INFORMAL CONFERENCE OF GOVERNORS

OF

FEDERAL RESERVE BANKS

WITH THE

FEDERAL RESERVE BOARD

JULY 1 - 2, 1918

BOARD OF GOVERNORS

OF

FEDERAL RESERVE BANKS

PROCEEDINGS

JULY 1-2, 1918.

I. INDEX

II. BOARD LETTER X-1052

III. PROCEEDINGS

FEDERAL RESERVE BOARD

Washington

July 10, 1918.

Dear Sir:

The Board has given careful consideration to the various topics which were discussed at the recent conference with the governors of Federal Reserve Banks, and has directed that this letter be sent to inform the governors of the conclusions reached.

1. <u>Curtailment of Credits</u>.

The Board has decided to send a letter to all national banks, state banks and trust companies, inviting their cooperation in a campaign for a judicious curtailment of non-essential credits, and to address a letter to all Federal Reserve banks asking them to take such steps as may be necessary to arouse the interest of bankers and business men in this movement.

11. <u>Discount Rates of Federal Reserve Banks</u>.

At the conference the view was generally expressed by the governors that they could control any excessive rediscounts by any member bank, by informing the applying bank that it had reached its limit; by requiring additional collateral; or, with respect to fifteen-day borrowings, by availing themselves of the authority given them by the Board to raise the interest rate in case of renewals. These devices have been used in the past, and the Board has reached the conclusion that for the time being, it would be better to adopt this policy rather than to insist upon changes in discount rates. The adoption of this policy will give the Federal Reserve banks an oppotunity to demonstrate that credit may be resticted without resorting to higher discount rates as a means of compulsions. In two Federal Reserve districts the fifteen-day rate for member banks' notes secured by Government obligations is now 41/4%, and should other Federal Reserve banks find it necessary for their own protection to recommend that their rates for such paper be advanced to 41/4%, the Board will be inclined to approve. This question of discount rates will be again considered by the Board in the light of additional experience whenever conditions warrant it.

111. Interest Rates Paid by Member Banks on Bank Balances and Deposits.

The governors are requested to give especial attention, and to take vigorous steps to get results, beginning with the important reserve cities in the respective districts.

1V. Indirect Discounts for Non-Member Banks.

The Board has decided not to issue any regulations at this time defining limitations to the accomodations which may be granted indirectly to non-member banks through members, but suggests that the officers of the Federal Reserve Banks exercise proper discretion in preventing abuse of rediscount privileges.

V. Branches and Agencies.

The Board believes that by-laws for branches should be as nearly uniform as possible, making due allowance for local conditions in certain districts. It appears to be advisable also, as a rule, that the manager of a branch bank should be one of the three directors appointed by the Federal Reserve Bank. The Board would like to test the plan for establishing clearing agencies, based upom the active cooperation of local clearing houses. It appears that an agency of this kind would give the banks in the cities which are local financial centers, but which have no Federal Reserve Bank or branch, most of the benefits which accrue to banks located in a Federal Reserve City. It will not be the policy of the Board, however, to establish any branch or agency in any city which is not classified as a reserve city.

V1. Exchange Rates.

In view of the unanimous opinion expressed at the conference, and having in mind the large number of banks which have not yet applied for membership in the Federal Reserve system, the Board has decided that it is not expedient at present to fix the charges which may be made by member banks on checks deposited with them which are cleared through the Federal Reserve Banks. The Board is willing to defer action on this matter until such time as the par lists include a much larger number of state banks and trust companies.

V11. The Board does not contemplate making any changes in the time allowance for the collection of interdistrict items, but has determined that the Federal Reserve exchange drafts drawn by a member bank upon its Federal Reserve bank when promptly advised at the time the drafts are drawn, should be treated as payable upon presentation at any Federal Reserve Bank, and cleard through the Gold Settlemnt Fund.

V111. The Board has addressed a letter to all Federal Reserve banks stating that bankers' acceptances should be paid in actually collected funds on day of maturity, and that in cases where accepting banks pay by cashier's check or by check on some member bank of their locality, one day's additional discount should be figured when the acceptance is bought.

1X. The Board urges all Federal Reserve banks to combine with their efforts for the sale of Treasury certificates on indebtedness, the exertion of every energy for adding to their state bank membership and for the further concentration of gold in the Federal Reserve banks.

X. The Board desires all Federal Reserve banks to participate in the benefit and liability of accounts opened with any particular Federal Reserve Banks, by foreign governments, or foreign government agencies, which are predicated upon the obligation given by the Treasury or the Federal Reserve Board, or both, to pay the deposits in gold within a certain time after the conclusion of a treaty of peace. A letter treating this question more in detail will be addressed in due course to all Federal Reserve banks, and will set forth the method of distributing these foreign accounts on the proportions applied in the case of the agreement with the Bank of England.

X1. The Board adheres to its view that a distribution of a bonus should as far as practicable, be undertaken only at the end of the year, and that any adjustment that may become necessary during the year should be made on the basis of an increase in salary. In the opinion of the Board, it is not expedient to have the bonus constitute too large a part of the salaries paid employes of Federal Reserve Banks.

With respect to topics not on the program, which were discussed with the governors, the Board holds:

X11. That domestic acceptances drawn against a pledge of warehouse receipts or similar instruments, should be regarded as eligible by Federal Reserve banks only in cases where the acceptor remains secured; that is to say, in such cases the collateral should not be released by the acceptor after the acceptance has been made. It is not practicable in every case for these documents to remain attached to the acceptance, but if not attached they should remain in the hands of the acceptor, or subject to his order and control, until the acceptance has been paid or other approved collateral has been substituted. In some cases documents have been deposited in trust with the Federal Reserve Bank, and this appears to the Board to be an excellent precaution in dealing with weaker acceptors. In all cases the acceptance should contain a reference to the collateral by which it is secured, sufficiently clear as to identify and locate it.

X111. Trade Acceptances;

Whenever desirable trade acceptances are offered with the endorsement of a member bank, they should be purchased by Federal Reserve banks in the same manner as if offered directly by the endorseing bank. When a trade acceptance is offered with the endorsement of a member bank located outside of the district in which the accetance is offered, it is suggested that before purchasing, the Federal Reserve Bank should communicate with the Federal Reserve Bank of which the endorseing bank is a member. The Board deems it important that Federal Reserve Banks should advise each other as to local conditions and credits affecting trade acceptances and bankers' acceptances.

Very truly yours,

Governor.

REPORT OF CONFERENCE
OF GOVERNORS OF FEDERAL RESERVE BANKS
WITH THE FEDERAL RESERVE BOARD

JULY 1 - 2, 1918.

REPORT OF CONFERENCE OF GOVERNORS OF FEDERAL RESERVE BANKS
WITH THE FEDERAL RESERVE BOARD

JULY 1 - 2, 1918.

The conference convened at 11 a. m. in the Federal Reserve Board room.

Present, Governors Harding, Delano and Warburg of the Board, and Governors Morss, Passmore, Seay, Fancher, McCord, Wold, McDougal and Miller, Deputy Governors Hoopes, Hoxton, Calkins and Treman.

Governor Harding stated that a list of twelve topics for discussion had been prepared and he would be glad to discuss others which might be presented by the Governors of the banks.

Governor Harding then, after welcoming the governors, took up the topics briefly reported as follows:

1. CURTAILMENT OF CREDIT - The operations of the Treasury are now paramount. Curtailment of credit is essential, which will necessitate more extended rediscounting with Federal reserve banks. Individual reserve banks should be careful about extending unduly large loans to banks because overextension of loans to them might interfere with needs of other banks. Reserve banks should not discriminate unfavorably or assist one or two large banks to the detriment of others. Important for reserve banks to assist member banks in properly differentiating between essential and less essential credits.

2. DISCOUNT RATES -

(a) Governor Harding said the Board had received a request to advance discount rates from one Federal Reserve District (Kansas City.) The situation there was explained briefly that one bank had overextended but the Board had not approved of the raising of rates, which might affect rates in other districts as well, in order to correct this evil. He thought each bank must control the situation in its own district.

(b) It had been proposed to make a differential above official discount rate to comply with offerings of member banks in excess of their required reserve balance or multiples thereof and he desired to know the opinion of the governors on this point. This meant that there should be, first a normal rate to banks with ordinary borrowing and a higher rate to those who wanted to borrow more than the situation justified.

He submitted to the governors a memorandum prepared by Governor A. C. Miller favoring an advance in rates to strengthen the situation, also a letter from Governor Hamlin opposing the advance. For consideration. He asked the governors to consider what the effect of an advance in rates would have on the sale of certificates of indebtedness as the Board did not wish to do anything to impede or interfere with a wide distribution to the certificates of indebtedness.

We then discussed the policy of member banks purchasing certificates of indebtedness and borrowing against same in order to make loans to their correspondent banks, the member bank making the profit thereby.

3. INTEREST RATES PAID BY MEMBER BANKS ON BANK BALANCES AND DEPOSITS - He invited discussion of some method for standardizing rates and preventing undue competition between banks or deposits. He explained the situation in the New York Clearing House banks in February. Said that matter had been adjusted but there was some complaint now that small cities had not joined in this movement and were competing for business and using higher rates. Thought there was an advantage in having the rate of interest have relation to the reserve bank discount rate. The Board feels that there should be in some of the districts a reduction in the rate of interest paid on bank balances. Thought there was need for leadership in these matters and that the Federal reserve banks assist, and in important situations the Federal Reserve Board might be called upon to help, as in New York.

4. INDIRECT DISCOUNTS FOR NONMEMBER BANKS - Would like the governors to consider the effect of such accommodations through member banks on Federal reserve banks and their membership, should limitations be imposed upon accommodations to non-member banks. The question was raised as to whether there were too many accommodations being extended. Is the privilege being abused?

5. BRANCHES AND AGENCIES - There is a growing demand for branches from reserve cities and other large centers. The Board recognizes that it is desirable to establish same in some cities, but not in others. This should not be overdone. The governors should discuss whether there could be uniformity in administration of branches. Atlanta had raised the question of whether agencies which could provide for currency needs could not be established in place of branch banks in some cases. An agency can be maintained at small expense vs. branch bank. Banks in cities not having branch banks feel that they are discriminated against and are at a disadvantage in securing business as compared with branch bank cities. Chattanooga, for instance, has felt that they have not felt the advantages of the Federal Reserve System secured by branch bank cities.

6. EXCHANGE RATES - The governors were asked whether it was expedient at this time to regulate charges which could be made by member banks on checks deposited with them, cleared through the Federal reserve banks. All banks feel there should be no attempt to regulate charges now and that the exchange proposition would work itself out satisfactorily.

7. INTERDISTRICT CLEARINGS -

(a) Time allowances are based at present upon time in transit to each reserve bank, plus additional time for actual collection of intradistrict items, transfers of actual collections being made by wire. In order to protect the Federal reserve banks their successful "float" exchange on other districts is purchased by Federal reserve banks from member banks at a discount. Kansas City reserve bank accepted checks on New York from local banks in settlement with reserve banks compelling Federal reserve banks to carry the "float." Later, the practice of receiving these checks at the discount rate was permitted. The Governors were asked to discuss whether it would be advisable to extend time schedules, permitting checks to be drawn instead of wire transfers, thus distributing the "float" to member banks and their customers making "float" less for member banks.

8. FEDERAL RESERVE EXCHANGE DRAFTS - To what extent are these being used? Do banks promptly advise Federal reserve banks of their drawings. Should Federal reserve exchange drafts when properly advised be made instantly at any Federal reserve bank and cleared through the Gold Settlement Fund. Governor Delano remarked that there were not enough of these exchange drafts being drawn at present "to wad a gun" and it would be necessary to make them payable at par at any Federal reserve bank.

9. BANKERS ACCEPTANCES - Are they being paid in actually collected funds and at maturity? If not, is penalty of one day's additional interest imposed where checks are received payable the next day through the local clearing house? (Note:- On this point an expression was asked and it was ascertained that in most cases it is arranged to collect either a penalty of one day's interest when the bill is purchased or to have them paid in cash funds on day of maturity.

10. FISCAL AGENCY OPERATIONS - The Governor stated that a discussion of plans for sale of current issues of Treasury certificates of indebtedness, redeposits and withdrawal of funds would be had by Assistant Secretary Leffingwell later.

11. Negotiations with foreign governments, involving shipments of gold after the conclusion of the war, were being carried on, the Governor stated, from time to time and he desired to know whether the governors would favor a plan for a division of this liability among all Federal reserve banks in an equitable proportion, the understanding being that the plan would be carried out and the matter handled through one Federal reserve bank.

Note: - On this point the governors seemed unanimous in believing that the matter must be handled along the line proposed by Governor Strong in his letter to Governor Harding, which letter Governor Harding presented to the governors, and they voted to ask the Federal Reserve Board to work out a plan for each bank carrying its equitable proporation. Governor Harding explained that if the present war should continue two or three years, a New York bank might have commitment of $4,000,000. or $5,000,000. of gold to ship after the war and this would make a very heavy burden for one bank and it should be shared proportionately. That plans were being developed for an increase in foreign trade shipments to counterbalance and offset adverse trade balances, thus saving shipments of gold. There was a question whether the gold deposits of foreign Government such as Argentina should be distributed and shown on the statement of each Federal reserve bank its liability connected therewith.)

12. On the adjustment of employes' salaries, Governor Harding asked the governors to consider the salary question and the bonus question and make recommendations.

Governor Harding left the meeting at this point and asked Vice Governor Warburg to preside.

Mr. Warburg asked, in connection with branch banks, whether the manager of the branch bank should be a director of the bank. Please discuss.

Regarding gold shipments, Governor Warburg stated that it was in the hands of the Federal Reserve Board whether gold should or should not be exported. The Board thought it advisable that gold reserves of foreign Governments deposited in this country should be in Federal reserve banks instead of member banks. This was a most important matter affecting all banks even if it was advisable to have the matter handle by one reserve bank only.

Some foreign Government desire to provide gold reserve in this country using same as a basis for the issue of currency in their own country. After the war, America will control the situation if we can hold the gold. It is most important not to permit foreign Governments to accumulate gold here on the basis of its being shipped to the foreign Government within a certain period of the war. The War Trade Board was working on this problem and it was hoped that more or less of the U. S. securities might be held in foreign countries, thus helping the exchange situation.

Regarding the discount rates, Governor Harding stated that the situation was a very complicated one as it was linked so closely with the curtailment of credit and the Government financing. The Board fears that banks who have favored the policy of "business as usual" may buy certificates of deposit much above their quotas for the purpose of borrowing against same and continuing loaning, thus affecting the desired conservation of credit. All banks should join in the movement to transfer credit to the Government to the extent needed.

Governor Warburg then introduced Governor Delano who discussed the agency vs. branch bank situation. Reported that many cities desired branch banks largely because of local pride. Now that Birmingham had a branch bank Nashville, Memphis and Chattanooga desire same. If branch banks are to be further established, it would seem that at least 2 or 25 cities will need and be justified in expecting branch banks. This may result in the parent bank feeling the effect of the load. The question of cost of maintaining these branches was important. Reported that the establishment of branch banks had ~~to~~ led to bringing a number of important State banks into the System in connection with the establishment of branch banks. Governor Delano felt that in some cases agencies might well be established instead of branch banks and satisfy the need.

Governor Warburg suggested we might take up the discussion of these topics in the time intervening before luncheon.

In the exchange of views as to the curtailment of credit, in which the discussion was general, it developed that there were different methods as to the renewals of fifteen day loans both on commercial paper and Government securities. St. Louis reported that they had been easy in giving these renewals and in one case which came to their attention there had been 20 renewals. Other banks reported that they had given continued renewals to make it easier for banks to carry Government securities.

Governor Miller reported that they gave only one or two renewals.

Governor Fancher reported that in the Cleveland district, banks had been advised by circular that fifteen day loans would be renewed once, making a thirty day loan at a fifteen day rate but that if other renewals were desired, banks must pay the 90 day rate of 4 1/4% instead of 4%.

Governor Warburg stated that there were some movements in connection with the use of bankers acceptances in marketing cotton which should be carefully guarded. Be careful about laying the acceptance loan beyond time of transportation. Domestic acceptances secured by warehouse receipts should be used. The Board feels that these domestic bankers acceptances ought to be secured by warehouse receipt or by cash or other collateral.

It was brought out in the discussion that some banks purchase bankers acceptances with a statement attached, duly signed, stating that this acceptance is secured by collateral. Atlanta reported they require warehouse receipt attached to the bill.

Governor Warburg thought the Federal reserve banks should work out a general policy and work together and that they should be especially watchful to prevent an abuse of the use of trust receipts. Mr. Warburg called attention to an incident at the Chicago convention at which Bernhard Scholle representative had reported that there was no open market for trade acceptances and that same were not purchased by Federal reserve banks from the open market. Mr. Warburg felt that the Federal reserve banks should let the impression go out that trade acceptances properly indorsed can be purchased by the Federal reserve banks.

The conference then adjourned for luncheon.

2:30 p. m. Convened. Governor Seay elected chairman. Governor Fancher secretary. Informal exchange of views as to curtailment of credit, banks reported as follows:

Governor Morss: We find difficulty in that banks do not cooperate in restricting credit. One bank doing same and other banks not doing it and making loans denied by the other. Think campaign should begin in Washington and if possible differentiate between essential and less essential loans.

Dep. Gov. Calkins: In the San Francisco district banks restrict credit quite generally and understand the reasons.

Governor Fancher: Have issued no circular but have presented same at bank meetings. Larger banks cooperating. Smaller banks not so much. Are trying to educate smaller banks. Pittsburgh meeting held last week Friday to discuss capital issues was made occasion for discussion of the conservation of credit and results most satisfactory. Attended by 300 or more bankers.

Governor Seay: Richmond has sent no circulars. Think it advisable to have the Federal Reserve Board take the lead in this movement.

Dep. Gov. Treman: Explained situation in district No. 2. Have tried to educate banks on the necessity of curtailment at meetings, also incorporated in circulars. Suggested importance of having the Federal Reserve Board made a statement taking a positive strong position as to the necessity of the same, urging economy and then after sending such circular to all banks in the country to ask Federal reserve banks to follow up in ~~such~~ district by such methods as each bank deemed most apt to secure results.

Governor Wold: Circulars sent out in our district produced good results, especially with larger banks. Smaller banks not yet cooperating.

Dep. Gov. Hoopes: "Our experience the same as Minneapolis."

Dep. Gov. Hoxton: We have issued no circular letter but have written extensively. Have done considerable along these lines.

Dep. Gov. Calkins: Our smaller banks have not yet realized the importance and so far as we can judge are not cooperating much.

Governor McDougal: No circular letters, extensive correspondence. Larger banks and heavy borrowers understand situation. Progress not as much as desired.

Governor McCord: Out of 2,200 banks do not think more than 400 are making much effort along this line.

Governor Warburg stated that the Board would issue such a statement and would follow out the plan suggested.

Governor Delano, the only other governor present, agreed to Mr. Warburg's statement.

Discussion on Topic No. 2. Discount Rates . Governor Delano stated that Assistant Secretary Leffingwell was fearful of any change in discount rates as it would affect adversely Government financing and he asked if raising discount rate 1/4% would be effective.

Governor Warburg stated that we were rapidly getting into a position where every bank was financing itself by taking the lowest rates offered, which meant using Government securities as collateral instead of rediscounting.

Governor Seay favored a rate of 4 1/4% on fifteen day paper, which rate is in effect now in the Richmond district.

Governor Passmore: "Do not think any bank at present is taking undue advantage of low rates in Philadelphia district. No evidence of it. Is unprepared to expression opinion as to change in rate.

Governor Wold: I agree with Dr. Miller's position as to the advisability of raising rates were we in normal times but we are in war now and should not favor increase in rates.

Dep. Gov. Hoopes: "Do not think raise of 1/4% would help the situation."

Dep. Gov. Hoxton: "Think it is mistake for banks to continue discounting fifteen day loans at 4%. Think this is the greatest abuse and should be corrected by having a general plan adopted as to renewals."

Dep. Gov. Calkins: "Do not believe advance would affect the situation but think it better not to have fixed rate for all districts.

Governor McDougal: Think it would be a mistake to raise rate to 4 1/4% now. Our large banks are "in and out" on loans. Hope no change will be made."

Governor Warburg: The Board will probably not make an immediate change but is carefully considering the situation and wants the advice of the governors on the advisability of any change.

Governor McCord: Our executive committee considered the question before I left and are opposed to any change. We believe change in rate would affect adversely Government rate on bonds. We do not renew fifteen day loans.

Dep. Gov. Treman: Our executive committee considered carefully the proposed change and we are unanimously opposed to changing at the present time. Would disturb sentiment, might affect rate on bankers acceptances and have a tendency to affect rates generally.

Governor Morss: Think advance would affect adversely borrowing of non-member banks from their correspondent banks. Think an advance in rates would deter smaller banks from subscribing for as many certificates and would hate to see present conditions disturbed.

Governor Miller: We raised our fifteen day rate to 4 1/4% in May. Asked Board for increase in other rates. Not granted. We think all rates should be higher. Governor Wold asked Governor Miller if advance of 1/4% in rate stopped to any extent the borrowing to which Governor Miller answered "No. Had only psychological effect." (General laughter."

Governor Warburg: The Board did not think it advisable to authorize Kansas City to raise rates although all districts probably could not have the same rate at all times. New York City having different conditions might have a different rate at times from other banks.

Governor Fancher: Think situation would be improved by having definite policy on renewal of fifteen day loans. Cleveland advances rate from 4 to 4 1/4% after one renewal.

Governor McCord reported that shipping of cotton was much embarrassed by lack of ships. As financing could not be secured from Europe on cotton held up and because the quality of the cotton in many cases was poor and below Government standards, in some cases amounting to from four to six cents per lb. There would be much additional financing required in connection not only with the old crop but with the new crop.

- - - - - - - - - - - - - -

Dep. Gov. Calkins of San Francisco stated that many member banks were disturbed because of the recent designation of bank clerks as nonessential occupations and thought it was a serious situation. Governor Delano explained the reluctance of the Board to make any appeal for exemption and had avoided doing so in nearly every case. The Federal Reserve Board was not in a good position to make such an appeal. It was reported that Judge Elliott, as counsel, was preparing an opinion on the question of bank clerks.

- - - - - - - - - - - - -

Discussion on Salaries.

Governor McCord: Our executive Committee fixed salaries. Adjusts clerks' salaries any time. Salaries of officers generally changed once a year. Salaries of officers only submitted to Federal Reserve Board.

Governor McDougal: Chicago readjusted salaries of employes July 1st. No bonus or extra compensation July 1st. Will make such as necessary at end of year. No change in officers' salaries. Chicago pays for overtime work.

Governor Passmore: Have recently adjusted our salary list because of new officers coming in. Philadelphia believes in the policy of not increasing salaries beyond those of normal times but favors paying 20% bonus on six months salary not increased. Our officers were included in this recommendation. The Board did not approve of all of our recommendations.

Governor Wold: We adjust salaries annually. We have already paid bonus to the extent of 10% on the salary of the last six months actually drawn. We pay for overtime.

Deputy Governor Hoopes: We adjust semi-annually. Pay no overtime. We do pay bonus. Our women, of whom we have about 50, work under the Texas eight-hour law. Do not think we pay sufficient salaries.

Deputy Governor Hoxton: We adjust salaries July 1st. We pay overtime when checked by head of department. We pay bonus in shape of Christmas present.

Deputy Governor Calkins: We report salary list to Board once a year. We base salaries on those paid by other banks. Last Christmas we paid a bonus of one-half of a month's salary.

Deputy Governor Treman: Explained New York situation and reported as to increased cost of living as show on increased prices on a number of items.

Governor Miller: We pay 10% bonus. We readjusted salaries July 1st. We pay for overtime.

Governor Morss: We pay overtime, recommended bonus payment, and have adjusted some salaries.

Governor Fancher: Our bonus plan was submitted to the Board and was not approved. We adjusted all salaries, including cashier. The Board did not approve of bonus scheme so we adjusted salaries, about 10%. We pay girls beginning work $50. per month. Reported as to salaries of assistant cashiers.

Adjourned at 7 p. m. to attend farewell dinner given to Gov. Delano at Metropolitan Club at 8 p. m.

Tuesday morning session convened at 10 a. m.

Governor Seay: We have to consider the Kansas City proposal that after August 15th whenever banks offer for rediscount in excess of reserve balances such excess rediscounts shall be charged 1/2 of 1% extra over the normal rate for all classes of paper, and all maturities except notes secured by certificates of indebtedness and Liberty Loan bonds on which there shall be a differential of 1/4 of 1%, instead of 1/, provided, however, that banks may, with offerings secured by certificates and L. L. bonds abstain from putting into effect this differential, if in so doing they believe it will benefit the Government financing. Will the governors in rotation advise their opinion?

Governor McDougal: The credit question enters into this matter. Think it would be unwise to apply this rule in every case and think that its adoption would embarrass the reserve banks.

Deputy Governor Treman: I think our banks would be opposed to it as we feel that we can control any tendency on the part of an individual bank to overextend and now whenever such cases arise we require additional collateral.

Governor Morss: I agree with Governors McDougal and Treman. If the plan is to be adopted, the penalty should be greater than that proposed.

Deputy Governor Calkins: Do not believe that the law would permit a differential in rates charged to member banks as proposed.

Governor McCord: I do not believe it is legal to discriminate as proposed. In case of banks borrowing in excess of capital and surplus, we require additional collateral to be placed.

Deputy Governor Hoxton: We are opposed to this proposal. We watch carefully every tendency and immediately caution the banks against excess borrowing.

Deputy Governor Hoopes: We would not favor such a hard and fast rule and are opposed to this method which would apply to all cases. We also require extra collateral.

Governor McDougal: We have been adopting the practice of requiring excess collateral especially with banks in agricultural districts.

Deputy Governor Calkins: Think we should not attempt to control excessive borrowing by an added rate for such.

Governor Seay: Called attention to the question of nonmember banks securing assistance from reserve banks through member banks without the knowledge and consent of the Federal Reserve Board. Said the question had been raised as to the advisability of making the request of each bank as to the amount of paper held by nonmember banks which were eligible for membership in the System.

Governor McDougal: No member bank could definitely know the actual amount of help extended to nonmember banks. Most nonmember banks to-day are feeding out of the reserve trough very freely. Think it would be advisable to call attention of member banks to the extent to which this is being done so as to correct.

Governor Morse: Think it would be unfortunate to call for statements from member banks as to nonmember banks discounts unless such statement was very carefully drawn.

Governor McCord: If nonmember banks are not eligible for membership in the Reserve System we take their paper offered by member banks but in many cases find that such paper is not eligible because of the already extended condition of the nonmember bank. Opposed to asking for statement as proposed but would favor letter from the Board calling attention of member banks.

Deputy Governor Calkins: I favor controlling and influencing volume of nonmember bank paper discounted. Nonmember banks should not be able to secure the facilities of the Federal Reserve System. to the extent they are doing.

Deputy Governor Hoxton: I would not ask for proposed statement or information. We do not have much paper. We always ask our member banks to explain when they offer nonmember bank paper.

Deputy Governor Hoopes: We take very little State bank paper. I see no harm in asking for the information.

Governor Passmore: We are not asked to rediscount much nonmember bank paper. I seeno objection to asking for the statement.

Governor Seay: I think it advisable to call for the information. If member banks would give the information willingly. Member banks, I believe, when they rediscount State bank paper, are assisting in keeping the State banks out of the System.

Deputy Governor Calkins: Salt Lake City banks to secure a branch bank. Advised State banks to come in and also advised member banks that they should not rediscount for State banks unless they came in to the system.

Governor Morss: Some States do not permit State banks to join the Federal Reserve System/

Governor Miller: In our district we have discounted millions of paper for State banks not indorsed by the bank itself but individually by some officer. Would favor asking for the proposed information as to the volume of nonmember bank paper rediscounted by member banks.

On motion, it was voted -

1. That it was unwise to require the information proposed
2. That it was thought advisable not to take any action other than to watch carefully the extent to which is is being done.

Governor Seay: Stated that it was proposed to have legislation permitting any incorporated bank designated as a depositary and has put up sufficient collateral to act as fiscal agent for the U. S. in the selling of certificates of indebtedness, war saving stamps, etc.

Governor Wold: We have had in our district one or two bank failures this season and several interesting questions have been raised. There are now 20% of the banks which are now acting as depositary banks. I should think it was unwise to have this legislation carried through.

After considerable discussion and exchange of views, the general impression seemed to be adverse to such legislation.

WAR SAVINGS -

In an informal discussion as to the methods employed by those in charge of the War Savings & Thrift Campaign, Governor McDougal stated that the Chicago Federal Reserve Bank had been asked to request every member bank in the Chicago district to subscribe for $1,000. of War Savings Stamps.

Governor Wold said that in his district there had been a very active campaign and that nearly every business house of any size had been importuned to subscribe for $1,000. and in some cases more. Governor Wold stated further that the activities and methods of the War Savings Campaign Committee had caused friction and the plan was not carried out as he understood or contemplated.

An exchange of views showed the general impression to be that the basic principle of encouraging thrift was not being carried out and that the methods adopted in some districts interfered with the Liberty Loan Campaign.

At this point, Assistant Secretary Leffingwell and Mr. Potter entered and Governor Seay asked Mr. Leffingwell to discuss organization for the distribution of certificates of indebtedness.

Sec. Leffingwell: You all know more than I about the details of organization but it is important that we should have thorough organization in each district and would want you to understand that you are authorized to make reasonable expenditures in connection with making a success of the campaign. Some districts have not spent as much as possibly they should. He then asked Governor McDougal to explain the Chicago organization which had been effective during the winter.

Governor McDougal stated that they had chosen a head director who had given voluntarily his entire time to the work. They had a State director for each of the 5 States, had employed 25 regular organizers or field men, all of whom were experienced bond salesmen. Chicago is organized on the basis of the countay as a unit with each county having a director (in most cases a banker of high standing.) The allotment was based on the total banking resources. Had a meeting in Chicago on June 14th inviting two delegates from each district and had a meeting of over 500. At this meeting, adopted resolutions pledging the 7th district to take its full quota and they have done so in each issue. The banks all cooperated. Letters were sent at the end of each subscription~~s~~ to each bank not subscribing. At the end of the second day after organization was perfected, we had an organization of 2906 banks in our district, and took $115,000,000. against $105,000,000., our quota. 70% of subscriptions paid by deposits. We have printed forms pledging each bank to take its full quota. We have written 28 paid organizers or field men at $50. per week. Directors receive no compensation. Our meeting produced splendid results. We told the bankers at our meeting the Government requirements must come first and it was put up to them to do their full part. We paid the expenses of each delegate. We urged upon them two propositions, first that they must curtail credits in general leaving it to each bank to determine specificially. Second, we impressed upon them that the Federal reserve bank would lend liberally for banks to subscribe to the certificates. Leffingwell: We aim to keep ~~our~~ in Liberty Loan Campaign best workers so use them in the interim in working up certificates of indebtedness sale.

Governor McDougal: We publish a list of the banks and the amount of their subscriptions but not their quota.

Deputy Governor Treman reported as to what had taken place in the New York district and the new organization contemplated.

Deputy Governor Calkins: We have a director of sales (the vice president of a bank). We have an organization in each place, having three or more banks located there. We have no paid organizers as yet. Will probably develop a paid organization. In no one issue did we have more than 47% of our banks subscribing. In view of what has been stated, we will probably hold more conferences and pay expenses which we had not felt justified in doing.

Sec. Leffingwell: I have never been restrictive as to any reasonable expenditure which seem justified.

Governor Wold: In our district we have a president of a bank as director. Have only one man on salary. All the others in our organization work voluntarily. We have always raised our full quota but will have trouble this year on account of the season of the year in which the sales will be made. We have 60 bankers in our organization throughout the district. Each director is planning to have one banker responsible for each Congressional district. He has meetings with officers and representatives of banks, at which generally some representative of the Federal reserve bank of our district is present. We have made a practice of emphasizing the conservation of credit. Our Liberty Loan organization is about 99% voluntary. Each director does considerable of his correspondence over Governor Wold's signature. We have as yet not published the list of banks subscribing.

Governor Miller: We have developed an organization in our own bank to handle the sale of certificates. We have sold our full quota of every issue except one. Expect to exceed our quota during present campaign. We have a booklet prepared showing the total resources of each bank and will publish name of subscribers etc.

Governor Morss: Our district is not as large as some of the others, neither is our organization. We have a bond man at the head who gives his entire time. In the first issues only about 150 out of our 600 banks in the district which subscribed. For the present campaign we have selected bankers in the leading centers and have fifteen men directing the campaign. Have men in Boston and we had an important conference.

Governor McCord: We called a meeting of the heads of banks in our district and the subscriptions were all sent in to the Federal reserve bank.

Governor Fancher: We have had 26 bond men employed since January. Work in the bank during the campaign and in the district in the interim. They took charge of sale of certificates in small centers but in large centers the sale is handled by committees. In the first issues we only had 300 banks subscribing. In the last issue we had 1500 out of 1800 banks in the district. 98% of our member banks subscribed for some issue, 95% nonmember banks. Our district stood second in the sale of tax certificates. We schooled our 26 men as to the importance of securing State bank membership and are having good results. We now have a director of sales. On Friday night last we wired about 1100 banks urging them to subscribe to the certificates then on sale. We have had no general meeting in our district.

Sec. Leffingwell: Reports which I have had this morning indicate that we will have a considerable oversubscription to this issue. Only 4 of the Federal Reserve banks have oversubscribed, however. This issue is no criterion as we caught considerable of the money released on June 25th and will catch some on July 9th when there is another maturity of certificates. It is most important that each bank have an efficient organization but we are leaving to each bank the details of the same. As to the next issue of tax certificates we expect that later in the summer we will know more as to tax legislation, laws, etc. and may decide to have a short but vigorous campaign on the sale of tax certificates. We prefer to have tax certificates sold rather than to have people selling bonds to pay taxes. We consider it important to hold together each Liberty Loan organization now in different districts. We hope to sell $2,000,000,000. of tax certificates. Said they had discussed selling these certificates on a discount basis but there were many difficulties in the way besides legislation. Thought they would eliminate in the tax paying period the ten daysof grace. Would accept tax certificates on any tax paying day at par and accrued interest.

Secretary Leffingwell: I have been giving consideration to banks acting as fiscal agents and have proposed some legilsation. I have been harrassed by the thought that a failing bank cannot protect subscribers and subscribers failing to kepp their engagements to purchase bondsembarrass the bank. Then there is the question of the franking privilege in connection with the Liberty Loan Campaign, all of which has led to the proposed legislation.

Governor McDougal: Of the 7000 banks in the Chicago district 600 are designated depositaries. If a large number of banks should qualify there would be very great additional work for the Federal reserve banks.

Secretary Leffingwell: I have noticed that the number of qualified depositaries is constantly increasing.

Governor Wold: There are 3800 banks in our district. We have now 500 banks as depositaries out of the 3800. I think if the proposed legislation should go through we should lose the active cooperation of a large number of these banks.

Governor Wold: Subscriptions are made payable at the subscribers' banks, each subscriber designating the banks at which he wants the subscription payable. If certain banks were made fiscal agents and others in the same town were not, it would embarrass the situation.

Secretary Leffingwell: Bad situation might be created if Liberty Loan committees placed money with banks which became insolvent.

Governor McCord: Suppose you designate banks as depositaries and if citizens should pay money into banks not designated as depositaries, have you a lien on the funds?

General discussion all tended to oppose proposed legislation. It was very evident that it was impossible to know in advance the amount of subscriptions and deposits resulting therefrom and hence impossible to determine the amount of collateral as security.

Deputy Governor Calkins: By designating fiscal agents, the Treasuey Department is assuming the obligation legally and morally.

Secretary Leffingwell: The present plan presents many embarrassments and we are seeking to find a better plan and would like each bank to give consideration to this subject so as to make suggestions at the conference on July 17th.

Afternoon session - Tuesday.

BRANCH BANKS -

Deputy Governor Calkins: Our experience is that they are easily controlled by head office. Working very satisfactorily. They are all full branches, managers are directors. We have secured State bank members by the installation of these branch banks.

Governor McCord: Our New Orleans branch necessitates local control and management. This branch has 24% of the resources of the district but discounts 35%. We have secured a number of State banks which otherwise would not have come in. Birmingham wants a branch. Must be on conditions we impose. The manager of our branches is appointed by the home board of directors.

Deputy Governor Calkins: As to demands of other cities for branches, Los Angeles wants a branch. No necessity for it as checks mailed at night reach San Francisco in the morning.

Governor Miller (K. C.) Manager of our Omaha and Denver branches is a director. We have good control of these branches at the home office. The branches relieve the home office of much routine work. Cost of administration is high but more business is secured by reason of the establishment of branches.

Deputy Governor Calkins: In our district the cost seems somewhat excessive but part of the cost charged to the branch the home office would have assumed.

- - - - - - - - - - -

Then followed a discussion as to the payment of bankers acceptances being made on day of maturity, three or four of the banks reporting that they already had this system in operation and it was thought advisable that the Federal Reserve Board should inform each bank that it was their desire that they should be so settled.

Governor Warburg called attention to the difficulties of the canners in securing the needed credit at this time but the method proposed did not seem to appeal strongly to the governors.

It was reported that the opinion had been rendered by one of the counsel of the Federal Reserve Board that banks had loaned, under Section 5200, up to 10% of their capital and surplus to a customer and the notes of such had been rediscounted at the Federal reserve bank, at then the member bank could rediscount for the same customer up to 10% but that these second loans could not be rediscounted.

- - - - - - - - - - -

Then followed a general discussion as to the rate on mail transfers. Chicago bank wanted the rate raised to 15¢. It was formerly done at par. Most of the governors favored retention of 10¢ as a minimum charge, leaving the banks to charge more, optionally.

There then followed a discussion as to arrangements with foreign Governments and the plan proposed by Governor Strong to Governor Harding was adopted substantially.

It was reported that $48,000,000. of silver certificates had been withdrawn from circulation and $65,000,000. of silver dollars had been remelted under the new legislation.

It was reported that banks would turn in their silver certificates more freely as soon as the silver denominations were ready.

The notice of the cotton conference in New Orleans on July 5th was announced and some of the banks interested were asked to send delegates. The New York bank sent Mr. Kenzel.