

Mr. Eccles -
1939

Replies to Board's Wire of August 25
Regarding Discount Rates

PHILADELPHIA

Reply refers to action of board of directors on April 21, as reported in letter to Chairman Eccles from Mr. Sinclair, of that date. In substance, that letter stated that the following actions were authorized in the event that disturbed conditions should arise in the money markets due to war or the immediacy of war:

1. Loans to member banks on the security of direct and such fully guaranteed Government obligations as may be eligible for collateral purposes at par at current discount rate.
2. Loans to non-member banks on the security of direct Government obligations at par at the then current discount rates.
3. Loans to individuals, partnerships and corporations other than banks on direct Government obligations at 1% in excess of the current discount rate and on such collateral basis as the bank may from time to time prescribe or require.

The President of the Bank was authorized to make such loan policies effective after consultation with the Board of Governors or its representative if such disturbed conditions be anticipated. In such event it would be necessary for Board of Governors to approve rates on types of loans referred to in preceding paragraphs numbered 2 and 3.

CLEVELAND

Reply refers to action of board of directors of April 27 as set forth in bank's letter of April 28. In that letter it was stated that it was voted that the discount committee of the bank was authorized to make loans on Government securities to member banks at par, to non-member banks at par, and to others at 95% of market value but not more than par, at 1 1/2% for member and non-member banks; to other lenders at 2 1/2%; to individuals, partnerships and corporations (except non-member banks and other lenders) at 3 1/2%. However, this action would become effective "provided notification of an outbreak of hostilities abroad has been received by Federal Reserve Bank of Cleveland from Board of Governors". The bank's telegram of August 26 states "If this is not satisfactory, please advise".

CHICAGO

Bank's wire refers to action taken by board of directors on July 27, 1939, in which it was provided that "when and if the Board of Governors requests due to conditions above outlined (in the event of disturbances resulting from political developments abroad) to establish a discount rate of 1% to member and non-member banks on loans secured by Government obligations up to the par value of such collateral". In a telephone communication, President Schaller informed Secretary Morrill that the expression "up to par" was intended to mean that the loan would be granted in any amount desired by the applicant up to par; in other words that the bank would lend par if desired, and in the bank's telegram of August 25 referring to this action, it is stated that it is "to be effective upon request of Board of Governors".

MINNEAPOLIS

Bank's reply refers to Powell's letter of April 22 informing Board that executive committee this bank set rate of 3% to individuals, partnerships and corporations other than non-member banks and 1 1/2% to corporations when they were non-member banks on their promissory notes secured by Governments if, as and when the President of this bank deemed it advisable to put those rates into effect, subject only to Board's requested approval. The wire concludes with the following statement: "I have assumed you would approve this rate when emergency arose without further word from me. I now deem it advisable to put such rates into effect and request your approval."

DALLAS

Bank's reply refers to bank's letter to Board dated April 26, 1939, wherein Board was advised of resolution passed that date by board of directors of bank, fixing rate on loans to non-member banks at same rate as going rate then in effect for loans to member banks secured by Government securities if at any time in the future the Board of Governors for any reason should deem it advisable and give its approval. Bank's wire states that they believe this resolution sufficient to fix their rate on loans to non-member banks at the same rate fixed by the executive committee for loans to member banks secured by Governments and therefore no additional action needed except Board's approval.

Mr Eccles

August 25, 1939

Replies received from Federal Reserve Banks to telegram sent by the Board yesterday:

BOSTON

"While we interpose no objection to issuance at this time of statement referred to your wire twenty fourth there is some feeling it would be desirable to await actual outbreak of hostilities."

MINNEAPOLIS

"Retel 24 and supplemental Ransom telephone conversation this bank is in full accord with such action as Board of Governors outlines concurring in the Board's opinion the emergency exists."