

INFORMAL CONFERENCE OF GOVERNORS

OF

FEDERAL RESERVE BANKS

HELD

NOVEMBER 8 - 9, 1917

AT

WASHINGTON, D.C.

BOARD OF GOVERNORS

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GOVERNORS CONFERENCE

WASHINGTON, D. C.

THURSDAY AND FRIDAY, NOVEMBER 8 - 9, 1917.

Meeting called to order in the Board room at 10:30 on Thursday, Governor Harding presiding.

Governor Harding suggested that it would be desirable to strengthen the New York bank situation and as many of the other Federal reserve banks had very strong reserves he asked how many of the banks would be willing to participate in the purchase of \$55,000,000. of bills of exchange from the New York bank. All the eleven banks responded cheerfully, taking \$5,000,000. each.

Later Governor Aiken raised the question of the rate at which the bills should be taken by the other banks and he <sup>also</sup> raised the question whether the rates should not be the same which prevailed in the Boston district for their purchases. This resulted in two or three informal discussions on this subject. Governor Aiken was advised that the New York bank had, since the opening of the bill market, furnished the other Federal reserve banks with bills from time to time and always at the rate ruling in New York, and furthermore that the other banks had at their option bought or refrained from buying these bills. Furthermore, that the New York bank had not asked the other banks to purchase the bills but that it was a matter which had emanated in the Board as a means of strengthening the position of the New York bank on which heavy demands were being made.

Governor Harding then presented a list of topics for discussion at the conference, which list of topics had not been furnished the governors in advance.

1. Relations with Treasury and Fiscal Agency matters.

MCDUGAL - Commercial rate 5 1/2% to 6% at present. 260 banks in Chicago district now borrowing of Federal reserve bank.

SEAY - Our nonmember banks have purchased certificates in advance to pay for bonds instead of taking Government deposits on book credits.

MCCORD - Our loans are now at peak. Just beginning our liquid period.

MILLER - Our bank is overloaned and will be until January 1st. \$300,000,000. of cattle paper originates in Kansas City each year, sold everywhere. Banks in other districts which have purchased same when issued are now declining to renew, making it necessary for banks in Kansas City district to purchase same.

(b) Treasury Certificates of Indebtedness.

RHOADS - We think higher rate on the certificates of indebtedness would be better and they would sell in greater volume.

VAN ZANDT- Money conditions in our district easy. Think we could sell as many certificates at 4% as at 4 1/2%.

RHOADS - The rate on certificates during the campaign should not be above bond rate.

WOLD - Think rate on bonds if purchased by individuals should be as high a rate as the certificates purchased by banks.

(c) Payment of Coupons by Federal Reserve Banks.

RHOADS- Let the coupons on these Liberty bonds be paid by sub-treasuries.

Mr. Delano then described the War Savings Certificate and Stamp plan, showing samples of the certificates and explaining in detail the organization. He stated that the Federal reserve banks would be depots for distribution. Other agencies would be post office, chain of stores, etc. That the American Bankers



Association would enlist every bank in the country as a distributing center. After describing the plan, Mr. Delano stated that the campaign would open in full strength on December 1st. Certificates were not assignable, negotiable nor transferable but can be cashed at any money order post office.

## 2. Concentration and Conservation of Gold.

(a) Governor Harding reported more effective cooperation by sub-treasuries as per confidential circular presented to each of the governors regarding Treasury discontinuing use of the gold certificates in meeting current disbursements, etc.

(b) It had been planned that any member bank may send unfit currency to the Treasury Department receiving credit for same on the Federal reserve banks of the district in which member bank is located.

## 3. Light weight Coin.

Discussion-LYNCH - In the San Francisco district more gold being paid out by banks than should be. Some alarm caused by President's statement. Considerable gold was withdrawn from savings banks. Average loss by abrasion in our district in some cases as high as \$2.00 per \$1,000. Banks cooperating now in payment of paper currency instead of coin.

MCDUGAL - Our banks willing to send in gold. We allow 6/10 of 1% for abrasion. Our bank is sending out circular this week to 5,500 banks in our district asking their cooperation in conserving gold. We have taken in about \$6,000,000.

LYNCH - I should think 1/5 of 1% would represent the average loss by abrasion on the coast.

Comptroller Williams asked Mr. Lynch how much abrasion gold in circulation and Mr. Lynch answered he thought about \$10,000,000.

WOLD - We have absorbed in our district about all of the full weight

Mr. Treman reported as to the experience of the New York banks and the efforts made in district No. 2 to conserve gold and gave some statistics.

4. Gold Embargo.

Governor Harding explained that the embargo against Mexico at first was very rigid but latterly it has been relaxed more as gold is necessary in some parts of Mexico to carry on current business. About \$5,000,000. of gold being shipped mostly from Dallas.

VAN ZANDT - Customs and other payments must be paid in gold.

HARDING - Arrangements have been made to release \$25,000,000. of gold to Canada, transfers to be made through New York.

VAN ZANDT - We see no evidence of any return of gold from Mexico.

WOLD - We see no evidence of any gold being returned from Canada.

We understand that gold certificates are being sent out of the U. S. in the mail.

5. DISCOUNTS AND INVESTMENTS.

Warburg - It is generally recognized that member banks should refrain from discounting their own acceptances. The Boston reserve bank discounts these acceptances quite generally. Preferable to have in each district acceptances finding their own market and when purchased to have an additional indorsement.

General discussion on commodity rates.

Governor Miller reported that the K. C. bank was discounting very heavily on 15 day notes secured by cattle paper instead of rediscounting.

6. STAMP TAX.

Governor Harding reported that legislation would be secured if possible doing away with the stamp tax on U. S. securities loans.

General discussion as to one day borrowers being penalized by present

stamp tax.



General discussion as to discount rates.

7. BRANCHES OF THE FEDERAL RESERVE BANK.

Governor Harding reported that the law provided for branch banks and certain communities were demanding such. Stated that branch banks cannot carry reserves. Originally proposed to start branch banks with designated territory limits and requiring banks in each territory to deal with branches. This was found to have many objections.

It was proposed in the branch banks at Pittsburgh and Cincinnati, Cleveland district, that the branch banks should be clearing houses for adjacent territory. Branch banks would be inaugurated and not agencies.

CHECK CLEARING AND COLLECTION, TRANSFERS AND EXCHANGE.

There was a general discussion on the financing of the Rubber Company and the American Tobacco Company, a plan for doing which was unanimously opposed by the governors. General discussion followed on clearings, etc.

AIKEN - Boston has increased the amount of "transfers" reducing its "float" to a minimum. Raised the question of whether the time limit schedule should not be readjusted.

FANCHER - The amount of float should be carefully watched and the present interest rate therefor, 2%, should be increased.

VAN ZANDT - We have raised our exchange rate from 10¢ to 15¢. Business in October \$11,000,000. against \$2,500,000. in September.

There was some discussion over daily settlements being made through the gold clearing fund.

Governor Harding asked the governors to consider the same and make a

York bank.

MCDUGAL - We have added 167 nonmember banks to our par list and have done same by means of letters written to them.

FANCHER - We have added 12 to 15 banks through means of letters. Have been too busy to send out personal representative but believe that a personal approach is best.

Thought by those present, in view of the present demands on the Federal reserve banks, it would be advisable to hold in abeyance any discussion over exchange and additional banks to par list.

MILLER - Stated that in their district they were remitting 500 checks a month to their small banks and it worked very satisfactorily.

FANCHER - Reported that in Cleveland district they were remitting 250 checks to their smaller banks.

A majority of the governors seemed to think that nothing was gained by remitting and New York bank reported that they had not adopted the plan as they were making a service charge of only 1¢ per item.

Then followed a general discussion on the advisability of doing away with service charges for check collections.

SEAY - Surplus earnings this year would permit us to remit service charge.

MR. DELANO - It would certainly create a favorable impression among member banks if service charge on checks could be remitted, especially helping country banks and relations with them.

MILLER - We are considering increasing the number of free checks to 50 checks per day which would take in most of the country banks and would be received most favorably.

MCCORD - Favor the reduction of service charge as soon as possible.

MILLER - In our district the number of items has increased 25% and a number of banks who never used our collection system before are now using it be-



cause of the free service.

WELLS - St. Louis has only increased the number of banks, by about 10 since the free service per month was offered them.

Governor Harding then stated that wire transfer charges were not uniform and, after discussion in which Mr. Warburg and others joined, it was thought advisable to leave the wire transfer charges for each bank to determine.

LYNCH - We charge 10¢ per day per \$1,000. on transfers.

MCCORD - We charge 2% per annum for the time necessary.

Mr. Warburg - Banks do not seem to use transfer facilities.

AIKEN - Banks will use them and find them most advantageous.

#### EQUALIZATION OF RESERVES AGAINST NOTES AND DEPOSITS.

WARBURG - The only thing which counts is the average reserve ascertained by adding the two together. Gold reserve in hands of agents should be a little less than the average. Banks might set aside or earmark enough gold to equalize reserve.

VAN ZANDT - Raised the question, if a bank had insufficient paper to pledge what should be done and he was advised to secure additional paper from other banks.

Discussion on weekly reports being secured from all member banks in the large cities.

WARBURG - The Board desires that the reports from each city be kept separately. Great advantage in having reports at the present time, especially from the large centers. It was suggested that each bank should make up a list of cities in its district from which reports should be received. It was thought advisable to have the superintendents of State banks call reports from the State banks on the same day as the Federal reserve banks' reports are called and that undoubtedly an arrangement could be made in which the comptroller would notify

the superintendents through the Federal reserve banks, if necessary, as to the date of the call.

It was suggested that the superintendents of State banks should be consulted as to their using a uniform form of report along the lines suggested by Mr. Broderick. The State banks would see to the publishing of their own reports but a copy of the report would go to each Federal reserve bank.

Governor Harding stated that it was most essential that two copies of all circulars and circular letters sent out by Federal reserve banks to member banks should be sent to the Federal Reserve Board for its files and the Federal Reserve Agent in each bank should have two or three copies submitted to him. In fact, it would be advisable if each member of the Federal Reserve Board should receive a copy of such circular letter.

Then followed a discussion on the effect on railroad and corporate bonds held by banks by reason of the present depreciation.

General discussion as to how the situation would be helped.

LYNCH - In California we have a serious situation. The bank superintendent is now considering having an appraisal made of all real estate covered by mortgages held by savings banks, also to have lists of bonds held by each savings bank submitted at present valuation.

MCDUGAL - In the Chicago district our State bank superintendent will be " liberal constructionist. "

FANCHER - In Ohio there is considerable concern as to the present status of certain savings institutions.

WELLS - We have, like Ohio, certain institutions about which there is considerable concern.

AIKEN - There is a serious situation in New England.



LYNCH - Matters should be allowed to rest as quietly as possible and not be stirred any more than necessary. Assistance should be rendered in cases where necessary to hold.

Governor Harding then asked for an expression of opinion as to whether another issue of bonds at 4% rate would be successful. Some difference of opinion developed but the consensus of opinion was that if conditions do not become worse a 4% issue could be floated.

WARBURG - While this may be true the next issue will have to contend with the present 4% loan, whereas the 3 1/2% loan in June did not compete with this loan to any extent. I hope, however, the next loan may go at 4%.

SEAY - The savings bank situation is a menace.

Discussion as to whether the Federal Reserve Act should be amended so as to allow State banks which were in existence on November 16, 1914, to become members of the Federal Reserve System, although their capital be less than national bank requirements. My impression was that the consensus of opinion was against it.

Governor Harding stated that the American Bankers Association Committee was planning to vigorous attention to promoting membership of State banks in the Federal Reserve System.

General discussion as to orders being entered for printing of additional amounts of Federal reserve notes.

Discussion as to pledge of commercial paper with Federal Reserve Agent and indorsement back to bank by him of such paper for collection. In this connection, Governor Harding submitted memorandum dated November 5th.

GOVERNORS CONFERENCE

WASHINGTON, D. C.

FRIDAY MORNING.

All Governors present except Governor Wells.

General discussion on stamp tax on fifteen day notes and Mr. J. F. Curtis of the New York bank was asked to frame proper legislation to permit of loans with Federal reserve banks up to fifteen days secured by Government obligations to be exempt from stamp tax.

was discussing the  
Governor Aiken reported that Boston ~~xx~~ discounting <sup>of</sup> Government paper and rebating it.

Question of daily settlement in gold fund and having two accounts with the Federal Reserve Bank of New York was discussed.

Governor Seay moved no change in the present method of settlement through gold fund and same was adopted, it being understood that New York or any other bank could ask for settlement on any day during the week when it became necessary.

Discussion as to transfers between banks, especially to New York. It was moved and carried that the Federal Reserve Board be requested to arrange with the U. S. Treasurer to make transfers regularly on Wednesdays of each week and that the settlements between Federal reserve banks in the Gold Settlement Fund be made on Thursday instead of Wednesday.

It was suggested by Governor Harding that the governors take up with the respective boards the service charges by Federal reserve banks.

MCDUGAL - Suggest that in order to stimulate the use of the Federal Reserve System, service charges should be reduced uniformly rather than by exempting a certain number of checks from the charge. After a general discussion it was brought out that the Federal Reserve Collection System has had the effect of



were made, they were conforming to the 1/10 of 1%.

RHOADS - A city bank in a Federal reserve city has advantage over other banks. The Philadelphia bank is now handling about 50,000 items daily. Remitting service charge would bring us many more items. This was agreed to by both McDougal and Fancher. It developed that four of the twelve Federal reserve banks were giving exemptions on a certain number of checks.

LYNCH - The San Francisco bank has abandoned the attempt to coerce banks by collecting charges through the express company, as it caused so much ill feeling.

Then followed a discussion on the desirability of drawing into the vaults of the Federal reserve banks the gold outstanding and the practice of each bank was asked.

LYNCH - We pay charges both ways. Have received some gold and our banks are, to a certain extent, sorting certificates.

SEAY - We pay charges both ways. We have drawn in about all the gold in our district. We have absorbed the abrasion charge, which amounts to about \$1.00 per \$1,000, abrasion loss. Our efforts included nonmember banks.

MCCORD - We do not allow charges in gold except when currency is taken in exchange. We have not received any gold coin to any amount. We have absorbed the abrasion loss which in some cases has amounted to as high as \$2.00 per \$1,000. In our district our city banks do not cooperate in sorting certificates. We have included nonmember banks in our efforts.

MILLER - We allow charges both ways and include nonmember banks. Do not absorb abrasion charge. Have collected about \$21,000,000.

TREMAN - Reported conditions in New York district.

MCDUGAL - In our district we have included nonmember banks as well. Banks seem very willing to cooperate. Have absorbed transportation charges both ways and allow up to 6/10 of 1% abrasion loss. Have just sent out letter to the

5,500 banks in our district. Considerable gold coin in.

FANCHER - Began two years ago and offered to pay charges both ways. We have not absorbed the abrasion charge as yet. Are receiving gold certificates all the time but have secured most of the gold coin held by the large banks except in Pittsburgh where considerable amounts of gold are still held. Have drawn in \$5,000,000. in gold coin and \$20,000,000. in certificates.

WOLD - We began in July and we finally absorbed the abrasion charge. We have asked nonmember banks also and have accumulated \$10,000,000. The Twin City banks reached a point where they only had light weight coin. Butte and other places in Montana pay out considerable amounts of gold coin.

RHOADS - Philadelphia pays shipping charges both ways but have not allowed any loss by abrasion. We have cleaned up most of the gold, we think, in our district but there are a number of places where machines for paying gold coin in payrolls are still being used.

VAN ZANDT - Have stood abrasion loss and pay both ways. We had demands, previous to war being declared, for shipment of gold coin to Mexico, and we thought through them to Germany, and disposed of practically all the light weight gold in our district through these shipments. We had numerous demands for shipment to Mexico and Spain.

AIKEN - Boston pays charges both ways and stands the abrasion loss. Have had fine cooperation from our banks and also the savings banks. There is very little, if any, coin left in our district.



GOVERNORS CONFERENCE

FRIDAY, 3 p. m.

Governor Aiken reported the governors' actions as to daily settlements and stated that they felt there was no necessity for two accounts with New York. Also asked that the Federal Reserve Board request the Treasury Department to make change in date of transfers, etc.

Governor Harding asked as to the attitude of the governors towards pledging commercial paper with the Federal reserve agent and indorsement back to the bank by him of such paper for collection.

LYNCH - Reported that in San Francisco they indorsed by rubber stamp all paper offered to the Federal reserve agent and then the Federal reserve agent indorsed it back. It was stated that Judge Elliott had decided that there was no objection to this practice.

VAN ZANDT - Reported that they used trust receipt and indorsed on back "Paid to Federal reserve agent of Dallas."

Governor Harding reported that the Federal reserve agent may turn back to the bank for collection commercial paper pledged for note issue. Stated that he thought it would be advisable for each bank to have a minimum and maximum amount of Federal reserve notes needed by each bank.

General discussion followed as to discount rates.

LYNCH - Reported demand now for rediscount at its maximum and will have heavy demands. The large banks will be liquidated quite fully by February 1st.

MCDUGAL - Reported that the Chicago bank was making loans to about 250 banks at the present time. Would increase up to January 1st. Demand should be at minimum by March 1st.

MILLER - Reported Kansas City reached its maximum about December 15th.

Thought it was not advisable to have any higher rates.

MCCORD - Said their loans were now at the peak and the high point will continue until about December 15th.

SEAY - Banks in our district have subscribed too heavily for Liberty bonds. We shall have to raise our rates from probably  $3 \frac{1}{2}\%$  to  $4\%$  on loans secured by Government securities.

MCDUGAL - Chicago bank has encouraged the banks to borrow and they are expecting low rates on loans secured by Government securities. Do not anticipate they will be called on to borrow of other Federal reserve banks.

AIKEN - Reported that Boston was heavily loaned and but little money was available. Money conditions very tight. Peak of the loan from December 15th to January 1st. High prices for labor and material add burdens to manufacturer. Corporations had had great pressure put upon them to buy Liberty bonds. Boston will need to sell paper to other Federal reserve banks. Governor Aiken was surprised to hear the expression from nearly all the other governors that rates can be kept low, in their judgment.

VAN ZANDT - In our district we have <sup>had</sup> considerable liquidation recently. Believe we should maintain  $3 \frac{1}{2}\%$  rate. Expect strong demand will come earlier this year, probably in February. Expect no material change until February 1st.

Mr. Warburg suggested that it would be advisable to bring about liquidation of bonds where held by member banks insofar as it was possible.

RHOADS - We anticipate considerable borrowing after November 15th. Our banks have rather anticipated that there would be a  $4\%$  rate on loans secured by Government obligations. Ought to be easy by February 1st. We may have to call on other banks to take some of our paper. Uncertain as yet.

MR. WARBURG - Philadelphia ought to encourage the rate of  $3 \frac{1}{2}\%$  on trade acceptances.



WOLD - View in our district is uncertain. Abnormal conditions prevailing. Railroads congested. Easy period about February 1st to March 1st. We think rate on fifteen day loans should be continued at 3 1/2%.

PANCHER - Cleveland advanced its rate some two or three months ago from 3 to 3 1/2 and from 3 1/2 to 4%. Our ordinary maximum charge is in December. We expect very heavy demands on account of banks' purchases of Liberty bonds.

Governor Harding, after stating his pleasure at the action of the governors in purchasing paper from the New York bank so willingly, asked for an expression of opinion as to remittance of such State banks whose present capitalization is below the requirements of the Federal Reserve Act. Nearly all the governors did not favor remittance of such State banks.

Some discussion as to paying salaries to enlisted men. It developed that most Federal reserve banks are paying the difference between the salary from the Government and that paid by the bank. Chicago bank investigates each case and governors itself accordingly.

There was considerable discussion as to the practice in various districts as to meeting out-of-pocket expenses incurred by banks in Liberty Loan campaigns.

RICHMOND reported an allowance for expenses of \$80,000.

CHICAGO reported \$450,000.

DALLAS reported \$25,000. and have sold \$70,000,000.

ATLANTA sold \$50,000,000. and had an allowance of \$10,000. for expenses.

KANSAS CITY was allowed \$40,000. for expenses and will spend \$100,000.

in their district. Were not allowing out-of-pocket expenses to banks.

CHICAGO have not attempted to allow out-of-pocket expenses.

CLEVELAND have not raised the question with the banks. Will meet it

when they raise it with the Cleveland bank.

MINNEAPOLIS - We are not attempting to reimburse the 4,000 banks in our district.

PHILADELPHIA - We are not trying to reach each bank. We have allowed commissions in certain cases.

DALLAS - We are not taking this matter up with our banks.

Federal reserve banks generally were not reimbursing bond houses for salaries of their salesmen, only actual expenses.

Mr. Clifford of the Treasury Department was introduced and gave a talk of about twenty minutes to one-half an hour on the way the Liberty Loan matters had been handled in the Treasury Department. He expressed the feeling that some of the Federal reserve districts had not been liberal enough in their allowances and the districts which had been most liberal in the allowing of expenses produced best results. About 9,500,000 people had subscribed for bonds. Thought that our district should begin to furnish country papers with plate matter in preparation for the next campaign so that country districts should have better understanding of the reasons for the war and the necessity for bond issues. He suggested further that each district should secure one or more first-class organizers and immediately begin checking up the places in each district where there had not been a good response and this work should begin at once. Suggested further that more business men should be used on the various committees and perhaps fewer bankers. Suggested the necessity for enlisting men for this bond service, the same as for other Government service.

The meeting then adjourned to Secretary McAdoo's office where Secretary McAdoo gave an informal talk of about one-half an hour and then asked the various governors as to matters in each particular district. Suggested various reasons why,



if possible, it would be desirable to keep the rate on the next issue at 4%.