June 9, 1955

Internal Memorandum

Mr. Mills, Mr. Peterson and Mr. Larson, Minneapolis

Mr. Mills, Mr. Peterson and Mr. Larson, all of them officers at the Minneapolis Federal Reserve Bank, took me to luncheon at the Minneapolis Club in order to give me joint recollections of the early days of the Minneapolis Bank. They suggested three people whom I should see, Mr. C. T. Jaffrey for early days of the bank organization, Mr. E. T. Decker of the Northwest Bank Corporation and Mr. J. Cameron Thompson, now president of the Minneapolis chapter of the A.I.B.

Asked about the closed banks of the 1920's, they said that the Helena branch of the Federal Reserve Bank of Minneapolis had been established in March , 1921. By March 1, 1922 there were 18 closed banks in the Helena section of the district and 6 in the rest of the territory under the control of Minneapolis. During that year, the head office and Helena had both been handling closed banks, but on March 1st the whole problem was transferred to Minnesota, and a Mr. Yaeger put in charge.

The problem of closed banks continued through the 1920's and into 1931. The public was easily subject to panic. One bank in Montana was closed because an officer died, and the staff was going to his funeral. A sign "Bank Closed" was put on the front door, and the populace assumed that this was a failure and started a run.

Another bank, wishing to re-establish public confidence, set up a stand in the lobby and served coffee depositors who stood in line.

The Federal Reserve Bank had loaned out $16 to $17 million and set up a reserve to cover possible losses. They had to charge off only $300,000 or $400,000 of all this money, and they recovered their collection expenses.

In 1920, when the banks began to close, the Federal Reserve Bank (possibly on orders from Washington?) closed down on rediscounting and loaned only on 15-day notes of member banks.

The situation was in those days that the commercial banks had very little to offer Federal Reserve Banks which the Feds could accept. The System lacked tools and facilities for handling the kind of situation that developed. For this particular district the chattel mortgages saved the day. Isolation was a frequent cause of trouble, and currency had to be flown to the small towns.

Of things peculiar in this district, they tell me that the Federal Reserve Bank of Minneapolis operates in four time zones. The extreme eastern end of the district is on the same longitude as Detroit, hence the same time as New York. The extreme western end of the district is in the Pacific Coast time zone. The result is that the branch in Helena has much more independence than do branches in some of the other districts. In the old days, it took 27 hours by train to go from Minneapolis to Helena. Now, of course, that time has been greatly cut by the airplane. Nevertheless, habits and practices in Montana are very different from those in Minneapolis. The result is that city men in Minneapolis have to make judgements on values of ranches in the distant open country.

They spoke of "ghost banks" in North Dakota and Montana towns, but this phrase needs to be expanded in order to make a memory which has meaning for me.

They said that many of the loans made in the western end of the district were so-called "character loans" which had behind them no real mortgage land but the character and reputation of the man who asked for the money.

At one time North Dakota had a moratorium against the foreclosure of chattel mortgages. There was great indignation against the city men who came to take away whatever had been mortgaged, and in more than one case the farmers threatened the sheriffs whose job it was to foreclose. One unfortunate sheriff they took and fed castor oil to. (It should be remembered that this was in a period when Fascists in Italy made castor oil treatment famous). One field man was threatened by desperate farmers but not harmed.

The Agricultural Credit Corporation here was stocked with eastern capital. The RFC started in February, 1932. Mr. Larson was with it in the early days. Subsidiary organizations were formed, and they began making loans to dairy credit unions, and so on. The regional Agricultural Credit Corporation was set up and made XXXXXXXXX "barnyard loans" in order to help the small farmer. The Commodity Credit Corporation followed. The RFC mortgage unit, the FHA, the Federal National Mortgage Corporation all affected the district money rate. The RACC even discounted.

Regulation A now makes all these extra credit facilities unnecessary, but they were badly needed in their period, chiefly because the Federal Reserve System was not organized to take "disaster paper." On the other hand, the RFC and the RACC were organized for this specific purpose of accepting losses when this could not be avoided. Nevertheless, they did not cost the taxpayers anywhere near as much as was expected. The CCC for instance loaned on corn at 45¢ a bushel and, after storage, sold that corn for much more as prices started to rise. They paid out on all their loans. The same thing was true of the RACC.

From 1917 on the Treasury Certificates were a new form of investment. They were short-term, one coupon pieces of paper. In order to handle them with greater ease, Minneapolis issued an interim receipt to the banks and let the certificate stay in Washington. This made it a far easier operation than if they had sent the certificates to Minneapolis, distributed them to the banks, paid the one coupon, and collected them back in again. The two-coupon ones which followed would not, however, work that way.

The end of the subtreasuries in 1920 did not push a great load of work on the banks, partly for the reason perhaps that their task had largely been taken from them when the Federal Reserve System was set up. (This should be checked, and work may need to be done on it.)

As for the Helena branch, that was started at the great insistence of the people of Helena who very much wanted a bank in their town. Tom Morrell was the leader. He got pledges from a great many of the state banks that they would come into the System if a branch was established at Helena. Montana had a great many national banks, and they of course were forced to go into the System. It sounded on the face of it as though the Helena bank did not really pay its way, excepting as a gesture of good will and to satisfy public pressures. This, however, could be determined.

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