



# Federal Reserve Notes Revealed

By Jeffrey R. Paunicka

When new collectors approach me at shows they gaze at the array of notes I have in inventory. At times they look like kids at Christmas peering in the windows of a candy store, looking for that tasty holiday morsel. But when discussions begin about all the types of notes. I typically answer them with a brief statement. “Its all about how the paper money is backed”. Basically that gets me no where, for the time being so its time to drill down a bit and take one note at a time. Gold and Silver certificates are very easy to explain and comprehend, but alas, Federal Reserve notes and Federal Reserve Bank Notes always leave a bewildered look of “Ok, now I am lost, but I should not be”. Never feel bad about this, because you are not alone. Even I, who been at the currency game for over 50 years, admit it was at least a half a decade before I finally got a grip on the differences.

## Bankers Panic

Lets start to explain by going back to the late 1800's and early 1900's. To be specific, the years of 1893 and 1907. The United States simply stated, had issues. The Panic of 1893 was a serious economic depression in the United States that began in 1893 and ended in 1897. It deeply affected every sector of the economy, and produced political upheaval. The Panic of 1907 – also known as the “1907 Bankers' Panic” or “Knickerbocker Crisis”, was a financial crisis that took place



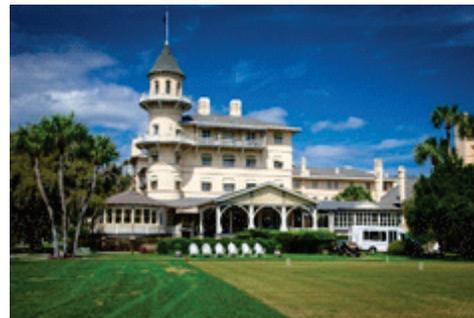
in the United States over a three-week period starting in mid-October, when the New York Stock Exchange fell almost 50% from its peak the previous year.



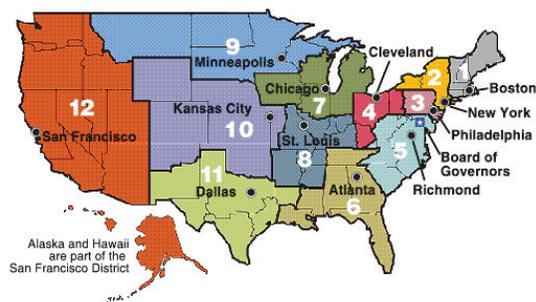
## Jekyll Island Secret Meeting

In November 1910, President Woodrow Wilson knew little about banking but made it his mission to tackle financial reform. He called prominent business leaders for input which included:

Nelson Aldrich, A. Piatt Andrew, Henry Davison, Arthur Shelton, Frank Vanderlip and Paul Warburg, They meet at the exclusive Jekyll Island Club, off the coast of Georgia, to write a plan to reform the nation's banking system. The meeting and its purpose were closely guarded secrets, and participants did not admit that the meeting occurred until the 1930s. But the plan written on Jekyll Island laid a foundation for what would eventually be the Federal Reserve System.



In December 1913, Congress ultimately voted to establish a decentralized, central bank of twelve regional Reserve Banks and a Federal Reserve Board that balanced private and public interests. The twelve banks opened for business eleven months later on November 16, 1914.



Remember, the United States did not have a central bank since 1836 when President Andrew Jackson had its doors closed. I also have to say Thomas Jefferson was not in favor of a centralized bank since it conjured up possible concepts of self-interests by the bankers and problems that existed back in England of which we were trying to distance from. But excuse my digression, it is a topic worth discussion at another time.

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## Red Ink Notes

The Federal Reserve said that it would issue money for the United States. That's correct, the Federal Reserve is not part of the Government but a separate living entity that functions besides the United States. This was part of the original design. The notes were backed by "value of the United States" or a promise to pay in some terms. The notes were of the large size back then in 1914 and sported red seals and serial numbers. Denominations were from \$5 to \$10,000. This became our regular currency at the time, besides the other backed notes of gold and silver and Legal Tender in circulation.



## Blue Ink Conversion

When World War I (The Great War) began, merchant trades were disrupted throughout Europe and it had its effect on us back in the States. In fact, in one case the red pigments used in the red inks for printing the Federal Reserve notes originated in Germany. Thus, supply was terminated. So it was mandated in less than one year we had to make adjustments in 1914 and the BEP (Bureau of Engraving and Printing) changed the red ink to blue. Thus a new set of Federal Reserve notes emerged.



## Federal Reserve Bank Notes (FRBN)

At this point I have one more concept to make and I am really trying to keep this clear. Consider when the United States had hard times and there was a shortage of cash. Remember the 1893 and 1907 crisis that started this discussion? Besides, having the authority to issue currency to the United States, the Federal Reserve Bank District Branches were able to issue currency from themselves since they had their own money to operate on. They were allowed to issue up to 80% of the funds they had on deposit with the United States Treasury under their own name. This was to help inject more cash into the economy and minimize the runs on banks and the horrific events of those times. So now we have another type of currency backed by each of the 12 branches of the Federal Reserve Bank (Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St Louis, Minneapolis, Dallas and San Francisco).



These new stylish notes have become favorites to a wide number of collectors because of the allegorical figures. Again, these were printed in the large sized notes beginning in 1915. The only stipulation with these notes is that they were supposed to be redeemable from the respective branch of the Federal Reserve. That's how 3 types of notes emerged within the beginning of the 20th century.

Acknowledgements to Wikipedia and Heritage Auctions for images.

## About the Author

Jeffrey Paunicka is the President of Insight3, Portage Indiana. He has been actively involved with currency for over 52 years. He is a member of the Professional Currency Dealers Association (PCDA) and provides professional numismatic services. He holds an MBA from the University of Notre Dame. He can be reached at (574)315-0238.

