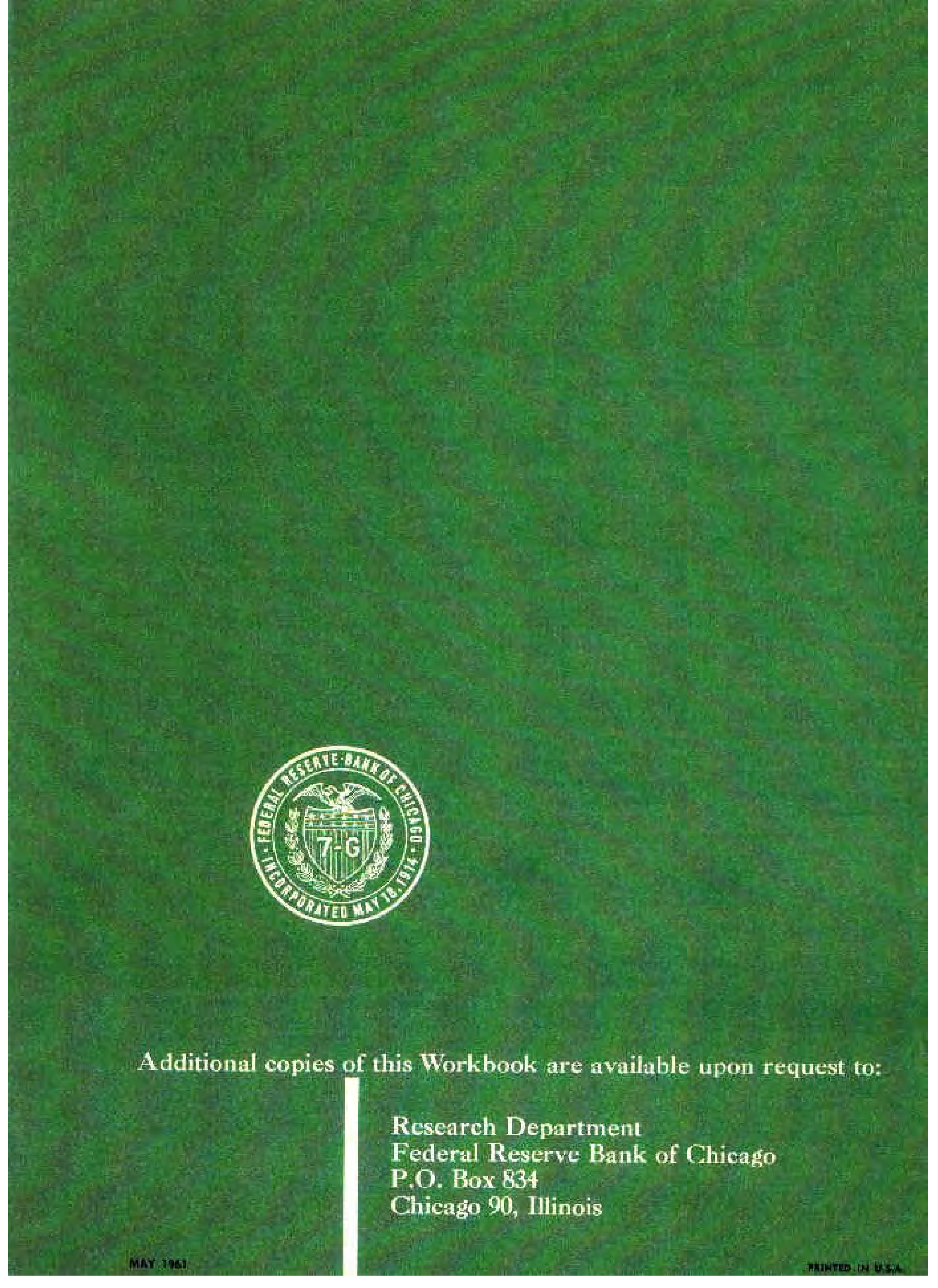
Discounting is an important adjunct to the other Federal Reserve tools of control. While the privilege of borrowing offers a "safety valve" to relieve temporarily severe strains on the reserve positions of individual banks, there is a strong incentive to repay borrowing before adding further to loans and investments.

MODERN MONEY MECHANICS

by the FEDERAL RESERVE BANK OF CHICAGO

(1961)

Part 3



MODEREN MONEY MECHANICS

by the FEDERAL RESERVE BANK OF CHICAGO
(Revised 1992)

Part 4

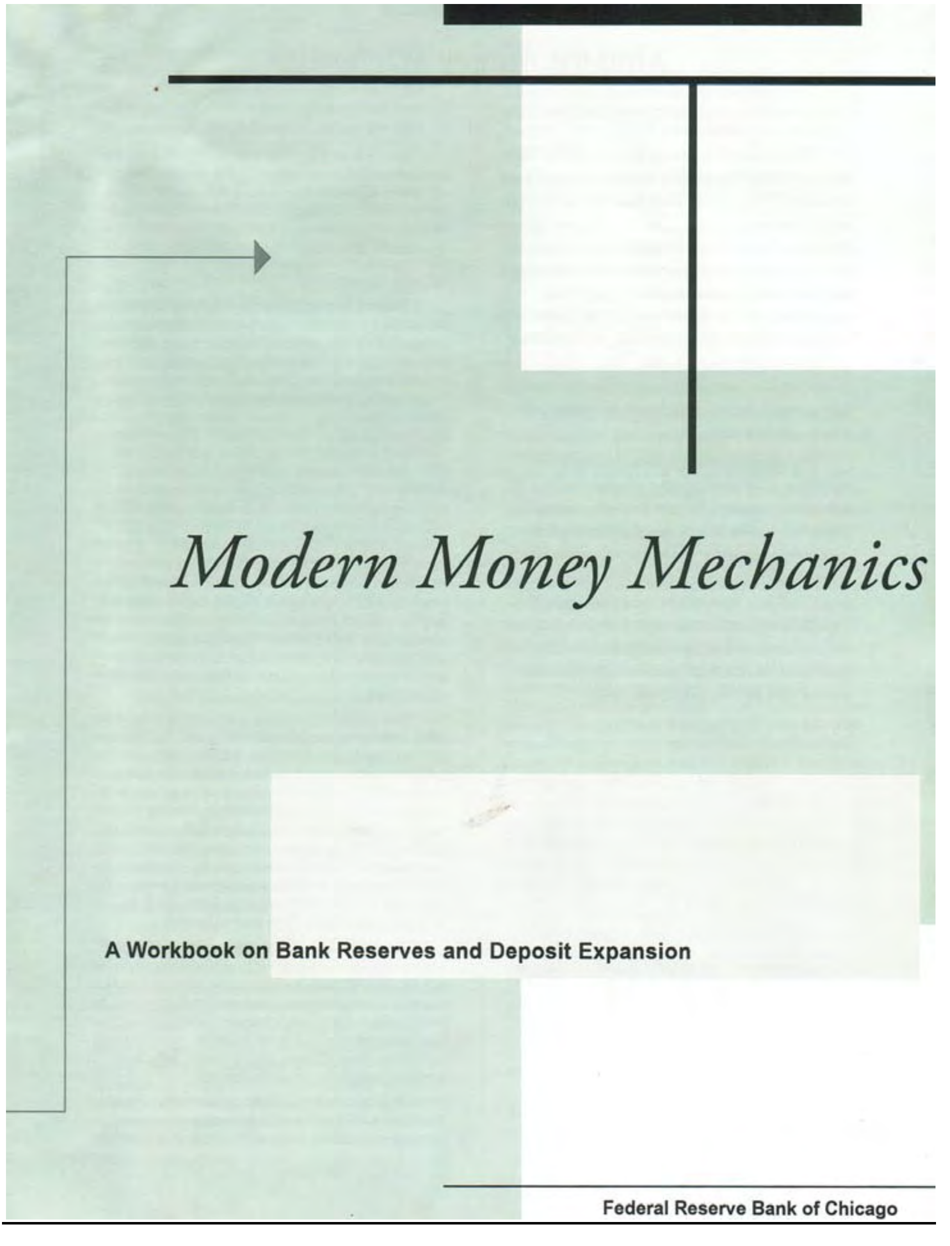
The full document is available up on request

34. page 8 states:

    1) *The total amount of expansion that can take place is illustrated on page 11. Carried through to theoretical limits, the initial $10,000 of reserves distributed within the banking system gives rise to an expansion of $90,000 in bank credit (loans and investments) and supports a total of $100,000 in new deposits under a 10 percent reserve requirement. The deposit expansion factor for a given amount of new reserves is thus the reciprocal of the required reserve percentage (1/.10 = 10).*

35. page 11 states

    1) *Thus through stage after stage of expansion "money can grow to a total of 10 times the new reserves supplied to the banking system…*



Part 4

This is the beginning of the deposit expansion process. In the first stage of the process, total loans and deposits of the banks rise by an amount equal to the excess reserves existing before any loans were made (90 percent of the initial deposit increase). At the end of Stage 1, deposits have risen a total of $19,000 (the initial $10,000 provided by the Federal Reserve's action plus the $9,000 in deposits created by Stage 1 banks). *See illustration 4.* However, only $900 (10 percent of $9,000) of excess reserves have been absorbed by the additional deposit growth at Stage 1 banks. *See illustration 5.*

The lending banks, however, do not expect to retain the deposits they create through their loan operations. Borrowers write checks that probably will be deposited in other banks. As these checks move through the collection process, the Federal Reserve Banks debit the reserve accounts of the paying banks (Stage 1 banks) and credit those of the receiving banks. *See illustration 6.*

Whether Stage 1 banks actually do lose the deposits to ***other*** banks or whether any or all of the borrowers' checks are redeposited in these ***same*** banks makes no difference in the expansion process. If the lending banks ***expect*** to lose these deposits — and an equal amount of reserves — as the borrowers' checks are paid, they will not lend more than their excess reserves. Like the original $10,000 deposit, the loan-created deposits may be transferred to other banks, but they remain somewhere in the banking system. Whichever banks receive them also acquire equal amounts of reserves, of which all but 10 percent will be "excess."

Assuming that the banks holding the $9,000 of deposits created in Stage 1 in turn make loans equal to their excess reserves, then loans and deposits will rise by a further $8,100 in the second stage of expansion. This process can continue until deposits have risen to the point where all the reserves provided by the initial purchase of government securities by the Federal Reserve System are just sufficient to satisfy reserve requirements against the newly created deposits. *(See pages 10 and 11.)*

The individual bank, of course, is not concerned as to the stages of expansion in which it may be participating. Inflows and outflows of deposits occur continuously. Any deposit received is new money, regardless of its ultimate source. But if bank policy is to make loans and investments equal to whatever reserves are in excess of legal requirements, the expansion process will be carried on.

How Much Can Deposits Expand in the Banking System?

The total amount of expansion that can take place is illustrated on page 11. Carried through to theoretical limits, the initial $10,000 of reserves distributed within the banking system gives rise to an expansion of $90,000 in bank credit (loans and investments) and supports a total of $100,000 in new deposits under a 10 percent reserve requirement. The deposit expansion factor for a given amount of new reserves is thus the reciprocal of the required reserve percentage (1/.10 = 10). Loan expansion will be less by the amount of the initial injection. The multiple expansion is possible because the banks as a group are like one large bank in which checks drawn against borrowers' deposits result in credits to accounts of other depositors, with no net change in total reserves.

Expansion through Bank Investments

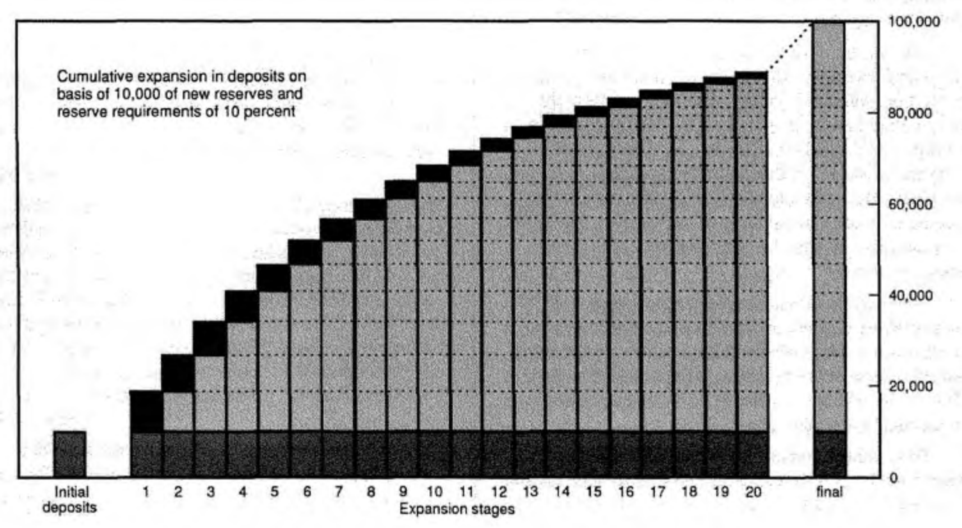
Deposit expansion can proceed from investments as well as loans. Suppose that the demand for loans at some Stage 1 banks is slack. These banks would then probably purchase securities. If the sellers of the securities were customers, the banks would make payment by crediting the customers' transaction accounts; deposit liabilities would rise just as if loans had been made. More likely, these banks would purchase the securities through dealers, paying for them with checks on themselves or on their reserve accounts. These checks would be deposited in the sellers' banks. In either case, the net effects on the banking system are identical with those resulting from loan operations.

Part 4

Thus through stage after stage of expansion, "money" can grow to a total of 10 times the new reserves supplied to the banking system . . .

	Assets				Liabilities
	Reserves			Loans and Investments	Deposits
	Total	*[Required]*	*[Excess]*		
Initial reserves provided	10,000	*1,000*	*9,000*	--	10,000
Expansion — Stage 1	10,000	*1,900*	*8,100*	9,000	19,000
Stage 2	10,000	*2,710*	*7,290*	17,100	27,100
Stage 3	10,000	*3,439*	*6,561*	24,390	34,390
Stage 4	10,000	*4,095*	*5,905*	30,951	40,951
Stage 5	10,000	*4,686*	*5,314*	36,856	46,856
Stage 6	10,000	*5,217*	*4,783*	42,170	52,170
Stage 7	10,000	*5,695*	*4,305*	46,953	56,953
Stage 8	10,000	*6,126*	*3,874*	51,258	61,258
Stage 9	10,000	*6,513*	*3,487*	55,132	65,132
Stage 10	10,000	*6,862*	*3,138*	58,619	68,619
Stage 20	10,000	*8,906*	*1,094*	79,058	89,058
Final stage	10,000	*10,000*	*0*	90,000	100,000

. . . as the new deposits created by loans at each stage are added to those created at all earlier stages and those supplied by the initial reserve-creating action.



TWO FACES OF DEBT

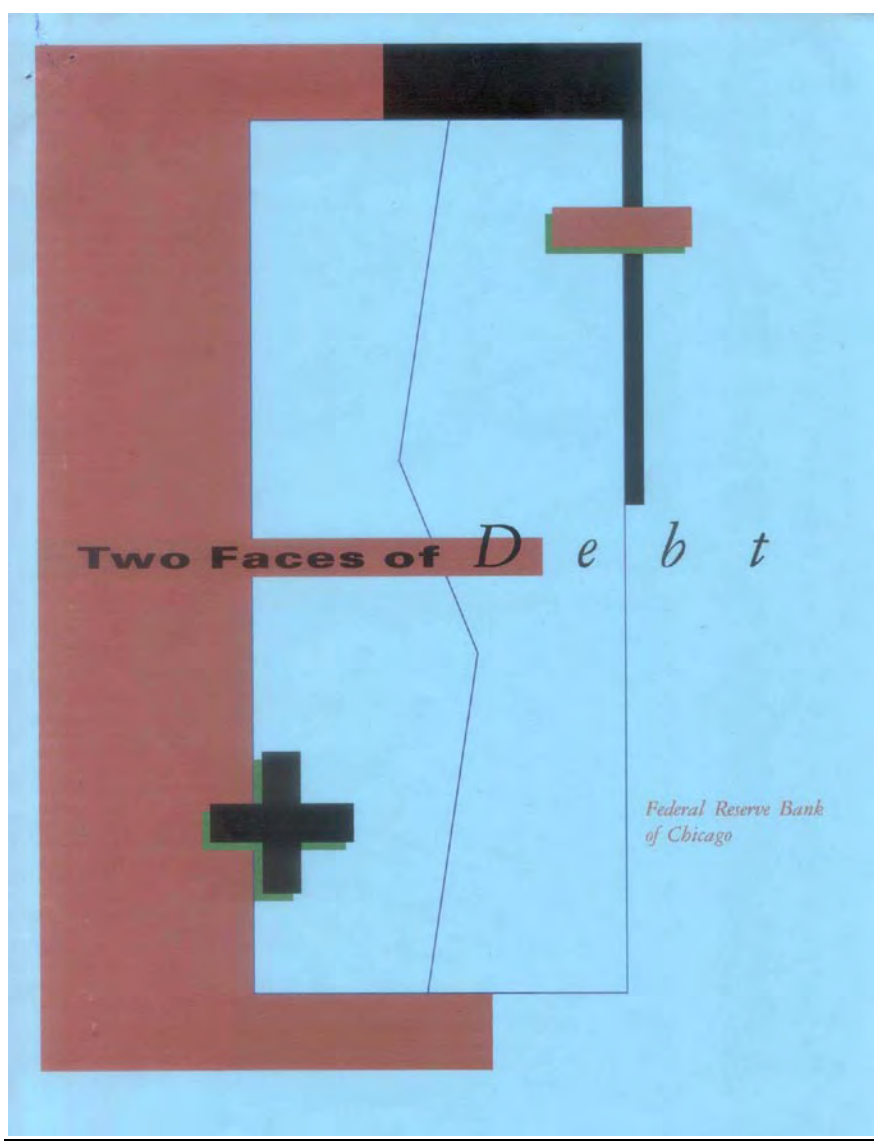
by the Federal Reserve Bank of Chicago
(rev. ed. September 1992)

Part 5

The full document is available up on request

36. page 19 states:

1) *But a depositor's balance rises when the depository institution extends credit either by granting a loan to or by buying securities from the depositor.* page 11 states
2) *In exchange for the note or security, the lending or investing institution credits the depositors account or gives a check that can be deposited at yet another depository at yet another institution.*
3) *In this case no one loses a deposit the money supply is increased. New money has been brought into existence,"*
4) *"Such newly created funds are in addition to funds that all financial institutions provide in their operations as intermediaries between savers and users of savers"*
5) *"A deposit created through lending is a debt that has to be paid on demand of the depositor, just the same as the debt rising from a customer's deposit of checks in a bank"*



It also provides a means of creating entirely new funds–funds needed to finance the greater volume of new projects and spending that contribute to economic growth.

Again, checkable deposits in commercial banks and savings institutions are debts–liabilities of these depository institutions to their depositors. But checkable deposits are also the money used for most expenditures. How do these deposit liabilities arise?

For an individual institution, they arise typically when a depositor brings in currency or checks drawn on other institutions. The depositor's balance rises, but the currency he or she holds or the deposits someone else holds are reduced a corresponding amount. The public's total money supply is not changed.

But a depositor's balance also rises when the depository institution extends credit–either by granting a loan to or buying securities from the depositor. In exchange for the note or security, the lending or investing institution credits the depositor's account or gives a check that can be deposited at yet another depository institution. In this case, no one else loses a deposit. The total of currency and checkable deposits–the money supply–is increased. New money has been brought into existence by expansion of depository institution credit. Such newly created funds are in addition to funds that all financial institutions provide in their operations as intermediaries between savers and users of savings.

But individual depository institutions cannot expand credit and create deposits without limit. Furthermore, most of the deposits they create are soon transferred to other institutions. A deposit created through lending is a debt that has to be paid on demand of the depositor, just the same as the debt arising from a customer's deposit of checks or currency in a bank. By writing checks, the borrower can spend the deposit acquired by borrowing. The recipients of these checks deposit them in their depository institutions. In turn, these checks are presented for payment to the institution on which they are drawn. As a result, the newly created deposit can be shifted out of the originating institution, but it remains part of the money supply until the debt is repaid.

No effort is made here to give a detailed explanation of the creation of money through the expansion of deposits and depository institution credit.[3] For present purposes, it is enough to point out that these institutions can make additional loans and investments, and thereby increase checkable deposit money, to the extent that they have the required amount of reserves against the increased deposits. The amount of reserves, in turn, is controlled by the Federal Reserve System–the central bank of the United States.

A national debt, if it is not excessive, will be to us a national blessing.

Alexander Hamilton

At the heart of our national finances is a simple, inescapable fact . . . that our government–any government–like individuals and families–cannot spend and continue to spend more than they take in without inviting disaster.

Clarence Cannon

[3] For a description of this process, see ***Modern Money Mechanics: A Workbook on Bank Reserves and Deposit Expansion***, available on request from the Public Information Center, Federal Reserve Bank of Chicago.

TWO FACES OF DEBT

by the Federal Reserve Bank of Chicago
(rev. ed. September 1992)

Part 5

The Federal Reserve Bank of Chicago offers a variety of materials on money and banking, the financial system, the economy, consumer credit, and related topics. Information on these materials is available by contacting:

Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
312/322-5111

FEDERAL RESERVE BANK
OF CHICAGO

MONEY AND BANKING

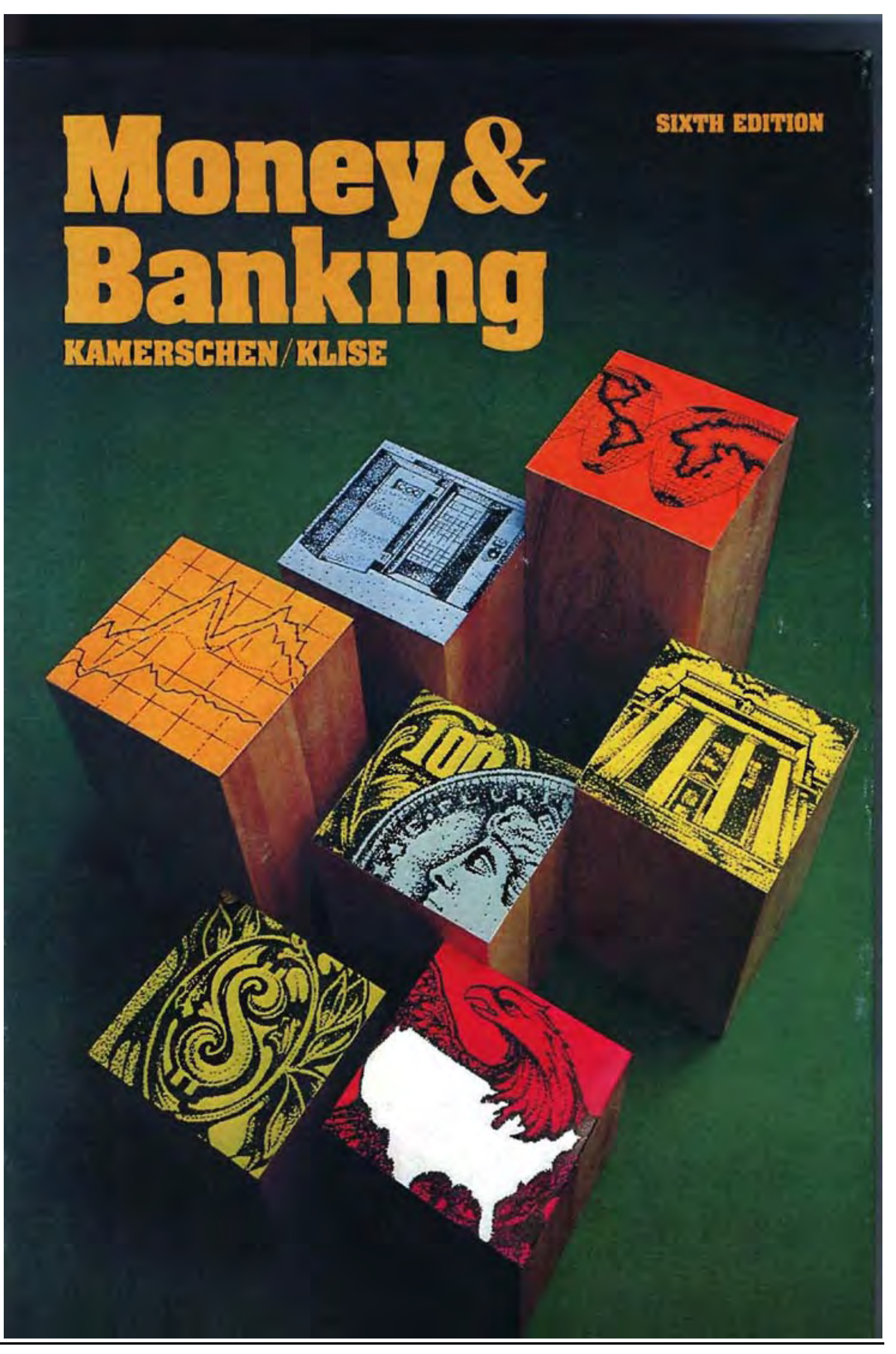
Sixth Edition 1976

Part 6

The full document is available up on request

37. Chapter 6 page 144 states:

    1) *Most people suppose that a bank lends the deposits of its customers. In fact, however, no bank ever lends its deposits.*



MONEY AND BANKING

Sixth Edition 1976

Part 6

Money & Banking

SIXTH EDITION

DAVID R. KAMERSCHEN
Professor and Head
Department of Economics
University of Georgia
Athens, Georgia

EUGENE S. KLISE
Former Professor Emeritus
Miami University
Oxford, Ohio

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Chapter 6 Creation and Transfer of Deposits

What is a bank deposit? A simple question, isn't it? Anyone can answer it. Unfortunately most people will answer it incorrectly or, at best, inexactly. If, without reading farther, you can accurately define bank deposits, you are the exception.

There is a persistent confusion respecting deposits.

1. **Deposits are our most important money. Yet to the bank, the deposits of its customers are not money at all.**
2. **You take a handful of currency to the bank and deposit it. However, under no circumstances whatever do the bank's deposits consist of currency.**
3. **Most people suppose that a bank lends the deposits of its customers. In fact, however, no bank ever lends its deposits.**

These apparent contradictions result from the fact that we regularly use the word ***deposit*** in two entirely different, and completely inconsistent, ways. Ambiguity is inevitable unless we clearly specify which meaning the word is to have. We cannot possibly, in an analysis of bank operations, follow the common practice of allowing ***deposit*** to mean one thing one moment, something entirely different a moment later.

Specifically, we must decide whether we are going to consider a deposit as being the thing that is turned in to the bank—the actual checks on other banks and pieces of silver and currency—or as being the sums owed to depositors. These two things are not the same at all, for one is an asset, the other a liability of the bank.

Logically, perhaps, the term ***deposit*** should refer to the physical asset that one surrenders to the bank. There is no difficulty in understanding what has taken place if we say someone deposited $50 of currency or made a deposit of **$300.** The customer turned in that amount to the bank, and the word is used in accordance with the first definition.

But then we say, "The customer has a deposit of **$300,"** and we have swung over to the second definition. The deposit is an asset of the customer. It cannot possibly be at the same time an asset of the bank. Exactly what is the customer's deposit asset? Certainly it is not the handful of currency or the check the customer turned over to the bank teller, for these are now assets of the bank. The asset the customer received in exchange was a claim on the bank. From the bank's point of view, this deposit, as such, is a liability. When the bank increases its assets (currency, checks on other banks, other negotiable instruments), it increases its liabilities by an equal amount (or sometimes

I BET YOU THOUGHT

by the Federal Reserve Bank of New York
(December 1977)

Part 7

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38. page 5 states:
    1) *Money is anything generally accepted medium of exchange. Not simply coin and paper currency. Money doesn't have to be intrinsically valuable (valuable in itself). Be issued by a government or be in any special form.*
    2) *Demand deposits are the nation's most common form of money. Comprising about three-quarters of all money in circulation.*
39. page 7 states:
    1) *But that approval doesn't make cash any more real than checkbook balances.*
40. page 19 states:
    1) *Checkbook money is "created" by currency deposits.*
    2) *Commercial banks create checkbook money whenever they grant a loan. Simply by adding new deposit dollars to account on their books in exchange for a borrower's IOU.*

I BET YOU THOUGHT

by the Federal Reserve Bank of New York
(December 1977)

Part 7

3

I BET YOU THOUGHT

by the Federal Reserve Bank of New York
(December 1977)

Part 7

Money is simply coin and paper currency.
Money is any generally accepted medium of exchange, not simply coin and paper currency Money doesn't have to be intrinsically valuable (valuable in itself), be issued by a government or be in any special form. In our past, items ranging from iron nails and dried codfish to gun powder and tobacco have served as money

Anything people generally accept in exchange for items of value is money Money also is a standard for measuring value and a means of storing purchasing power for future use Any item that has these three traits is money

Americans accept three types of money—coin issued by the Treasury, paper currency issued by Federal Reserve Banks, and checkbook balances (demand deposits) at banks

In analyzing economic activity, many economists take a much broader view of money and include other money-like items immediately available to the public for spending, such as passbook savings and other funds deposited for specific time periods

Demand deposits are the nation's most common form of money, comprising about three-quarters of all money in circulation. This checkbook money is bookkeeping money created mainly by the nation's commercial banks. Americans prefer using checkbook money because it performs as a more efficient medium of exchange than coin or currency for many transactions. Check writers have with one blank check the potential for spending small or large amounts. Since each check must be signed before funds are transferred, checkbook money cannot easily be stolen. In addition, cancelled checks provide written proof of payments. Since we prize convenience, safety and recordkeeping, it's no wonder that checkbook money is preferred

Checkbook money works because people are confident in the strength, safety and prudence of the American banking system. Their confidence has been bolstered by Government regulation of commercial banks and Government deposit insurance. The check clearing and collection system of the Federal Reserve, the nation's central bank, has also made checkbook money highly acceptable by speeding checking account transfers nationwide.

We've been big check users for quite awhile. The move began in the post Civil War era, when bank deposits became the dominant form of money held. Today, if all payment transactions were counted, including those for stock, bond and real estate purchases, the dollar volume of check spending to coin and paper currency spending would be enormous.

Only about 3 percent of our money is in coins, and for every 10 cents in small change we keep, we hold about a dollar in paper money. As a nation, we hold only about $80 billion of cash, compared with $230 billion of checkbook money.

I BET YOU THOUGHT

by the Federal Reserve Bank of New York

(December 1977)

Part 7

Only coin and currency are real monies because the Government says they're "legal tender." Coin and currency are "legal tender," money the Government says has to be accepted if offered to settle a debt. But that approval doesn't make cash any more "real" than checkbook balances.

Until the 1860s, "legal tender" applied only to coin, yet even then we used more private bank notes and bank deposits as money than coin. Legal tender designation was given to certain Government-issued paper currency during the Civil War to win public confidence in the paper money. However, there has been no meaningful distinction between "legal tender" and other U.S. money since 1933 when Congress made all coins and currencies legal tender for all public and private debts.

Regardless of what any government says, money must have certain characteristics that make it acceptable. Without those traits, even "legal tender" cannot be successful as money.

Most early monies were not issued by governments. They were commodities, such as salt, cattle and rum, that were widely known and easily sold or used. But commodities proved less than perfect monies. The tobacco used by the early Virginia settlers is an example.

The leaves weren't easily divisible, causing difficulty in "making change." The varying prices for different grades of tobacco made value difficult to determine. It also was hard to carry and store. Temperature and humidity changes caused flaking which "devalued" the leaves. In short, tobacco lacked many characteristics needed to make it work well as money.

For an item to perform successfully as money it must be durable, divisible, portable and difficult to counterfeit. More important, as the Virginians' experience shows, while any item can serve as money, it won't work well or last long unless it can also serve well as a standard and store of value.

People's willingness to accept money, in any form, is rooted not in the law but in money's ability to effectively measure and hold value.

10

I BET YOU THOUGHT

by the Federal Reserve Bank of New York
(December 1977)

Part 7

Checkbook money is "created" by currency deposits.

Commercial banks create checkbook money whenever they grant a loan, simply by adding new deposit dollars to accounts on their books in exchange for a borrower's IOU

Money creation bookkeeping isn't gimmickry Far from it Banks are creating money based on a borrower's promise to repay (the IOU), which, in turn, is often secured or backed by valuable items the borrower owns (collateral)

Someone obtaining an auto loan, for example, might use the new car as collateral A home improvement loan might be secured by the value of the house being improved Business loans may be secured by physical assets such as machines, factories and inventories, or may be "unsecured," backed only by the company's earnings record and expectations or general credit worthiness

Banks create money by "monetizing" the private debts of businesses and individuals That is, they create amounts of money against the value of those IOUs

To create money, however, banks must have "excess" reserves, funds exceeding those they are legally required to hold Banks belonging to the Federal Reserve System must abide by the System's requirements Banks that aren't members are subject to the reserve requirements of the state that chartered them.

Even without legal rules, prudent banking dictates that some "required" reserves be held Bankers know that, on any given day, they will have to pay out coin and currency to people cashing personal checks They also know that they will have to transfer reserve balances as checks drawn against accounts they hold are presented for payment by other banks. Meeting these routine transactions requires that banks hold some reserve funds.

If a bank has excess reserves it can create an amount of money equal to that excess; it can grant a loan Borrowers write checks against their new deposits When these checks are deposited at other banks, those banks collect payment from the borrower's bank Bankers know that when other banks present borrowers' checks for payment, they will have to transfer reserves on a dollar-for-dollar basis

If a bank creates an amount greater than its excess reserves, it also would lose some required reserves and face temporary violation of requirement rules Prolonged violation of requirement rules subjects banks to penalties So they tend to match lending to excess reserves A bank short of required reserves usually will borrow from another bank Member banks can also borrow from the Federal Reserve

As newly created checkbook dollars move from bank to bank, banks gaining excess reserves can make additional loans As a group, banks are capable of creating money in a multiple way. Currently, our banking system theoretically can generate a sevenfold increase in total money creation with a given amount of excess reserves.

Money multiplication, rather than currency deposits, accounts for most of our $230 billion of checkbook money Banks hold only about $34 billion in reserves Only $8 billion of that total is cash, the remaining reserves are deposit balances at Federal Reserve Banks Reserves are the base on which the banking system has generated the bulk of the nation's checkbook money.

MONEY, BANKING & MONETARY POLICY

by the Federal Reserve Bank of Dallas

(May, 2007)

Part 8

The full document is available up on request

41. page 11 states:

    1) *Banks actually create money when they lend it.*

Very little of this money is kept in the bank's vault, however. While the Federal Reserve requires banks to keep a specified percentage of customer deposits on hand (reserves) to meet routine withdrawals, they lend the excess. Banks, like any other business, must make a profit to stay in business. Their profit comes from interest people pay on the money they borrow.

In the United States, checks didn't come into widespread use as a medium of exchange until deposit banking became established in the late 1700s.

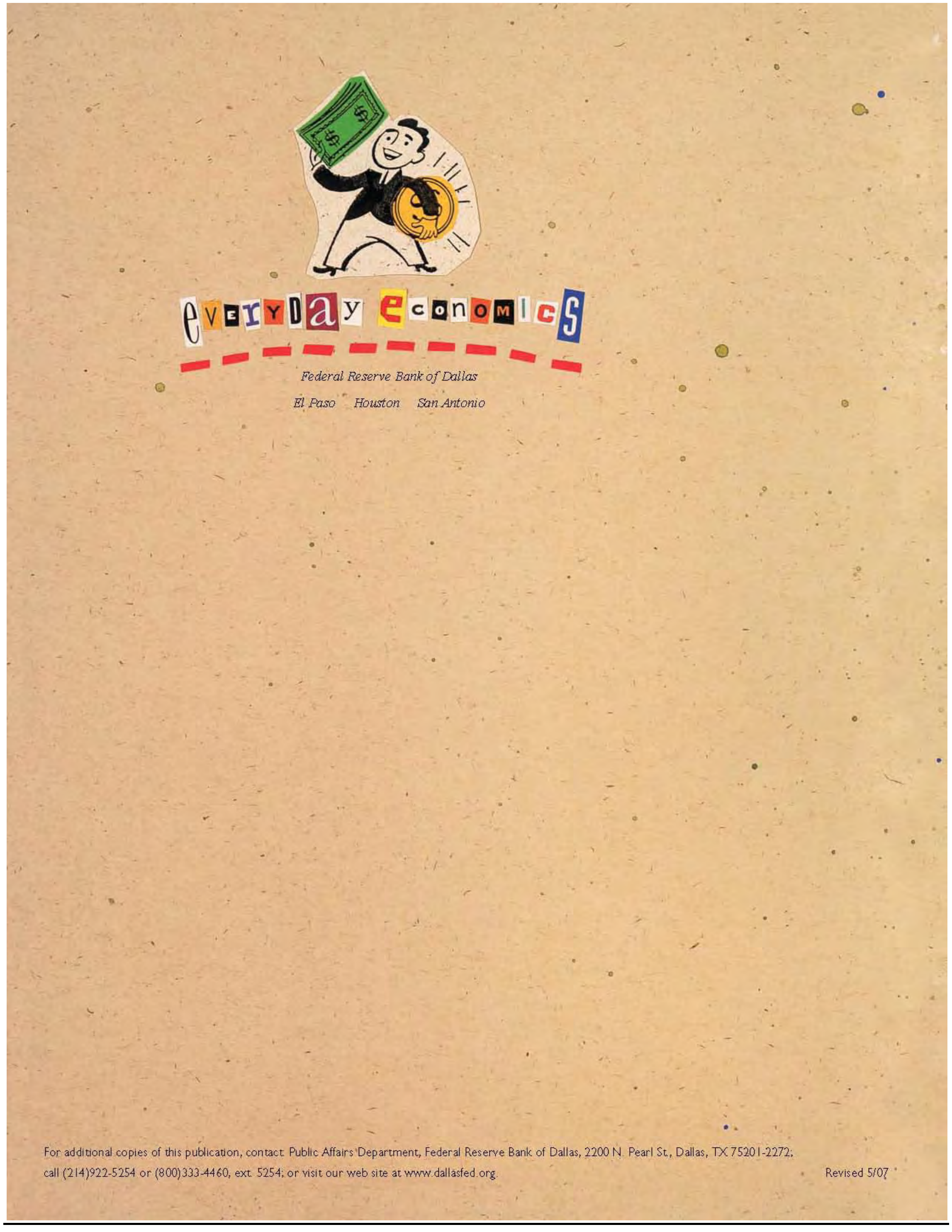
How Banks Create Money

Banks actually create money when they lend it. Here's how it works: Most of a bank's loans are made to its own customers and are deposited in their checking accounts. Because the loan becomes a new deposit, just like a paycheck does, the bank once again holds a small percentage of that new amount in reserve and again lends the remainder to someone else, repeating the money-creation process many times.

The tricky part of monetary policy is making sure there is enough money in the economy, but not too much. When people have the money to demand more products than the economy can supply, prices go up and the resulting inflation hurts everyone. While in the United States we get concerned when inflation climbs above 3 percent a year, we've been more fortunate than some other countries. Just imagine trying to survive in post-World War II Hungary, for instance, where for awhile inflation averaged nearly 20,000 percent per month!

adjust prices and wages to compensate for the higher prices they believe are on the way.

Part 8



YOUR MONEY AND THE FEDERAL RESERVE SYSTEM

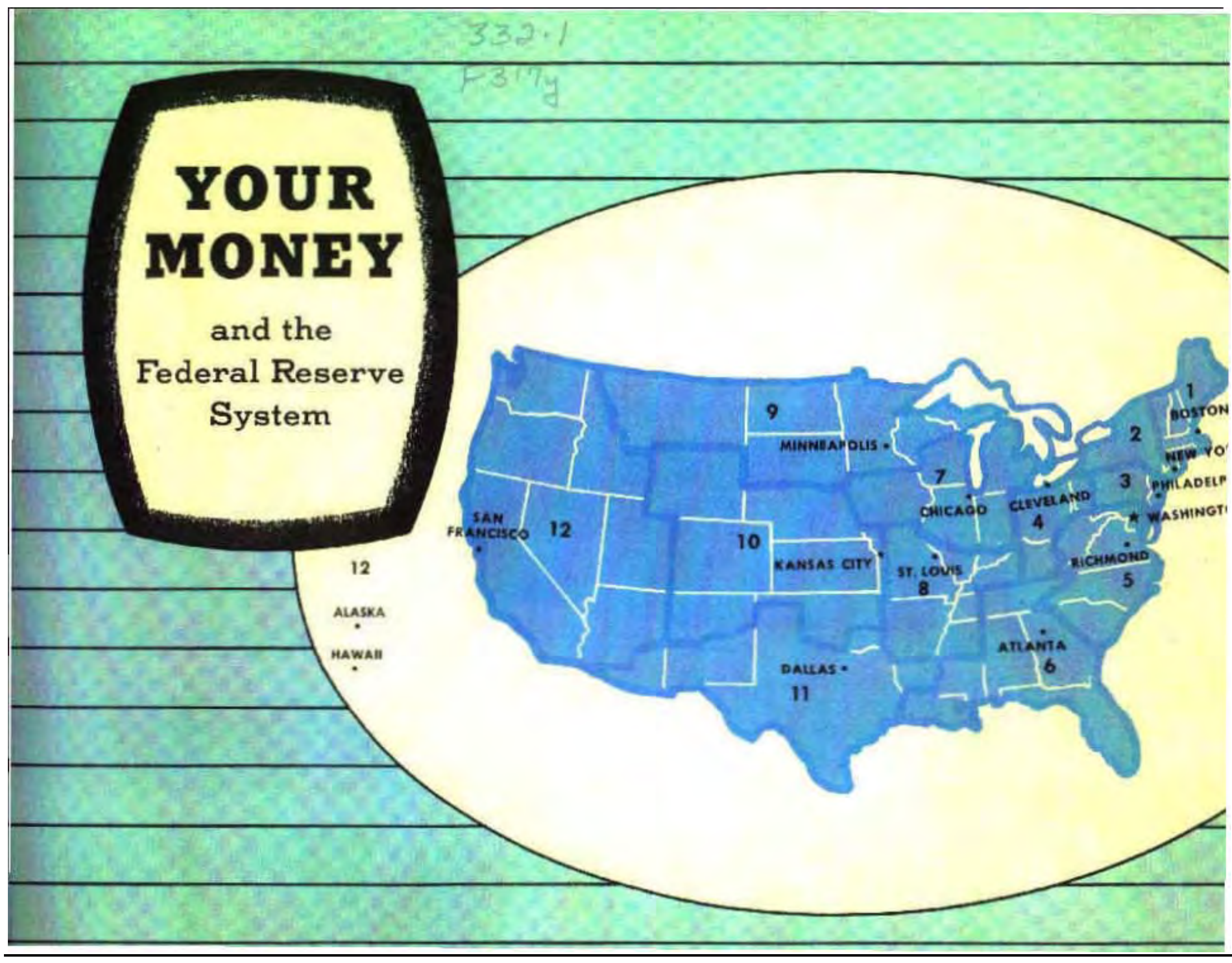
by the Federal Reserve Bank of Minneapolis

(1959,1960)

Part 9

The full document is available up on request

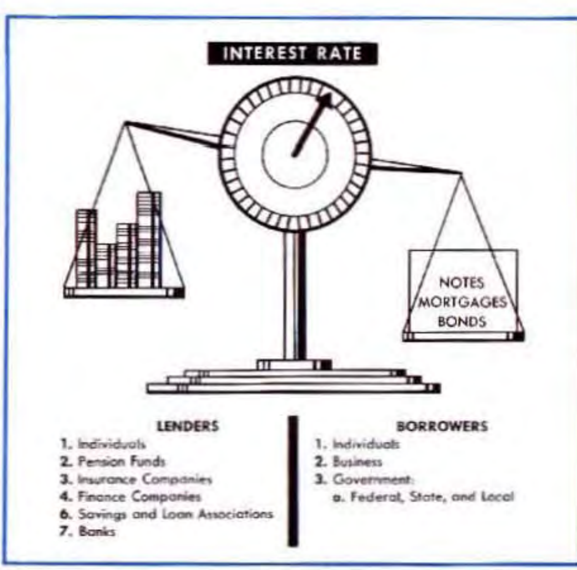
42. page 8 states:
    1) *Commercial banks, however, when providing additional funds to borrowers, also add to the total amount of money available for spending.*
43. page 9 states:
    1) *When the borrower receives cash or deposit credit, the amount of money available for spending is increased by the amount of the loan.*
    2) *A promise to pay has, in fact, created new spending money.*



Part 9

Can debt be bought and sold?

Most of the time we think of money in terms of what it will buy. It has value because it can be exchanged now or at some future date for something we need or want. Money, however, can be bargained for the same as any commodity. Those who have money to lend expect to be paid for its use. The amount they can charge (subject to restrictions imposed by law) is determined by the amount the borrower is willing to pay. When there are more lenders than borrowers, the charge for the use of money, or the interest rate, is lower than when there are more borrowers than lenders. The cost of the use of money, therefore, like the price of commodities, fluctuates according to the supply and demand for it.



Can banks influence

Most of us are not concerned today as to the kind of money we have to spend. Our interest is more in that we have it to spend. Our individual money supply is the total of coin and currency we have in our pockets plus the balance we have in the bank against which we can write checks. The money supply for the country is the total of everyone's money available for spending.

Banks tell us through their advertisements that they have money to lend us. Indeed, an important function of banks is the extending of credit by making loans. Commercial banks, however, when providing additional funds to borrowers, also add to the total amount of money available for spending.

YOUR MONEY AND THE FEDERAL RESERVE SYSTEM

by the Federal Reserve Bank of Minneapolis

(1959,1960)

Part 9

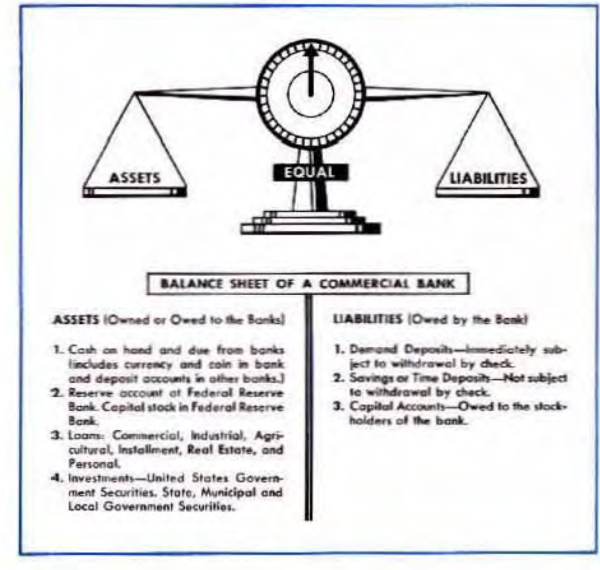
What is traded in the money market?

A market is a public or private place for the sale or purchase of merchandise. While money technically can be bought and sold, what is actually traded in a money market is evidence of debt. A lender of money ordinarily exchanges the money he loans for a promise on the part of the borrower to repay. In its simplest form this promise is commonly called an I.O.U. In more formal business transactions promises to pay take such names as promissory notes, mortgages, and bonds. Whatever the name applied, the form is an evidence of debt. The participants in the money market include individuals, financial institutions, businesses, and Governments.

the money supply?

Money is borrowed for a purpose. It is used perhaps to pay bills, buy a car, pay employees, buy merchandise to sell, or for other things. A bank lending money may give the borrower cash in exchange for his promise to pay or give him credit in his deposit account, against which he can draw checks.

Whether the borrower receives cash or deposit credit, the amount of money available for spending is increased by the amount of the loan. A promise to pay has, in fact, created new spending money. When the loan is repaid, spending money is ordinarily used to repay the loan and the amount available for spending is then decreased.

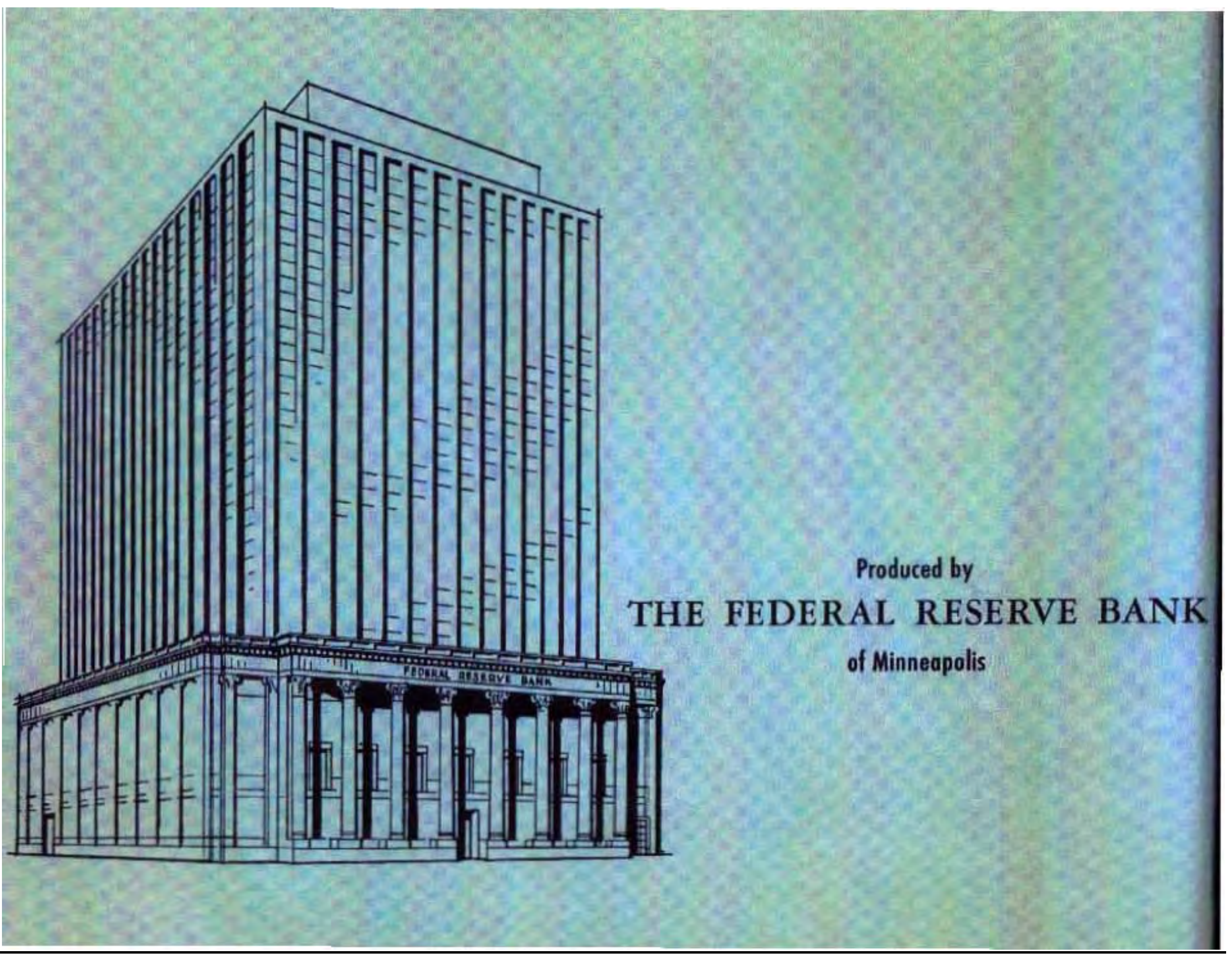


YOUR MONEY AND THE FEDERAL RESERVE SYSTEM

by the Federal Reserve Bank of Minneapolis

(1959,1960)

Part 9



CASE LAW for CREDIT LOANS and VOID CONTRACTS
Part 10

Case Law for Credit Loans and Void Contracts:

The reference in the suit of any Statute, Code, Ordinance, and/or Act of LAW established or ordained by the public officials who have taken an oath to serve as public trustee's, shall be used only for the purpose of clarifying to respondents the rules of engagement for their service to the sovereigns.

44. ***"In the federal courts, it is well established that a national bank has not power to lend its credit to another by becoming surety, endorser, or guarantor for him."*** 'Farmers and Miners Bank v. Bluefield Nat 'l Bank, 11 F 2d 83, 271 U.S. 669.
45. ***"A national bank has no power to lend its credit to any person or*** corporation . . . Bowen v. Needles Nat. Bank, 94 F 925 36 CCA 553, certiorari denied in 20 S.Ct 1024, 176 US 682, 44 LED 637.
46. ***"A bank may not lend its credit to another even though such a transaction turns out to have been of benefit to the bank, and in support of this a list of cases might be cited, which-would look like a catalog of ships."*** [Emphasis added] Norton Grocery Co. v. Peoples Nat. Bank, 144 SE 505. 151 Va 195.
47. ***". . . checks, drafts, money orders, and bank notes are not lawful money of the United States*** ..." State v. Neilon, 73 Pac 324, 43 Ore 168.
48. ***"Neither, as included in its powers not incidental to them, is it a part of a bank's business to lend its credit. If a bank could lend its credit as well as its money, it might, if it received compensation and was careful to put its name only to solid paper, make a great deal more than any lawful interest on its money would amount to. If not careful, the power would be the mother of panics . . . Indeed, lending credit is the exact opposite of lending money, which is the real business of a bank, for while the latter creates a liability in favor of the bank, the former gives rise to a liability of the bank to another.*** *I Morse. Banks and Banking* 5th Ed. Sec 65; *Magee, Banks and Banking*, 3rd Ed. Sec 248." American Express Co. v. Citizens State Bank, 194 NW 429.
49. ***"It is not within those statutory powers for a national bank, even though solvent, to lend its credit to another in any of the various ways in which that might be done."*** Federal Intermediate Credit Bank v. L 'Herrison, 33 F 2d 841, 842 (1929).
50. ***"There is no doubt but what the law is that a national bank cannot lend its credit or become an accommodation endorser."*** National Bank of Commerce v. Atkinson, 55 E 471.
51. ***"A bank can lend its money, but not its credit."*** First Nat'l Bank of Tallapoosa v. Monroe . 135 Ga 614, 69 SE 1124, 32 LRA (NS) 550.
52. ***".. . the bank is allowed to hold money upon personal security; but it must be money that it loans, not its credit."*** Seligman v. Charlottesville Nat. Bank, 3 Hughes 647, Fed Case No.12, 642, 1039.
53. ***"A loan may be defined as the delivery by one party to, and the receipt by another party of, a sum of money upon an agreement, express or implied, to repay the sum***

with or without interest." Parsons v. Fox 179 Ga 605, 176 SE 644. Also see Kirkland v. Bailey, 155 SE 2d 701 and United States v. Neifert White Co., 247 Fed Supp 878, 879.

54. ***"A bank is not the holder in due course upon merely crediting the depositors account."*** Bankers Trust v. Nagler, 229 NYS 2d 142, 143.
55. ***"Any false representation of material facts made with knowledge of falsity and with intent that it shall be acted on by another in entering into contract, and which is so acted upon, constitutes 'fraud,' and entitles party deceived to avoid contract or recover damages."*** Barnsdall Refining Corn. v. Birnam Wood Oil Co.. 92 F 26 817.
56. ***"Any conduct capable of being turned into a statement of fact is representation. There is no distinction between misrepresentations effected by words and misrepresentations effected by other acts."*** Leonard v. Springer 197 Ill 532. 64 NE 301.
57. ***"If any part of the consideration for a promise be illegal, or if there are several considerations for an unseverable promise one of which is illegal, the promise, whether written or oral, is wholly void, as it is impossible to say what part or which one of the considerations induced the promise."*** Menominee River Co. v. Augustus Spies L & C Co., 147 Wis 559. 572; 132 NW 1122.
58. ***"The contract is void if it is only in part connected with the illegal transaction and the promise single or entire."*** Guardian Agency v. Guardian Mut. Savings Bank, 227 Wis 550, 279 NW 83.
59. ***"It is not necessary for rescission of a contract that the party making the misrepresentation should have known that it was false, but recovery is allowed even though misrepresentation is innocently made, because it would be unjust to allow one who made false representations, even innocently, to retain the fruits of a bargain induced by such representations."*** Whipp v. Iverson, 43 Wis 2d 166.
60. ***"A contract ultra vires being unlawful and void, not because it is in itself immoral, but because the corporation, by the law of its creation, is incapable of making it, the courts, while refusing to maintain any action upon the unlawful contract, have always striven to do justice between the parties, so far as could be done consistently with adherence to law, by permitting property or money, parted with on the faith of the unlawful contract, to be recovered back, or compensation to be made for it. In such case, however, the action is not maintained upon the unlawful contract, nor according to its terms; but on an implied contract of the defendant to return, or, failing to do that, to make compensation for, property or money which it has no right to retain. To maintain such an action is not to affirm, but to disaffirm, the unlawful contract."*** *Central Transp. Co. v. Pullman,* 139 U.S. 60, 11 S. Ct. 478, 35 L. Ed. 5:
61. ***"When a contract is once declared ultra vires, the fact that it is executed · does not validate it, nor can it be ratified, so as to make it the basis of suitor action, nor does the doctrine of estoppels apply***." *F& PR v. Richmond*, 133 SE 898; 151 Va 195.
62. ***"A national bank ... cannot lend its credit to another by becoming surety, indorser, or guarantor for him, such an act; is ultra vires*** . . ." *Merchants' Bank v. Baird* 160 F 642.
63. ***"It has been settled beyond controversy that a national bank, under federal Law being limited in its powers and capacity, cannot lend its credit by guaranteeing the***

debts of another. All such contracts entered into by its officers are ultra vires . . ." Howard & Foster Co. v. Citizens Nat'l Bank of Union, 133 SC 202, 130 SE 759(1926).

64. ***"The doctrine of ultra vires is a most powerful weapon to keep private corporations within their legitimate spheres and to punish them for violations of their corporate charters, and it probably is not invoked too often** ..."* Zinc Carbonate Co. v. First National Bank, 103 Wis 125, 79 NW 229. American Express Co. v. Citizens State Bank, 194 NW 430.

65. ***"Bank cannot sue without personal knowledge and a copy of the note might not give legal knowledge".*** Monmouth County Social Serve. v P.A.Q 317 N.J Super 187, 193-194 App. Div 1998. See Also: United Stated Bankruptcy Court N.J. Investors and Lenders/ Debtors June 30, 1993 Bankruptcy no 92- 30754

66. ***"Banks must give us the bookkeeping entries with an affidavit or the banks evidence is hearsay evidence. One cannot enter hearsay evidence into the court"***:Supreme Court of Hawaii, Pacific Concrete Federal Credit Union, Plaintiff Appellee v Andrew J.S. Kauanoe, Defendant Appellant no 6362 July 17, 1980

67. ***"Banks must have Possession of the promissory note before the banker can collect"*** Staff Mort. & Investment Corp., 550 F2d 1228 (9th Cir 1977)

68. First National Bank of Montgomery vs. Jerome Daly, The Justice Court State of Minnesota County Of Scott Township Of Credit River Justice Martin V. Mahoney, the jury stated the following:

    1) ***That the Plaintiff is not entitled to recover the possession of Lot 19, Fairview Beach, Scott County, Minnesota according to the Plat thereof on file in the Register of Deeds office.***

    2) ***That because of failure of a lawful consideration the Note and Mortgage dated May 8, 1964 are null and void.***

    3) ***That the Sheriff's sale of the above described premises held on June 26, 1967 is null and void, of no effect.***

    4) ***That the Plaintiff has no right title or interest in said premises or lien thereon as is above described.***

    5) ***That any provision in the Minnesota Constitution and any Minnesota Statute binding the jurisdiction of this Court is repugnant to the Constitution of the United States and to the Bill of Rights of the Minnesota Constitution and is null and void and that this Court has jurisdiction to render complete Justice in this Cause.***

CASE LAW for CREDIT LOANS and VOID CONTRACTS
Part 10

STATE OF MINNESOTA — IN JUSTICE COURT

COUNTY OF SCOTT — TOWNSHIP OF CREDIT RIVER
MARTIN V. MAHONEY, JUSTICE

First National Bank of Montgomery,
Plaintiff,

vs. — JUDGMENT AND DECREE

Jerome Daly,
Defendant.

The above entitled action came on before the Court and a Jury of 12 on December 7,1968 at 10:00 A.M. Plaintiff appeared by its President Lawrence V. Morgan and was represented by its Counsel Theodore R. Mellby. Defendant appeared on his own behalf.

A Jury of Talesmen were called, impanneled and sworn to try the issues in this Case. Lawrence V. Morgan was the only witness called for Plaintiff and Defendant testified as the only witness in his own behalf.

Plaintiff brought this as a Common Law action for the recovery of the possession of Lot 19, Fairview Beach, Scott County,Minn. Plaintiff claimed title to the Real Property in question by foreclosure of a Note and Mortgage Deed dated May 8,1964 which Plaintiff claimed was in default at the time foreclosure proceedings were started.

Defendant appeared and answered that the Plaintiff created the money and credit upon its own books by bookkeeping entry as the

his own behalf.

Plaintiff brought this as a Common Law action for the recovery of the possession of Lot 19, Fairview Beach, Scott County,Minn. Plaintiff claimed title to the Real Property in question by foreclosure of a Note and Mortgage Deed dated May 8,1964 which Plaintiff claimed was in default at the time foreclosure proceedings were started.

Defendant appeared and answered that the Plaintiff created the money and credit upon its own books by bookeeping entry as the consideration for the Note and Mortgage of May 8,1964 and alleged failure of consideration for the Mortgage Deed and alleged that the Sheriff's sale passed no title to Plaintiff.

The issues tried to the Jury were whether there was a lawful consideration and whether Defendant had waived his rights to complain about the consideration having paid on the Note for almost 3 years.

Mr. Morgan admitted that all of the money or credit which was used as a consideration was created upon their books, that this was standard banking practice exercised by their bank in combination with the Federal Reserve Bank of Minneapolis, another private Bank, further that he knew of no United States Statute or Law that gave the Plaintiff the authority to do this. Plaintiff further claimed that Defendant by using the ledger book created credit and by paying

on the Note and Mortgage waived any right to complain about the Consideration and that Defendant was estopped from doing so.

At 12:15 on December 7,1968 the Jury returned a unaminous verdict for the Defendant.

Now therefore, by virtue of the authority vested in me pursuant to the Declaration of Independence, the Northwest Ordinance of 1787, the Constitution of the United States and the Constitution and laws of the State of Minnesota not inconsistent therewith;

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. That Plaintiff is not entitled to recover the possession of Lot 19, Fairview Beach, Scott County, Minnesota according to the Plat thereof on file in the Register of Deeds office.

2. That because of failure of a lawful consideration the Note and Mortgage dated May 8,1964 are null and void.

3. That the Sheriff's sale of the above described premises held on June 26,1967 is null and void, of no effect.

4. That Plaintiff has no right, title or interest in said premises or lien thereon, as is above described.

5. That any provision in the Minnesota Constitution and any Minnesota Statute limiting the Jurisdiction of this Court is repugnant

3. That the Sheriff's sale of the above described premises held on June 26,1967 is null and void, of no effect.

4. That Plaintiff has no right, title or interest in said premises or lien thereon, as is above described.

5. That any provision in the Minnesota Constitution and any Minnesota Statute limiting the Jurisdiction of this Court is repugnant to the Constitution of the United States and to the Bill of Rights of the Minnesota Constitution and is null and void and that this Court has Jurisdiction to render complete Justice in this Cause.

6. That Defendant is awarded coats in the sum of $75.00 and execution is hereby issued therefore.

7. A 10 day stay is granted.

8. The following memorandum and any supplemental memorandum made and filed by this Court in support of this Judgment is hereby made a part hereof by reference.

BY THE COURT

Dated December 9,1968

MARTIN V. MAHONEY
JUSTICE OF THE PEACE
CREDIT RIVER TOWNSHIP
SCOTT COUNTY, MINNESOTA

NATIONAL CURRENCY ACT 1864

13 STAT 99

Part 11

69. SEC. 28. *And be it further enacted,* That it shall be lawful for any such association to purchase, hold, and convey real estate as follows:

    1) First. Such as shall be necessary for its immediate accommodation in the transaction of its business.
    2) Second. Such as shall be mortgaged to it in good faith by way of security for debts previously- contracted.
    3) Third. Such as shall be conveyed to it in satisfaction for debts previously contracted in the course of its dealings.
    4) Fourth. Such as it shall purchase at sales under judgments, decrees, or mortgages held by such association, or shall purchase to secure debts due to said association.
    5) Such association shall not purchase or hold real estate in any other case or for any other purpose than as specified in this section ; nor shall it hold the possession of any real estate under mortgage, or hold the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

70. SEC. 53. *And be it further enacted,* That if the directors of any association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this act, all the rights, privileges, and franchises of the association derived from this act shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper circuit, district, or territorial court of the United States, in a suit brought for that purpose by the Comptroller of the Currency, in his own name, before the association shall be declared dissolved. And in cases of such violation, every director who participated in or assented to the same shall be held liable in his personal and individual capacity damages which the association, its shareholders, or any other person, shall have sustained in consequence of such.

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proof as aforesaid of the completion of the additional sections of the road as aforesaid; and upon the failure of either company to complete either section as aforesaid, to be annually built, the portion of the land remaining uncertified shall become subject to the control and disposition of the legislature of the State of Iowa, to aid in the completion of such road.

Lands hereafter certified, to be offered for sale within three years, &c.

Sec. 9. *And be it further enacted,* That all lands hereafter certified to either of the land-grant railroads in said state, and lying opposite any completed section of such road, shall be offered for sale by the company to which they shall be certified within three years from the completion of such section, if then certified; and if not, then within three years from the date of such certificate at reasonable prices; and if not all sold within that period then during the fourth year all such lands remaining unsold shall be exposed to public sale, after previous notice posted at the county seat of the county in which such lands shall be situated, to the highest bidder, and in tracts not exceeding one hundred and sixty acres each.

When to be exposed to public sale.

Approved, June 2, 1864.

Chap. CIV.—*An Act to incorporate the News-boys' Home.*

June 2, 1864.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Joseph Henry, J. W. Forney, Henry Beard, Sayles J. Bowen, and A. M. Gangwer, their associates and successors, being members of said society, by paying into its treasury the sum of two dollars annually, or life members, by paying fifty dollars at one time, are hereby incorporated and made a body politic, by the name of "The News-boys' Home of Washington City," for the purpose of providing lodgings, meals, and instruction to such homeless and indigent boys as may properly come under the charge of such association, to provide for them a suitable home, board, clothing, and instruction, and to bring them under Christian influence; and by that name shall have perpetual succession, with power to use a common seal, to sue and be sued, to plead and be impleaded in any court of competent jurisdiction within the District of Columbia, to collect subscriptions, make by-laws, rules, and regulations needful for the government of said corporation not inconsistent with the laws of the United States; to have, hold, and receive real estate by purchase, gift, or devise; to use, sell, or convey the same for the purposes and benefit of said corporation, and to choose such officers and teachers as may be necessary, prescribe their duties, and fix the rate of their compensation.

"The News-boys' Home of Washington city" incorporated.

Powers of corporation.

Sec. 2. *And be it further enacted,* That the officers of said association shall consist of a president, two vice-presidents, secretary, treasurer, and a board of managers, to be composed of fifteen members, the whole to constitute an executive committee, whose duty it shall be to carry into effect the plans and purposes for which said association was formed, all of which officers shall be elected on the first Tuesday in February in each year at the annual meeting of said association, which shall be held on said day; their successors shall be elected and hold their offices for the term of one year, and until their successors shall be duly elected. And in case of a vacancy it shall be filled by the other members of the executive committee.

Officers, &c.

Approved, June 2, 1864.

Chap. CVI.—*An Act to provide a National Currency, secured by a Pledge of United States Bonds, and to provide for the Circulation and Redemption thereof.*

June 3, 1864.

1865, ch. 78, §§ 6, 7.

Post, p. 484.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there shall be established in the treasury department a separate bureau, which shall be charged with the execution of this and all other laws that may be passed by congress respecting the issue and regulation of a national currency

Currency bureau established.

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NATIONAL CURRENCY ACT 1864

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Part 11

to execute to the said treasurer a certificate setting forth the different kinds and the amounts thereof, and that the same are in the possession and custody of the treasurer at the date of such certificate. Such examination may be made by an officer or agent of such association, duly appointed in writing for that purpose, whose certificate before mentioned shall be of like force and validity as if executed by such president or cashier; and a duplicate signed by the treasurer shall be retained by the association.

Examination of associations.

Sec. 26. *And be it further enacted*, That the bonds transferred to and deposited with the treasurer of the United States, as hereinbefore provided, by any banking association for the security of its circulating notes, shall be held exclusively for that purpose, until such notes shall be redeemed, except as provided in this act; but the comptroller of the currency shall give to any such banking association powers of attorney to receive and appropriate to its own use the interest on the bonds which it shall have so transferred to the treasurer; but such powers shall become inoperative whenever such banking association shall fail to redeem its circulating notes as aforesaid. Whenever the market or cash value of any bonds deposited with the treasurer of the United States, as aforesaid, shall be reduced below the amount of the circulation issued for the same, the comptroller of the currency is hereby authorized to demand and receive the amount of such depreciation in other United States bonds at cash value, or in money, from the association receiving said bills, to be deposited with the treasurer of the United States as long as such depreciation continues. And said comptroller, upon the terms prescribed by the Secretary of the Treasury, may permit an exchange to be made of any of the bonds deposited with the treasurer by an association for other bonds of the United States authorized by this act to be received as security for circulating notes, if he shall be of opinion that such an exchange can be made without prejudice to the United States, and he may direct the return of any of said bonds to the banking association which transferred the same, in sums of not less than one thousand dollars, upon the surrender to him and the cancellation of a proportionate amount of such circulating notes: *Provided*, That the remaining bonds which shall have been transferred by the banking association offering to surrender circulating notes shall be equal to the amount required for the circulating notes not surrendered by such banking association, and that the amount of bonds in the hands of the treasurer shall not be diminished below the amount required to be kept on deposit with him by this act: *And provided*, That there shall have been no failure by such association to redeem its circulating notes, and no other violation by such association of the provisions of this act, and that the market or cash value of the remaining bonds shall not be below the amount required for the circulation issued for the same.

Deposited bonds to be held exclusively to secure circulation.

Provision as to interest.

If bonds depreciate, security to be made good.

Bonds may be exchanged, if, &c.;

may be returned upon cancellation of circulating notes.

Proviso.

Sec. 27. *And be it further enacted*, That it shall be unlawful for any officer acting under the provisions of this act to countersign or deliver to any association, or to any other company or person, any circulating notes contemplated by this act, except as hereinbefore provided, and in accordance with the true intent and meaning of this act. And any officer who shall violate the provisions of this section shall be deemed guilty of a high misdemeanor, and on conviction thereof shall be punished by fine not exceeding double the amount so countersigned and delivered, and imprisonment not less than one year and not exceeding fifteen years, at the discretion of the court in which he shall be tried.

The countersigning and delivery of circulating notes, except as permitted by this act, made unlawful.

Penalty.

Sec. 28. *And be it further enacted*, That it shall be lawful for any such association to purchase, hold, and convey real estate as follows: —

Associations may hold, &c., certain real estate.

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

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Real estate.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgments, decrees, or mortgages held by such association, or shall purchase to secure debts due to said association.

Such associations shall not purchase or hold real estate in any other case or for any other purpose than as specified in this section. Nor shall it hold the possession of any real estate under mortgage, or hold the title and possession of any real estate purchased to secure any debts due to it for a longer period than five years.

No person, &c., to be liable to association for more than, &c.

SEC. 29. *And be it further enacted*, That the total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one tenth part of the amount of the capital stock of such association actually paid in: *Provided*, That the discount of bona fide bills of exchange drawn against actually existing values, and the discount of commercial or business paper actually owned by the person or persons, corporation, or firm negotiating the same shall not bo considered as money borrowed.

Certain discounts not to be included.

Rate of interest.

SEC. 30. *And be it further enacted*, That every association may take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidences of debt, interest at the rate allowed hy the laws of the state or territory where the bank is located, and no more, except that where by the laws of any state a different rate is limited for banks of issue organized under state laws, the rate so limited shall be allowed for associations organized in any such state under this act. And when no rate is fixed by the laws of the state or territory, the bank may take, receive, reserve, or charge a rate not exceeding seven per centum, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run. And the knowingly taking, receiving, reserving, or charging a rate of interest greater than aforesaid shall be held and adjudged a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. And in case a greater rate of interest has been paid, the person or persons paying the same, or their legal representatives, may recover back, in any action of debt, twice the amount of the interest thus paid from the association taking or receiving the same: *Provided*, That such action is commenced within two years from the time the usurious transaction occurred. But the purchase, discount, or sale of a bona fide bill of exchange, payable at another place than the place of such purchase, discount, or sale, at not more than the current rate of exchange for sight drafts in additiou to the interest, shall not be cousidered as taking or receiving a greater rate of interest.

Penalty for taking greater interest.

Action to be commenced in two years.

Amount of money to be kept on hand.

SEC. 31. *And be it further enacted*, That every association in the cities hereinafter named shall, at all times, have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of the aggregate amount of its notes in circulation and its deposits; and every other association shall, at all times, have on hand, in lawful money of the United States, an amonnt equal to at least fifteen per centum of the aggregate amount of its notes in circulation, and of its deposits. And whenever the lawful money of any association in any of the cities hereinafter named shall be below the amount of twenty-five per centum of its circulation and deposits, and whenever the lawful money of any other association shall be below fifteen per centum of its circulation and deposits, such associations shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividend of its profits until

Liabilities not to be increased until reserve is made good.

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thereof, with a view to prevent the application of its assets in the manner prescribed by this act, or with a view to the preference of one creditor to another, except in payment of its circulating notes, shall be utterly null and void.

Penalty upon directors for violations of this act.

Sec. 53. *And be it further enacted*, That if the directors of any association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this act, all the rights, privileges, and franchises of the association derived from this act shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper circuit, district, or territorial court of the United States, in a suit brought for that purpose by the comptroller of the currency, in his own name, before the association shall be declared dissolved. And in cases of such violation, every director who participated in or assented to the same shall be held liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person, shall have sustained in consequence of such violation.

Violation, how to be determined.

Personal liability.

Comptroller may appoint person to examine the affairs of any association.

Sec. 54. *And be it further enacted*, That the comptroller of the currency, with the approbation of the Secretary of the Treasury, as often as shall be deemed necessary or proper, shall appoint a suitable person or persons to make an examination of the affairs of every banking association, which person shall not be a director or other officer in any association whose affairs he shall be appointed to examine, and who shall have power to make a thorough examination into all the affairs of the association, and, in doing so, to examine any of the officers and agents thereof on oath; and shall make a full and detailed report of the condition of the association to the comptroller. And the association shall not be subject to any other visitorial powers than such as are authorized by this act, except such as are vested in the several courts of law and chancery. And every person appointed to make such examination shall receive for his services at the rate of five dollars for each day by him employed in such examination, and two dollars for every twenty-five miles he shall necessarily travel in the performance of his duty, which shall be paid by the association by him examined.

Duty of such examiner.

Pay.

Penalty upon officers, &c., of association for embezzlement, &c., of funds.

Sec. 55. *And be it further enacted*, That every president, director, cashier, teller, clerk, or agent of any association, who shall embezzle, abstract, or wilfully misapply any of the moneys, funds, or credits of the association, or shall, without authority from the directors, issue or put in circulation any of the notes of the association, or shall, without such authority, issue or put forth any certificate of deposit, draw any order or bill of exchange, make any acceptance, assign any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or shall make any false entry in any book, report, or statement of the association, with intent, in either case, to injure or defraud the association or any other company, body politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punished by imprisonment not less than five nor more than ten years.

District attorneys to conduct certain suits.

Sec. 56. *And be it further enacted*, That all suits and proceedings arising out of the provisions of this act, in which the United States or its officers or agents shall be parties, shall be conducted by the district attorneys of the several districts, under the direction and supervision of the solicitor of the treasury.

In what courts, suits, &c., under this act may be prosecuted.

Sec. 57. *And be it further enacted*, That suits, actions, and proceedings, against any association under this act, may be had in any circuit, district, or territorial court of the United States held within the district in which such association may be established; or in any state, county, or municipal court in the county or city in which said association is located,

HeinOnline -- 13 Stat. 116 1861-1865

HJR 192 - Public Law 73 – 10

June 5, 1933,

Part 12

71. *That (a) every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payments in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy;*

72. *All coins and currencies of the United States (including Federal Reserve notes and circulating notes of the Federal Reserve bank and national banking associations)*

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

[illegible] all to whom these presents shall come. Greeting:

[illegible] virtue of the authority vested in me by the Archivist of the United States, I certify on his behalf, [illegible] seal of the National Archives of the United States, that the attached reproduction(s) is a true and [illegible] of documents in his custody.

SIGNATURE	
[illegible]	
NAME: CYNTHIA G. FOX	DATE: Aug 3, 2005
TITLE: DEPUTY DIRECTOR, ARCHIVES TEXTUAL SERVICES DIV.	
NAME AND ADDRESS OF DEPOSITORY: NATIONAL ARCHIVES AND RECORDS ADMINISTRATION 700 PENNSYLVANIA AVENUE, NW WASHINGTON, DC 20408	

NA FORM 14007 (10-86)

[illegible]nd are therefore sub[illegible] proper regulation and restriction; and [illegible]reas the existing em[illegible]y has disclosed that provisions of [illegible]igations which purport[illegible]ive the obligee a right to require [illegible]ent in gold or a partic[illegible]ind of coin or currency of the U[illegible]d States, or in an amoun[illegible] money of the United States me[illegible]ed thereby, obstruct the po[illegible]f the Congress to regulate the [illegible] of the money of the Unite[illegible]tes, and are inconsistent with [illegible]declared policy of the Congre[illegible] maintain at all times the eq[illegible]power of every dollar, coined [illegible]ued by the United States, [illegible]e markets and in the payment [illegible]bts. Now, therefore, be [illegible]

Resolved [illegible]*he Senate and House of Repre*[illegible]*ives of the United State*[illegible] *America in Congress assembled,* [illegible](a) every provision cont[illegible] in or made with respect to any oblig[illegible] which purports to giv[illegible] obligee a right to require payment in g[illegible]d or a particular kind[illegible]oin or currency, or in an amount in money of the United States [illegible]ured thereby, is declared to be against public policy; and no such[illegible]vision shall be contained in or made with respect to any obliga[illegible] hereafter incurred. Every obligation, heretofore or hereafter in[illegible]rred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts. Any such provision contained in any law authorizing obligations to be issued by or under authority of the United States, is hereby repealed, but the repeal of any such provision shall not invalidate any other provision or authority contained in such law.

(b) As used in this resolution, the term "obligation" means an obligation (including every obligation of and to the United States, excepting currency) payable in money of the United States; and the term "coin or currency" means coin or currency of the United

73. ____

H. J. Res. 192 **(PUBLIC RESOLUTION....No. 10 ....73d CONGRESS)**

RECEIVED

DEPARTMENT OF STATE

Seventy-third Congress of the United States of America;
At the First Session,

Begun and held at the City of Washington on Thursday, the ninth day of March, one thousand nine hundred and thirty-three.

JOINT RESOLUTION

To assure uniform value to the coins and currencies of the United States.

Whereas the holding of or dealing in gold affect the public interest, and are therefore subject to proper regulation and restriction; and

Whereas the existing emergency has disclosed that provisions of obligations which purport to give the obligee a right to require payment in gold or a particular kind of coin or currency of the United States, or in an amount in money of the United States measured thereby, obstruct the power of the Congress to regulate the value of the money of the United States, and are inconsistent with the declared policy of the Congress to maintain at all times the equal power of every dollar, coined or issued by the United States, in the markets and in the payment of debts. Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payment in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy; and no such provision shall be contained in or made with respect to any obligation hereafter incurred. Every obligation, heretofore or hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts. Any such provision contained in any law authorizing obligations to be issued by or under authority of the United States, is hereby repealed, but the repeal of any such provision shall not invalidate any other provision or authority contained in such law.

(b) As used in this resolution, the term "obligation" means an obligation (including every obligation of and to the United States, excepting currency) payable in money of the United States; and the term "coin or currency" means coin or currency of the United

H. J. Res 192—2

States, including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations.

SEC. 2. The last sentence of paragraph (1) of subsection (b) of section 43 of the Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended to read as follows:

"All coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations) heretofore or hereafter coined or issued, shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, except that gold coins, when below the standard weight and limit of tolerance provided by law for the single piece, shall be legal tender only at valuation in proportion to their actual weight."

Henry T. Rainey
Speaker of the House of Representatives.

Jno N Garner
Vice President of the United States and President of the Senate.

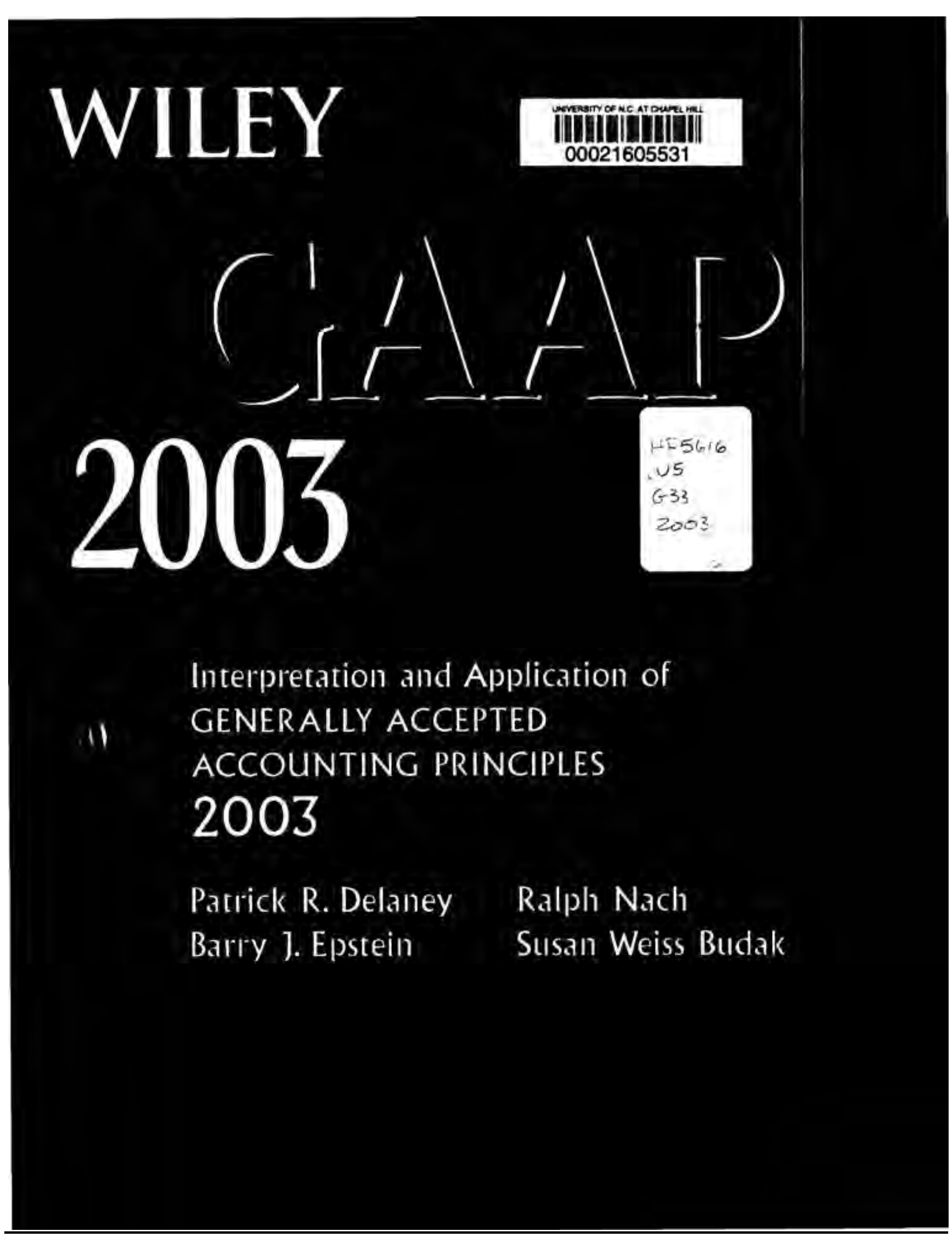
Approved
4.40 p.m
June 5 1933
Franklin D Roosevelt

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(GAAP)

Part 13

74. Title 12 USC. Sec. 1831n (a) (2) Banks must follow the Generally Accepted Accounting Principles (GAAP). This includes but not limited **to the matching principle**
75. *Wiley 2003 Section 41 state:*
    1) *"Anything accepted by a bank for deposit would be considered as cash."*
    2) *Cash must be available for a demand withdraw.*



GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(GAAP)

Part 13

The use of the titles "balance sheet," "statement of financial position," or "statement of financial condition" denotes the use of generally accepted accounting principles. If some other comprehensive basis of accounting, such as income tax or cash, is used, the title of the financial statement must be adjusted to reflect this variation. Titles such as "Statements of Assets and Liabilities—Tax Basis" would be necessary to differentiate the financial statement being presented from a balance sheet.

The last day of the fiscal period should be used as the statement date. Usually, that is a month-end date unless the entity uses a fiscal reporting period always ending on a particular day of the week such as Friday or Sunday. In these cases, the balance sheet would be dated accordingly (i.e., December 26, October 1, etc.).

Balance sheets generally should be uniform in appearance from one period to the next. The form, terminology, captions, and pattern of combining insignificant items should be consistent. If comparative statements are presented, the prior year's information should be restated to conform with the current year's presentation if changes in presentation are made.

Classification of Assets

Assets, liabilities, and stockholders' equity are separated in the balance sheet so that important relationships can be shown and attention can be focused on significant subtotals.

Current assets. Per ARB 43, Chapter 3, current assets are cash and other assets that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. When the normal operating cycle is less than one year, a one-year period is used to distinguish current assets from noncurrent assets. When the operating cycle exceeds one year, the operating cycle will serve as the proper period for purposes of current asset classification. When the operating cycle is very long, the usefulness of the concept of current assets diminishes. The following items would be classified as current assets:

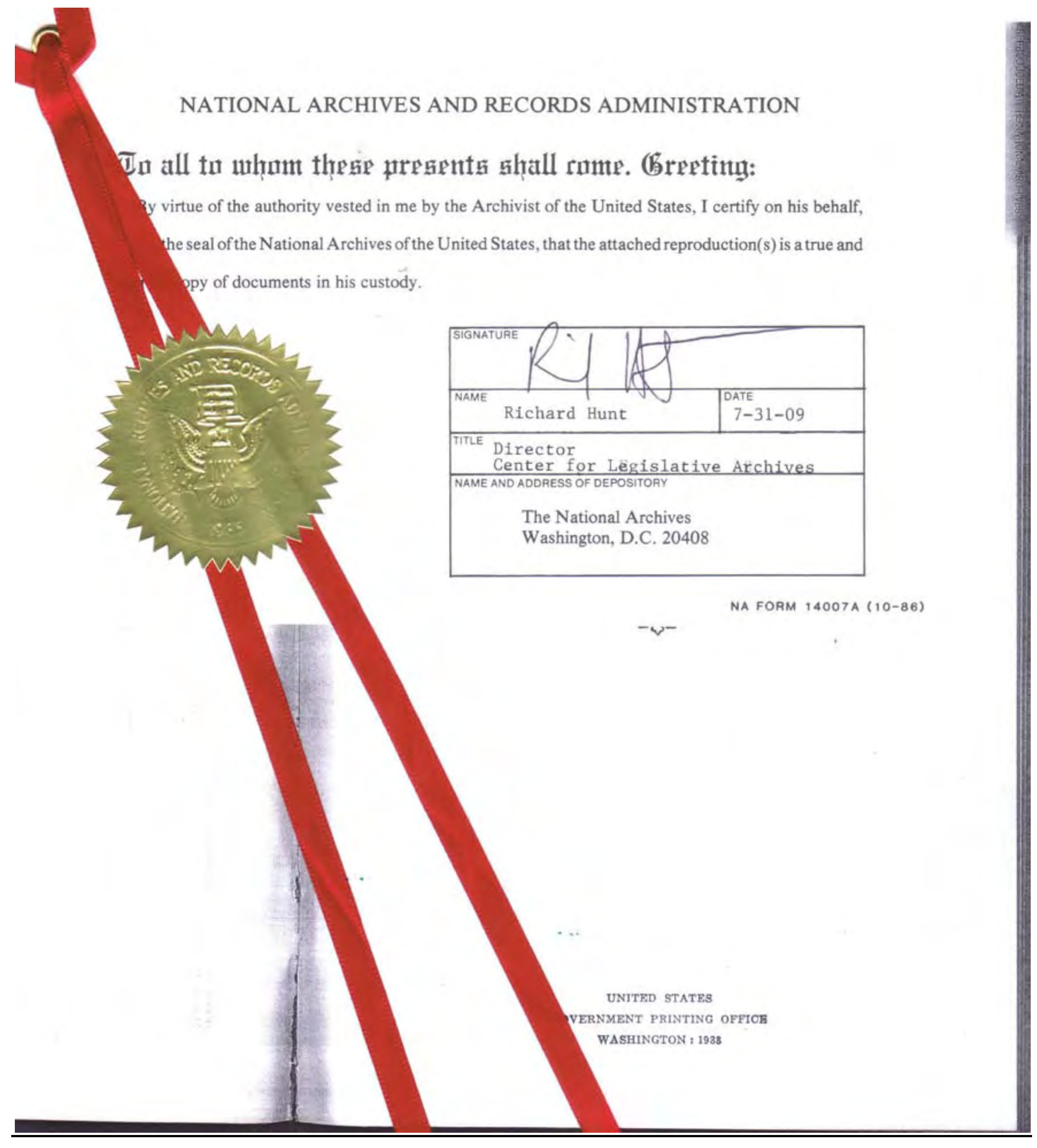
1. **Cash and cash equivalents** include cash on hand consisting of coins, currency, undeposited checks; money orders and drafts; deposits in banks; and certain short-term, highly liquid investments. Anything accepted by a bank for deposit would be considered as cash. Cash must be available for a demand withdrawal. Cash that is restricted as to withdrawal, such as certificates of deposit, would not be included with cash because of the time restrictions. Also, cash must be available for current use in order to be classified as a current asset. Cash that is restricted in use would not be included in cash unless its restrictions will expire within the operating cycle. Cash restricted for a noncurrent use, such as cash designated for the purchase of property or equipment, would not be included in current assets. Per SFAS 95, cash equivalents include short-term, highly liquid investments that (1) are readily convertible to known amounts of cash and (2) are so near their maturity (maturities of three months or less from the date of purchase by the enterprise) that they present negligible risk of changes in value because of changes in interest rates. Treasury bills, commercial paper, and money market funds are all examples of cash equivalents. Chapter 5 discusses cash in more detail.
2. **Short-term investments** are readily marketable securities acquired through the use of temporarily idle cash. To be classified as current assets, management must be willing and able to sell the security to meet current cash needs or the investment must mature within one year (or the operating cycle, if longer). These securities are accounted for under SFAS 115. Securities classified as trading securities under

SENATE DOCUMENT 43

73 Congress 1st Session
April 17, 1933

Part 14

76. Also known as Senate Resolution 62 page 9 states:
    1) *"The ultimate ownership of all property is in the State; individual so-called "ownership" is only by virtue of Government, i. e., law, amounting to mere user; and use must be in accordance with law and subordinate to the necessities of the State".*



NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

To all to whom these presents shall come. Greeting:

By virtue of the authority vested in me by the Archivist of the United States, I certify on his behalf, [the] seal of the National Archives of the United States, that the attached reproduction(s) is a true and [correct c]opy of documents in his custody.

SIGNATURE

NAME Richard Hunt | DATE 7-31-09

TITLE Director
Center for Legislative Archives

NAME AND ADDRESS OF DEPOSITORY
The National Archives
Washington, D.C. 20408

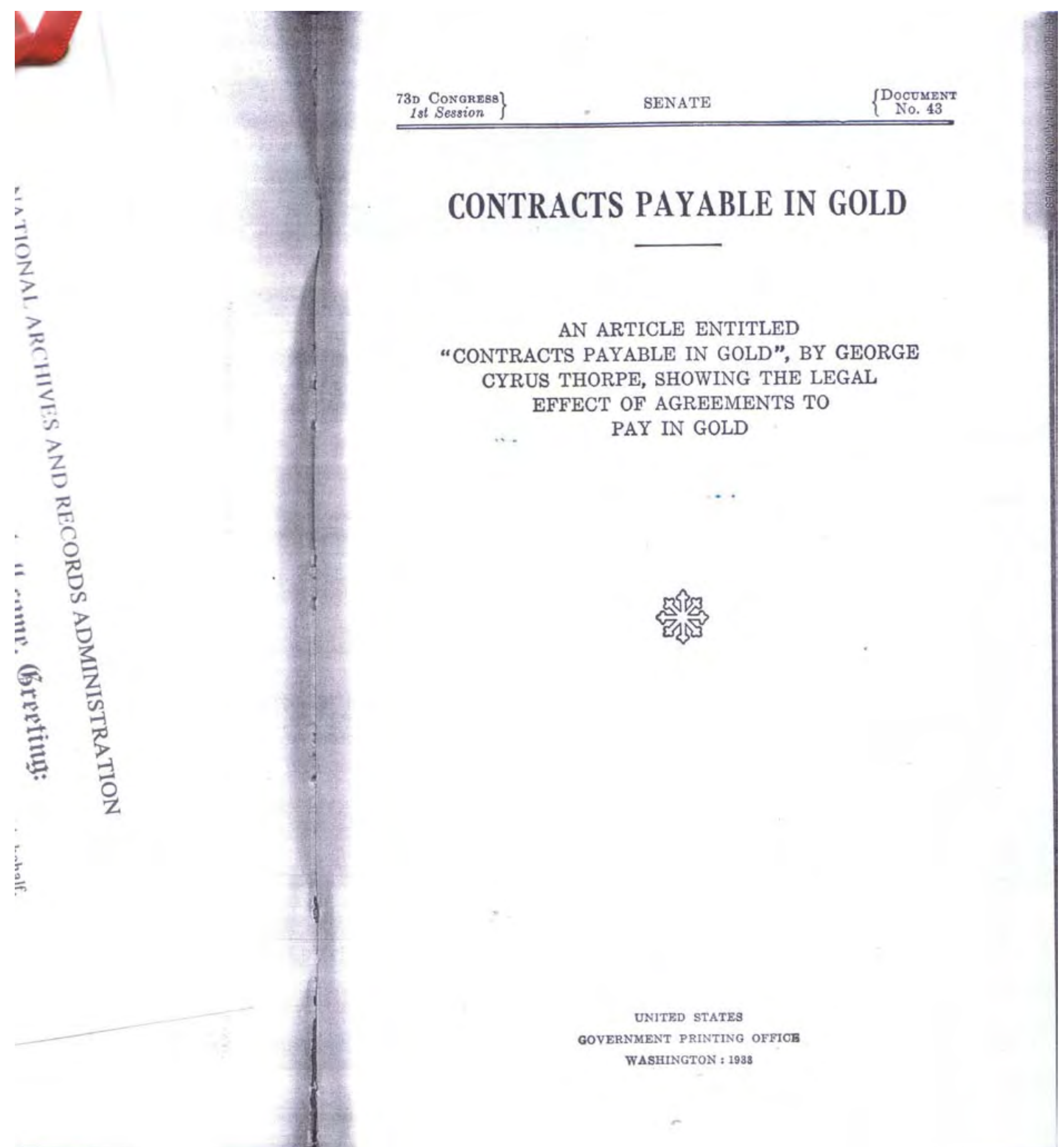
NA FORM 14007A (10-86)

UNITED STATES
[GO]VERNMENT PRINTING OFFICE
WASHINGTON : 1933

SENATE DOCUMENT 43

73 Congress 1st Session
April 17, 1933

Part 14



73D CONGRESS
1st Session

SENATE

DOCUMENT
No. 43

CONTRACTS PAYABLE IN GOLD

AN ARTICLE ENTITLED "CONTRACTS PAYABLE IN GOLD", BY GEORGE CYRUS THORPE, SHOWING THE LEGAL EFFECT OF AGREEMENTS TO PAY IN GOLD

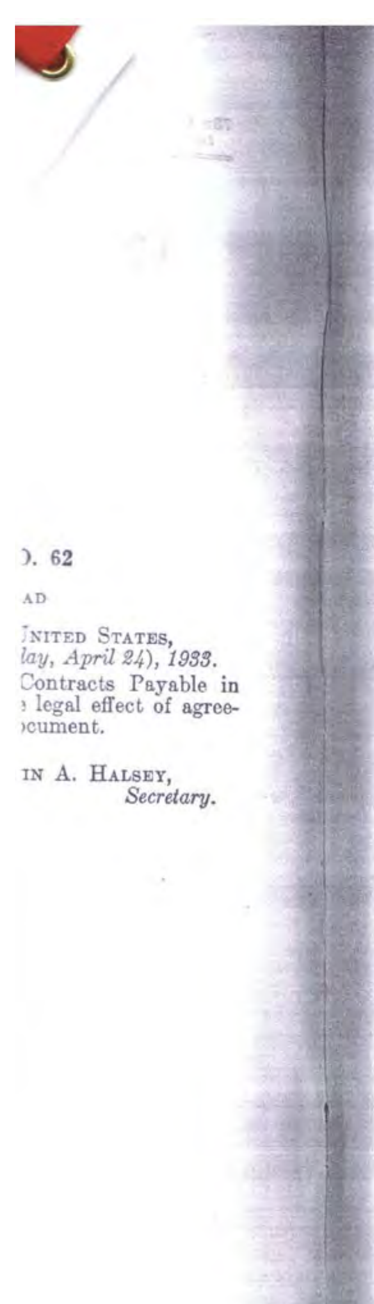
UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1933

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

SENATE DOCUMENT 43

73 Congress 1st Session
April 17, 1933

Part 14



CONTRACTS PAYABLE IN GOLD

By GEORGE C. THORPE, Washington, D.C.

Holders of commercial paper and parties to contracts, involving billions of dollars, stipulating for payment in dollars in gold, or "in American gold coin" or "in gold coin of the United States of or equal to the standard of weight and fineness existing" on a certain date, or "in gold and silver coin, lawful money of the United States", etc., are interested in the legal import of the qualifying phrases, in the face of present suspension of gold payments and the possibility of a depreciated currency.

In a recent English case, Mr. Justice Farwell, in chancery, has held, under a bond providing for payment of "the sum of 100 pounds sterling in gold coin of the United Kingdom of or equal to the standard weight and fineness existing" on the date of the bond, there was an obligation to pay 100 pounds in gold currency, satisfied by tendering 100 pounds in any form that was legal tender in England. (In re Societe Intercomunale Belge d'Electricite.)

A similar conclusion was reached in many American cases in State courts when their jurisdiction first was invoked to give effect to the effort of business men to avoid loss through compulsory acceptance of a tender of depreciated currency in payment of debts incurred for a gold consideration, in the era of the "greenbacks."

The laws of the United States recognize two kinds of money, namely coin and paper. The term "dollars in specie" means gold or silver coined dollars. "Dollars in currency" means dollars in notes or any paper money current in the community. (*Trebilcock* v. *Wilson* (1872) 12 Wall. 687, 20 L. Ed. 460.)

A Missouri contract of June 17, 1862, to pay "in the current gold coin of the United States, in full tale and count, without regard to any legal tender that may be established or declared by any law of Congress" was held satisfied by payment in the nominal value in any legal tender money. The court said that it was not a contract to be paid in bullion, or in so many pounds or ounces of gold, but in a certain number of dollars, in coin. The transaction did not regard gold as a commodity but as money. The Legal Tender Act had made Treasury notes of like value with gold. As a legal medium there could be no distinction between notes and gold. The theory of the suit brought on contracts payable in specific chattels is that the court's judgment is not for payment in articles in kind, but for the damages resulting to the creditor in consequence of breech of contract, and this judgment can be paid off and satisfied in whatever money the law has clothed with the attributes of legal tender. Although it was a notorious fact that for purposes of trade and in commercial transactions a difference was made between Treasury notes

1

SENATE DOCUMENT 43

73 Congress 1st Session
April 17, 1933

Part 14

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(*M'Culloch* v. *State of*

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ual purchasing power.
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366), 52 Pa. St. 9, 33.)
nges and is a measure
currency legal tender,
came a mere commod-
monwealth v. *Van Vleck*,
while currency had no
ideal money. But a
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Welch, supra). The
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is, of course, the power

to coin money and regulate its value. The end sought to be accomplished is to maintain as "money" that which Congress expressly is empowered to coin, for that power is to "coin money" and not merely to stamp coins. The parity act became necessary in order to maintain the circulation of specie as money and in order effectively to regulate the value of coined money. The end sought to be accomplished by the parity act, therefore, is legitimate and within the scope of the Constitution. The parity act is an appropriate means plainly adapted to the end in view, i. e., to standardize money for use as a national medium of exchange. It is only by virtue of law that gold coin is money or legal tender; it is only by virtue of law that paper notes are money or legal tender; and it is only by virtue of law that either coin or paper has a declared value; and only by virtue of law can coin and paper be maintained at a parity in order to afford a proper medium of exchange. A parity law therefore is a necessary complement to the currency laws.

The ultimate ownership of all property is in the State; individual so-called "ownership" is only by virtue of Government, i. e., law, amounting to mere user; and use must be in accordance with law and subordinate to the necessities of the State. The fact that citizens, at a given time, may prefer specie to currency, or vice versa, can not prevent Congress from enacting those laws which it deems necessary to the maintenance of a proper monetary system. If the law makes specie and currency equivalent for purposes of payment, a failure to pay a given sum in specie, according to contract, cannot possibly beget an obligation to pay a greater sum in legal-tender notes, whatever premium men may choose to give for gold, when forced to obtain it for a specific purpose, or when impelled by a spirit of speculation, or by distrust of Government. (*Brown* v. *Welch*, supra.)

While the courts cannot control our citizens' preferences for one kind of money over another kind, or prevent them from giving a premium for the one or the other kind of money, when the fiscal affairs of the Government necessitate the adoption of a certain policy, expressed in constitutional legislative enactment, such as the maintenance of a monetary system consisting of specie and currency, to be acceptable interchangeably as to the value of the dollar, the courts should not give effect to a stipulation impugning the power of the legislature to make such laws, and should not apply those laws to the construction of contracts in such a way as to defeat the legitimate purposes of those laws, upon the enforcement of which the very existence of the Government may depend, or, at least, the aggregate well-being of the whole people is contemplated.

As it is not strictly correct to say that a contract is "invalid" merely because the courts will not enforce it, since enforcement may be withheld from valid promises because some provision of law prohibits enforcement, such, for example, as the statute of limitations, or the want of a legal consideration, valid contracts may be made and carried out between parties, without regard to legal limitations, so long as the jurisdiction of courts is not invoked to enforce the agreement. But when judicial enforcement is sought, the courts must find all pertinent constitutional laws tacitly written into every contract they construe.

So a contract to pay dollars tacitly includes the laws of the United States defining "dollar" and regulating the value thereof and pre-

THE 7 REQUIREMENTS OF A VALID CONTRACT

Part 15

77. Essentials of a valid contract
    1) An agreement will be enforced when the following essential elements exist:
        i. ***Offer and Acceptance*.** There must be an offer by one party and an acceptance of it by the other.
        ii. ***Intention*** to create lawful relations.
        iii. ***Capacity*** of the parties. Each party must have the legal capacity to make the contract.
        iv. ***Consen****t* must be genuine. The consent must not be obtained by fraud, or duress (such as death threats if the contract is not entered into).
        v. ***Consideration*** must be present.
        vi. ***Legality*** of object. The object of the contract must not be one of which the law disapproves.
        vii. ***Possibility*** of performance.
    2) All the above elements must be present. If one or more is absent the contract will be either (i) void, (ii) voidable, or (iii) unenforceable.
    3) **Void contracts** are destitute of lawful effect; that is, they are not contracts, and agreements of this kind do not confer legal rights on the parties thereto.
78. America's Juror Prudence 2nd sections 50, 51 and 52 “Actions” on page 584
    1) *“No action will lie to recover on a claim based upon, or in any manner depending upon, a fraudulent, illegal, or immoral transaction or contract to which Plaintiff was a party”*
79. There is a legal maxim of law (a self-evident truth) that says: *"**A THING SIMILAR IS NOT EXACTLY THE SAME** "*

FIRST BANK INC

FDIC REPORT

Part 16

80. This FDIC report for First Banks shows:

   1) They have $393,816,000.00 (line 26) in Total Capital but have loaned out $2,405,846,000.00 (line 7) to its customers.

      i. They have loaned out 6.1 times more money than they have if they have if they liquidated or mortgaged all their assets.

   2) It shows that Net loans (line 7) are a part of Total Assets (line 2) which matched Total Liabilities and Capital (line 15)

First Bank
341 North Main Street
Troy, NC 27371
FDIC Certificate #: 15019 **Bank Charter Class:** NM

Definition	*Dollar figures in thousands*	First Bank Troy, NC June 30, 2011	First Troy June 3
	Assets and Liabilities		
1	Total employees (full-time equivalent)	822	
2	**Total assets**	3,333,170	
3	Cash and due from depository institutions	238,291	
4	Interest-bearing balances	163,414	
5	Securities	216,555	
6	Federal funds sold & reverse repurchase agreements	612	
7	Net loans & leases	2,405,846	
8	Loan loss allowance	40,005	
9	Trading account assets	0	
10	Bank premises and fixed assets	68,732	
11	Other real estate owned	134,732	
12	Goodwill and other intangibles	70,184	
13	All other assets	198,218	
14	Life insurance assets	2,160	
15	**Total liabilities and capital**	3,333,170	
16	**Total liabilities**	**2,939,354**	
17	Total deposits	2,753,411	
18	Interest-bearing deposits	2,424,220	
19	Deposits held in domestic offices	2,753,411	
20	% insured	83.03%	
21	Federal funds purchased & repurchase agreements	68,608	
22	Trading liabilities	0	
23	Other borrowed funds	92,402	
24	Subordinated debt	0	
25	All other liabilities	24,933	
26	**Total equity capital**	**393,816**	
27	Total bank equity capital	393,816	
28	Perpetual preferred stock	0	
29	Common stock	5,670	
30	Surplus	193,419	
31	Undivided profits	194,727	
32	Noncontrolling interests in consolidated subsidiaries	0	
	Memoranda:		
33	Noncurrent loans and leases	108,627	
34	Noncurrent loans that are wholly or partially guaranteed by the U.S. government	0	
35	Income earned, not collected on loans	12,000	
36	Earning assets	2,786,427	
37	Long-term assets (5+ years)	482,270	
38	Average Assets, year-to-date	3,337,534	
39	Average Assets, quarterly	3,367,260	
40	Volatile liabilities	284,742	
41	Insider loans	10,264	
42	FHLB advances	92,402	
43	Loans and leases held for sale	2,466	
44	Unused loan commitments	311,382	
45	Tier 1 (core) risk-based capital	327,725	
46	Tier 2 risk-based capital	26,459	
47	Total risk weighted assets	2,103,156	
48	Total unused commitments	311,382	
49	Derivatives	0	
	Total assets and liabilities in foreign offices		

HUNTINGTON BANCSHARES INC

FDIC REPORT

Part 17

81. This FDIC report for Huntington Bancshares shows:

    1) They have $4,444,128,000.00 (line 26) in Total Capital but have loaned out $38,146,356,000.00 (line 7) to its customers.

        i. They have loaned out 8.5 times more money than they have if they liquidated or mortgaged all their assets.

    2) It shows that Net loans (line 7) are a part of Total Assets (line 2) which matched Total Liabilities and Capital (line 15)

http://www2.fdic.gov/idasp/rpt_Financial.asp

The Huntington National Bank
17 South High Street
Columbus, OH 43216
FDIC Certificate #: 6560 **Bank Charter Class:** N

Definition	*Dollar figures in thousands*	**The Huntington National Bank Columbus, OH June 30, 2011**	**The Hunting Ba Columb June 3**
	Assets and Liabilities		
1	Total employees (full-time equivalent)	10,356	
2	**Total assets**	**52,799,993**	
3	Cash and due from depository institutions	1,108,942	
4	Interest-bearing balances	405,557	
5	Securities	8,424,100	
6	Federal funds sold & reverse repurchase agreements	0	
7	Net loans & leases	38,146,356	
8	Loan loss allowance	1,058,160	
9	Trading account assets	260,669	
10	Bank premises and fixed assets	519,556	
11	Other real estate owned	37,957	
12	Goodwill and other intangibles	768,012	
13	All other assets	3,534,401	
14	Life insurance assets	1,478,568	
15	**Total liabilities and capital**	**52,799,993**	
16	**Total liabilities**	**48,355,865**	
17	Total deposits	42,161,439	
18	Interest-bearing deposits	38,414,312	
19	Deposits held in domestic offices	41,393,309	
20	% insured	72.17%	
21	Federal funds purchased & repurchase agreements	1,983,362	
22	Trading liabilities	208,834	
23	Other borrowed funds	1,892,628	
24	Subordinated debt	1,476,846	
25	All other liabilities	632,756	
26	**Total equity capital**	**4,444,128**	
27	Total bank equity capital	3,846,588	
28	Perpetual preferred stock	0	
29	Common stock	39,999	
30	Surplus	5,586,714	
31	Undivided profits	-1,780,125	
32	Noncontrolling interests in consolidated subsidiaries	597,540	
	Memoranda:		
33	Noncurrent loans and leases	739,223	
34	Noncurrent loans that are wholly or partially guaranteed by the U.S. government	94,660	
35	Income earned, not collected on loans	160,606	
36	Earning assets	46,983,930	
37	Long-term assets (5+ years)	9,490,400	
38	Average Assets, year-to-date	52,920,731	
39	Average Assets, quarterly	52,677,462	
40	Volatile liabilities	4,728,481	
41	Insider loans	302,760	
42	FHLB advances	220,224	
43	Loans and leases held for sale	224,860	
44	Unused loan commitments	13,185,797	
45	Tier 1 (core) risk-based capital	3,957,042	
46	Tier 2 risk-based capital	1,826,632	
47	Total risk weighted assets	43,907,456	
48	Total unused commitments	13,185,797	
49	Derivatives	21,923,498	

1 of 2 8/30/2011 9:29 AM