The Papers of Charles Hamlin (mss24661)

362_06_001-	Hamlin, Charles S., Scrap Book – Volume 195, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 195
FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 31, 1941

To The Files

Subject:

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 195 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 195

Page 31 - Memoranda re Discount Rates. (Notes from diary giving Board action.)
Page 32 - Direct Pressure - data on.
Page 37 - Memo to Mr. Hamlin from Mr. Goldenweiser attaching tables showing the factors in Federal Reserve position for January 1922 to January 1929.
Page 38 - Suggested amendment to Mr. Wyatt's Regulation - Section II.
Page 39 - Memo to Mr. Hamlin from Mr. Smead covering brokers' loans, call rates, etc.
Page 41 - Minutes of conference of Board and Governors - April 4, 1929.
Page 43 - Data concerning lowering of discount rates. (Notes from diary giving Board action.)
Page 45 - Memo to Gov. Young from Gov. Harrison concerning change in discount rate.
Page 47 - Memo to Mr. Hamlin from E. H. Cunningham re Substitute Resolution purporting to amend Section 13 of the Federal Reserve Act.
Page 48 - Memo to Mr. Hamlin from Mr. Goldenweiser re Federal Reserve policy.
Page 49 - Letter to Mr. Platt from Gov. Harrison seeking increase in discount rate.
Pages 50 & 51 - Letter to Board from Chairman Cannon of F.R.Bk. of Philadelphia re Federal Reserve credit. Also analysis of letter.
Page 52 - Memo to Mr. Hamlin from Mr. Smead re Resources of each F.R. Bank as of April 24, 1929.
Page 53 - Memo re Federal Reserve Credit - Reasons given by F.R.Bk. of N.Y. for desiring to raise discount rate.
Page 55 - Letter to Board from F.R. Bank of Atlanta re banking developments.
Page 57 - Letter to Board from F.R. Bk. of Chicago re use of F.R. Banks' credit by member banks.
Page 58 - Letter to Federal Advisory Council re situation of money market.
Page 59 - Letter to Board from F.R.Bk. of St. Louis re use of Federal Reserve credit by member banks.
Page 61 - Letter to Board from F.R.Bk. of Boston re use of Federal Reserve credit by member banks.
Page 62 - Letter to Board from F.R.Bk. of Richmond subject same as above.

January 4, 1929.

ok

P31

DISCOUNT RATES.

January 11, 1928:

Returning from New York, Miller opposed increase of discount rates at New York to control speculation, and favored continuing the sale of Government securities.

Vol. 14, p. 170.

January 23, 1928:

Favors an increase in rates to control speculation, as sales of Government securities were being made timorously and were exercising no control over the situation.

Vol. 14, p. 115.

January 24, 1928:

The Board voted to approve increase in Chicago rate from 3½% to 4½%. Cunningham voted No.

Vol. 14, pp. 115, 116, 117.

January 26, 1928:

Cunningham files his reasons for voting No. He said Chicago had advanced no reason for the increase except to curb stock speculation, and claimed that by approving the increase the Board had, in effect, recorded itself as favoring control of stock speculation through rate increase.

Vol. 14, p. 118.

January 26, 1928:

Board approves Richmond increase in discount rates. All voted Aye except Cunningham, who voted No.

Vol. 14, pp. 120, 121.

February 3, 1928:

New York increases discount rate to 4%.

Vol. 14, p. 123.

March 7, 1928:

Governor Young tells the Senate that the recent increase in discount rates was caused by gold movements and not for the purpose of restraining speculation.

Vol. 14, p. 135.

March 7,1928:

C.S.H. and Cunningham did not approve the recent rate increase for any purpose of restraining stock speculation.

Vol. 14, pp. 135, 136, 137.

VOLUME 195
PAGE 31

March 26, 1928:

Board gives Open Market Committee authority to continue sales of securities, and to work for firmer money conditions, but added that this did not mean an increase in discount rates. Miller voted No; all the rest Aye. Vol. 14, pp. 139, 140.

March 26, 1928:

Miller filed a memorandum. Said he favored doing nothing, as further sales would necessarily bring about an increase in discount rates. Vol. 14, pp. 139, 140.

April 18, 1928:

Boston applies for authority to increase discount rates. Curtiss and Governor Harding both said the proceeds of rediscounts were being used for speculative loans. At first a motion to approve is lost by a tie vote. Platt and C.S.H. Aye. Miller and James No. Secretary Mellon then came in.

Miller said New York pressure was satisfactory, and that he should never vote to control stock speculation through increase in discount rates. C.S.H. reminded Miller that in the fall of 1925 he earnestly favored an increase in the New York rate to control speculation, although New York said it had the situation well in hand through direct pressure; that Dr. Miller even voted for the Cunningham motion to initiate a 4% rate at New York over the heads of its directors. After lunch, Miller said he had talked with Governor Case and he said the situation in New York was getting out of hand; that money was pouring into New York for speculative purposes and that he could identify 50 millions as coming from Boston. Miller then said that he felt impelled, in view of what Governor Case had just told him, to change his vote of the morning and to vote to approve. The vote stood: - Secretary Mellon, Platt, C.S.H. and Miller Aye. James No. Vol. 14, pp. 152, 153.

April 19, 1928:

Board approves increase in discount rate at Chicago. All vote Aye except James. Cunningham absent. Vol. 14, pp. 154, 155.

April 20, 1928:

Board voted to approve increase at St. Louis. Vol. 14, p. 155.

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April 23, 1928:

Board voted to approve increase in Richmond rates. James voted Aye with the majority, because Richmond had ordered sold all its holdings of Government securities.

Vol. 14, p. 155.

May 1, 1928:

Miller tells the Governors at the Conference that open market operations in Government securities should be done away with, and that discount rates should be used to control speculative credit.

Vol. 14, p. 159, 170.

July 10, 1928:

Board approves Chicago's increase of rate. The Comptroller and James voted No.

Vol. 14, p. 191.

July 12, 1928:

New York increases to 5%. Reynolds only voted against it.

Vol. 14, pp. 192, 194.

July 18, 1928:

At session with Open Market Committee Board agreed unanimously that the 5% rate at New York should be maintained. Miller said that we had lost 500 millions of gold but had the situation in hand through the discount rate of 5%.

Vol. 14, p. 192, 193, 194.

July 18, 1928:

Board approves Boston increase to 5%.

Vol. 14, p. 194.

July 18, 1928:

Miller said the Board had a wonderful opportunity in view of the gold exports to regulate credit through discount rates, and to drop (as we have been doing since Jan. 1927) open market operations.

Vol. 14, p.194.

January 4, 1929.

P32

DIRECT PRESSURE

Glass favored, during war.
September 7, 1927. Vol. 14, p. 32.

C.S.H. favors, to discourage speculation.
September 27, 1927. Vol. 14, p. 17

Miller favors increase in discount rates, as direct pressure is not controlling the situation.
January 23, 1928. Vol. 14, p. 15

James said direct pressure at New York was succeeding, and was driving borrowers from New York to Boston.
April 17, 1928. Vol. 14, p. 151.

Miller says open market operations are working well in New York.
April 18, 1928. Vol. 14, p. 152.
See discount rates

Miller demands that Governor Case use direct pressure on the New York banks.
May 1, 1928. Vol. 14, p. 159

Miller at meeting of directors of Federal Reserve Bank, New York, strongly objects to direct pressure.
June 9, 1928. Vol. 14, p. 180

Harrison says direct pressure should be continued at New York.
July 7, 1928. Vol. 14, p. 190.

Miller explains above attitude. Is still opposed to direct pressure.
July 18, 1928. Vol. 14, p. 193

James attacks Governor Case for not using direct pressure.
July 18, 1928. Vol. 14, p. 192.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 18, 1929

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

2—8495

P37

Mcudil 1922-29

I transmit herewith a set of tables showing the factors in Federal reserve position for January, 1922 to January, 1929. For each year beginning with 1922 I show changes for the preceding twelve months. I am also showing changes for the entire period, for the last year, for the five years, 1922-1927, and for the three special periods mentioned in my memorandum of December 19, 1928 and in yours of January 14, 1929.

The figures in the tables differ in minor amounts from those in my memorandum, chiefly as a result of revisions; the difference is in no case substantial.

I wish to apologize for the delay in transmitting this material, but we have been short-handed owing to sickness and pressure of other work. The statistical work involved in the preparation of this material has been considerable.

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PAGE 37

JAN. 1922

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January, 1922
Reserve bank credit outstanding	1,505
Bills discounted for member banks	(1,106)
Bills bought	(126)
U. S. securities	(234)
Other securities	(0)
All other reserve bank credit	(39)
Net Treasury credit	1,553
Monetary gold stock	3,663
Total	6,721
Money in circulation	4,665
Member bank reserve balances	1,741
Nonmember clearing balances	27
Unexpended capital funds	288
Total	6,721

ALL MEMBER BANKS 2/

Net demand plus time deposits	20,884
Net demand deposits	14,433
Time deposits	6,451
Total loans and investments	23,482
Total loans	17,394
Investments	6,088

BROKERS' LOANS (OLD SERIES)

Loans on securities to brokers and dealers, total 3/	945
For own account	547
For account of correspondents	398

1/ Weekly averages of daily figures for the week including ~~the first of the year~~ Jan. 1, 1922.
2/ Call date figures for December 31, 1921 ~~of previous year~~.
3/ Figures for first Wednesday in ~~the year.~~ 1922

JAN. 1923

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January, 1923	Change from January, 1922
Reserve bank credit outstanding	1,396	- 109
Bills discounted for member banks	(596)	(- 510)
Bills bought	(256)	(+ 130)
U. S. securities	(455)	(+ 221)
Other securities	(0)	(0)
All other reserve bank credit	(89)	(+ 50)
Net Treasury credit	1,727	+ 174
Monetary gold stock	3,932	+ 269
Total	7,055	+ 334
Money in circulation	4,798	+ 133
Member bank reserve balances	1,923	+ 182
Nonmember clearing balances	58	+ 31
Unexpended capital funds	276	- 12
Total	7,055	+ 334

ALL MEMBER BANKS 2/

Net demand plus time deposits	23,832	+ 2,948
Net demand deposits	16,187	+ 1,754
Time deposits	7,645	+ 1,194
Total loans and investments	25,579	+ 2,097
Total loans	17,930	+ 536
Investments	7,649	+ 1,561

BROKERS' LOANS (OLD SERIES)

Loans on securities to brokers and dealers, total 3/	1,589	+ 644
For own account	938	+ 391
For account of correspondents	652	+ 254

1/ Weekly averages of daily figures for the week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

JAN 1924

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January, 1924	Change from January, 1923
Reserve bank credit outstanding	1,253	- 143
Bills discounted for member banks	(729)	(+ 133)
Bills bought	(348)	(+ 92)
U. S. securities	(122)	(- 333)
Other securities	(0)	(0)
All other reserve bank credit	(54)	(- 35)
Net Treasury credit	1,757	+ 30
Monetary gold stock	4,245	+ 313
Total	7,255	+ 200
Money in circulation	5,018	+ 220
Member bank reserve balances	1,932	+ 9
Nonmember clearing balances	26	- 32
Unexpended capital funds	279	+ 3
Total	7,255	+ 200

ALL MEMBER BANKS 2/

Net demand plus time deposits	25,007	+ 1,175
Net demand deposits	16,356	+ 169
Time deposits	8,651	+ 1,006
Total loans and investments	26,487	+ 908
Total loans	18,842	+ 912
Investments	7,645	- 4

BROKERS' LOANS (OLD SERIES)

Loans on securities to brokers and dealers, total 3/	1,333	- 256
For own account	712	- 226
For account of correspondents	620	- 32

1/ Weekly averages of daily figures for the week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

JAN. 1925

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January, 1925	Change from January, 1924
Reserve bank credit outstanding	1,328	+ 75
Bills discounted for member banks	(341)	(- 388)
Bills bought	(380)	(+ 32)
U. S. securities	(548)	(+ 426)
Other securities	(0)	(0)
All other reserve bank credit	(59)	(+ 5)
Net Treasury credit	1,759	+ 2
Monetary gold stock	4,498	+ 253
Total	7,585	+ 330
Money in circulation	5,073	+ 55
Member bank reserve balances	2,214	+ 282
Nonmember clearing balances	39	+ 13
Unexpended capital funds	259	- 20
Total	7,585	+ 330

ALL MEMBER BANKS 2/

Net demand plus time deposits	28,251	+ 3,244
Net demand deposits	18,446	+ 2,090
Time deposits	9,805	+ 1,154
Total loans and investments	28,746	+ 2,259
Total loans	19,933	+ 1,091
Investments	8,813	+ 1,168

BROKERS' LOANS (OLD SERIES)

Loans on securities to brokers and dealers, total 3/	1,981	+ 648
For own account	1,142	+ 429
For account of correspondents	838	+ 218

1/ Weekly averages of daily figures for the week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

JAN. 1926

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January, 1926	Change from January, 1925
Reserve bank credit outstanding	1,541	+ 213
Bills discounted for member banks	(712)	(+ 371)
Bills bought	(370)	(- 10)
U. S. securities	(374)	(- 6)
Other securities	(11)	(+ 11)
All other reserve bank credit	(74)	(+ 15)
Net Treasury credit	1,758	- 1
Monetary gold stock	4,398	- 100
Total	7,697	+ 112
Money in circulation	5,139	+ 66
Member bank reserve balances	2,249	+ 35
Nonmember clearing balances	35	- 4
Unexpended capital funds	274	+ 15
Total	7,697	+ 112

ALL MEMBER BANKS 2/

Net demand plus time deposits	29,891	+ 1,640
Net demand deposits	19,238	+ 792
Time deposits	10,653	+ 848
Total loans and investments	30,884	+ 2,138
Total loans	21,996	+ 2,063
Investments	8,888	+ 75

BROKERS' LOANS (OLD SERIES)

Loans on securities to brokers and dealers, total 3/	2,908	+ 927
For own account	1,285	+ 143
For account of correspondents	1,622	+ 784

BROKERS' LOANS (NEW SERIES)

Loans on securities to brokers and dealers, total 3/	3,141
For own account	1,338
For account of out-of-town banks	1,239
For account of others	564

1/ Weekly averages of daily figures for the week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

JAN. 1927

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January 1927	Change from January 1926
Reserve bank credit outstanding	1,482	- 59
Bills discounted for member banks	(719)	(+ 7)
Bills bought	(383)	(+ 13)
U. S. securities	(317)	(+ 57)
Other securities	(3)	(- 8)
All other reserve bank credit	(60)	(- 14)
Net Treasury credit	1,748	- 10
Monetary gold stock	4,488	+ 90
Total	7,718	+ 21
Money in circulation	5,141	+ 2
Member bank reserve balances	2,231	- 18
Nonmember clearing balances	50	+ 15
Unexpended capital funds	296	+ 22
Total	7,718	+ 21

ALL MEMBER BANKS 2/

Net demand plus time deposits	30,342	+451
Net demand deposits	18,902	-336
Time deposits	11,440	+787
Total loans and investments	31,642	+758
Total loans	22,652	+656
Investments	8,990	+102

BROKERS' LOANS (NEW SERIES)

Loans on securities to brokers and dealers, total 3/	2,819	-322
For own account	1,037	-301
For account of out-of-town banks	1,049	-190
For account of others	732	+168

1/ Weekly averages of daily figures for week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

JAN. 1928

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/

	January, 1928	Change from January, 1927
Reserve bank credit outstanding	1,593	+ 111
Bills discounted for member banks	(545)	(+ 174)
Bills bought	(387)	(+ 4)
U. S. securities	(603)	(+ 286)
Other securities	(1)	(- 2)
All other reserve bank credit	(57)	(- 3)
Net Treasury credit	1,776	+ 28
Monetary gold stock	4,377	- 111
Total	7,746	+ 28
Money in circulation	4,951	- 190
Member bank reserve balances	2,466	+ 235
Nonmember clearing balances	30	- 20
Unexpended capital funds	299	+ 3
Total	7,746	+ 28

ALL MEMBER BANKS 2/

Net demand plus time deposits	32,848	+ 2,506
Net demand deposits	20,083	+ 1,181
Time deposits	12,765	+ 1,325
Total loans and investments	34,247	+ 2,605
Total loans	23,886	+ 1,234
Investments	10,361	+ 1,371

BROKERS' LOANS (NEW SERIES)

Loans on securities to brokers and dealers, total 3/	3,810	+ 991
For own account	1,511	+ 474
For account of out-of-town banks	1,371	+ 322
For account of others	928	+ 196

1/ Weekly averages of daily figures for the week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

JAN. 1929

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January 1929	Change from January 1928
Reserve bank credit outstanding	1,832	+ 239
Bills discounted for member banks	(1,048)	(+ 503)
Bills bought	(491)	(+ 104)
U. S. securities	(239)	(- 364)
Other securities	(10)	(+ 9)
All other reserve bank credit	(44)	(- 13)
Net Treasury credit	1,785	+ 9
Monetary gold stock	4,126	- 251
Total	7,743	- 3
Money in circulation	4,932	- 19
Member bank reserve balances	2,429	- 37
Nonmember clearing balances	32	+ 2
Unexpended capital funds	350	+ 51
Total	7,743	- 3

ALL MEMBER BANKS 2/

Net demand plus time deposits	33,397	+ 549
Net demand deposits	19,944	- 139
Time deposits	13,453	+ 688
Total loans and investments	35,684	+ 1,437
Total loans	25,155	+ 1,269
Investments	10,529	+ 168

BROKERS' LOANS (NEW SERIES)

Loans on securities to brokers and dealers, total 3/	5,330	+ 1520
For own account	1,516	+ 5
For account of out-of-town banks	1,648	+ 277
For account of others	2,166	+1238

1/ Weekly averages of daily figures for week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/

	January, 1922	January, 1928	Change
Reserve bank credit outstanding	1,505	1,593	+ 88
Bills discounted for member banks	(1,106)	(545)	(- 560)
Bills bought	(126)	(387)	(+ 261)
U. S. securities	(234)	(603)	(+ 369)
Other securities	(0)	(1)	(+ 1)
All other reserve bank credit	(39)	(57)	(+ 18)
Net Treasury credit	1,553	1,776	+ 223
Monetary gold stock	3,663	4,377	+ 714
Total	6,721	7,746	+ 1,025
Money in circulation	4,665	4,951	+ 286
Member bank reserve balances	1,741	2,466	+ 725
Nonmember clearing balances	27	30	+ 3
Unexpended capital funds	288	299	+ 11
Total	6,721	7,746	+ 1,025

ALL MEMBER BANKS 2/

Net demand plus time deposits	20,884	32,848	+ 11,964
Net demand deposits	14,433	20,083	+ 5,650
Time deposits	6,451	12,765	+ 6,314
Total loans and investments	23,482	34,247	+ 10,765
Total loans	17,394	23,886	+ 6,492
Investments	6,088	10,361	+ 4,273

BROKERS' LOANS (~~NEW SERIES~~) ?

	OLD SERIES	NEW SERIES	4/
Loans on securities to brokers and dealers, total 3/	945	3,810	+ 2,865
For own account	547	1,511	+ 964
For account of out-of-town banks	398	1,371	
For account of others		928	
		2,299	+ 1,901

1/ Weekly averages of daily figures for the week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.
4/ change between old series for Jan 1922 and new series for Jan. 1928.

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January 1922	January 1929	Change
Reserve bank credit outstanding	1,505	1,832	+ 327
Bills discounted for member banks	(1,106)	(1,048)	(- 58)
Bills bought	(126)	(491)	(+ 365)
U. S. securities	(234)	(239)	(+ 5)
Other securities	(0)	(10)	(+ 10)
All other reserve bank credit	(39)	(44)	(+ 5)
Net Treasury credit	1,553	1,785	+ 232
Monetary gold stock	3,663	4,126	+ 463
Total	6,721	7,743	+1022
Money in circulation	4,665	4,932	+ 267
Member bank reserve balances	1,741	2,429	+ 688
Nonmember clearing balances	27	32	+ 5
Unexpended capital funds	288	350	+ 62
Total	6,721	7,743	+1022

ALL MEMBER BANKS 2/

Net demand plus time deposits	20,884	33,397	+ 12,513
Net demand deposits	14,433	19,944	+ 5,511
Time deposits	6,451	13,453	+ 7,002
Total loans and investments	23,482	35,684	+ 12,202
Total loans	17,394	25,155	+ 7,761
Investments	6,088	10,529	+ 4,441

BROKERS' LOANS (~~NEW SERIES~~)

	OLD SERIES	NEW SERIES	4
Loans on securities to brokers and dealers, total 3/	945	5,330	+ 4385
For own account	547	1,516	+ 969
For account of out-of-town banks For account of others	398	(1648) (2166) 3814	+ 3,416

1/ Weekly averages of daily figures for week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.
4 Change between old series for January 1922 and new series for Jan. 1928

RESERVE BANK CREDIT AND FACTORS IN CHANGES 1/
(In millions of dollars)

	January 1928	January 1929	Change
Reserve bank credit outstanding	1,593	1,832	+ 239
Bills discounted for member banks	(545)	(1,048)	(+ 503)
Bills bought	(387)	(491)	(+ 104)
U. S. securities	(603)	(239)	(- 364)
Other securities	(1)	(10)	(+ 9)
All other reserve bank credit	(57)	(44)	(- 13)
Net Treasury credit	1,776	1,785	+ 9
Monetary gold stock	4,377	4,126	- 251
Total	7,746	7,743	- 3
Money in circulation	4,951	4,932	- 19
Member bank reserve balances	2,466	2,429	- 37
Nonmember clearing balances	30	32	+ 2
Unexpended capital funds	299	350	+ 51
Total	7,746	7,743	- 3

ALL MEMBER BANKS 2/

Net demand plus time deposits	32,848	33,397	+ 549
Net demand deposits	20,083	19,944	- 139
Time deposits	12,765	13,453	+ 688
Total loans and investments	34,247	35,684	+ 1,437
Total loans	23,886	25,155	+ 1,269
Investments	10,361	10,529	+ 168

BROKERS' LOANS (NEW SERIES)

Loans on securities to brokers and dealers, total 3/	3,810	5,330	+1520
For own account	1,511	1,516	+ 5
For account of out-of-town banks	1,371	1,648	+ 277
For account of others	928	2,166	+1238

1/ Weekly averages of daily figures for week including the first of the year.
2/ Call date figures for December 31 of previous year.
3/ Figures for first Wednesday in the year.

RESERVE BANK CREDIT AND FACTORS IN CHANGES

(Annual averages. In millions of dollars)

	1922	1927	Change
Reserve bank credit outstanding	1,228	1,174	- 54
Bills discounted for member banks	(574)	(442)	(-132)
Bills bought	(159)	(263)	(+104)
U. S. securities	(454)	(417)	(- 37)
Other securities	0	0	0
All other reserve bank credit	(41)	(52)	(+ 11)
Net Treasury credit	1,602	1,774	+172
Monetary gold stock	3,802	4,564	+762
Total	6,632	7,512	+880
Money in circulation	4,536	4,892	+356
Member bank reserve balances	1,781	2,290	+509
Nonmember clearing balances	30	31	+ 1
Unexpended capital funds	285	299	+ 14
Total	6,632	7,512	+880

On basis of daily figures. The annual averages used in previous memos were estimates based on month end figures

RESERVE BANK CREDIT AND FACTORS IN CHANGES
(Monthly averages of daily figures. In millions of dollars)

	February, 1922	June, 1922	Change
Reserve bank credit outstanding	1,234	1,192	- 42
Bills discounted for member banks	(772)	(439)	(- 333)
Bills bought	(87)	(135)	(+ 48)
U. S. securities	(355)	(593)	(+ 238)
Other securities	(0)	(0)	(0)
All other reserve bank credit	(20)	(25)	(+ 5)
Net Treasury credit	1,521	1,600	+ 79
Monetary gold stock	3,704	3,776	+ 72
Total	6,459	6,568	+ 109
Money in circulation	4,451	4,429	- 22
Member bank reserve balances	1,689	1,820	+ 131
Nonmember clearing balances	34	34	0
Unexpended capital funds	285	285	0
Total	6,459	6,568	+ 109

RESERVE BANK CREDIT AND FACTORS IN CHANGES

(Monthly averages of daily figures. In millions of dollars)

	April, 1924	December, 1924	Change
Reserve bank credit outstanding	981✓	1,288	+ 307
Bills discounted for member banks	(495)	(302)	(- 193)
Bills bought	(174)	(357)	(+ 183)
U. S. securities	(272)	(555)	(+ 283)
Other securities	(0)	(2)	(+ 2)
All other reserve bank credit	(40)	(72)	(+ 32)
Net Treasury credit	1,720	1,767	+ 47
Monetary gold stock	4,383	4,507	+ 124
Total	7,084	7,562	+ 478
Money in circulation	4,886	5,088	+ 202
Member bank reserve balances	1,905	2,182	+ 277
Nonmember clearing balances	23	32	+ 9
Unexpended capital funds	270	260	- 10
Total	7,084	7,562	+ 478

✓ revised figures

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RESERVE BANK CREDIT AND FACTORS IN CHANGES
(Monthly averages of daily figures)
In millions of dollars

	February 1927	December 1927	Change
Reserve bank credit outstanding	1,043	1,568	+ 525
Bills discounted for member banks	(393)	(529)	(+ 136)
Bills bought	(304)	(378)	(+ 74)
U. S. securities	(307)	(606)	(+ 299)
Other securities	(2)	(1)	(- 1)
All other reserve bank credit	(37)	(54)	(+ 17)
Net Treasury credit	1,757	1,796	+ 39
Monetary gold stock	4,576	4,416	- 160
Total	7,376	7,780	+ 404
Money in circulation	4,843	5,048	+ 205
Member bank reserve balances	2,212	2,399	+ 187
Nonmember clearing balances	26	27	+ 1
Unexpended capital funds	295	306	+ 11
Total	7,376	7,780	+ 404

Crissinger Draft

March 2_, 1929.

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Suggested Amendment to Mr. Wyatt's Regulation, - Section II:

Except with the permission of the Federal Reserve Board, no Federal Reserve Bank shall discount, or rediscount, any note, draft, etc. etc. from any member bank which, at the time, has outstanding such an amount of speculative security loans as, in the judgment of the Federal Reserve Bank, is interfering or is threatening to interfere with its ability to furnish credit facilities at reasonable rates to its agricultural or commercial borrowers.

Provided, however, such restriction shall not apply to notes, etc. offered for rediscount, etc. where the note, etc. is accompanied by a statement in writing, duly sworn to by the maker, of the purpose for which the loan is desired; that the borrower is not a security broker as defined in this regulation; that the proceeds are not to be, and will not be, used for the purpose of purchasing, etc. stocks, bonds, or other investment securites except United States notes and bonds; that the proceeds will not be paid or loaned to any security broker, etc. etc.; that the proceeds of such loan are to be used for no other purpose than the following: (State fully).

Provided further that the member bank offering the paper shall certify that it duly made an investigation before granting the loan, and that it is satisfied that the statements of the maker are correct.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 3, 1929 839

To Mr. Hamlin

Subject:

From Mr. Smead

Mitchell interview
History of Market

Last Saturday you asked me to give you a memorandum covering brokers' loans, call rates, etc., during the last week of March.

On Monday morning, March 25, call money renewed at 9 per cent for the fourth consecutive time. As funds were only in fair supply at the opening and demands soon became rather heavy because of the calling of loans, the rate for new loans was advanced to 10 per cent around mid-day, an hour later to 12 per cent, and shortly thereafter to 14 per cent, the highest rate since July 1, 1920. At the close of the day the Standard Statistics average of stock prices was 5.6 points below the previous (Saturday) closing. During the day street loans made by 37 New York City reporting banks increased by $7,000,000 or to $1,131,000,000, while loans for out-of-town banks declined $16,000,000 and for account of others $6,000,000, with the result that total brokers' loans for the day were down $15,000,000.

On the morning of Tuesday, March 26, call money renewed at 12 per cent, the highest renewal rate since the turn of the year. Shortly after noon the new loan rate was advanced to 15 per cent, and an hour later to 17 per cent without attracting a sufficient volume of funds. At 1:55 p.m. the new loan rate was advanced to 20 per cent and this rate seemed to be sufficient to induce offerings large enough to satisfy the demand. The 20 per cent call loan rate was the highest since February 5, 1920. Security prices dropped sharply early in the day, but there was a substantial rebound before the closing and the final Standard Statistics average was down only 1.2 points for the day. While it is apparent that the shortage of funds in the market was cured by the 20 per cent call rate, nevertheless the brokers' loans made by the 37 New York daily reporting banks declined by $38,000,000, the decline in loans for own account being $34,000,000 and for out-of-town banks $21,000,000, while loans for the account of others increased $16,000,000.

On the morning of Wednesday, March 27, the demand for new call loans was almost as large as the previous day and the renewal rate was fixed at 15 per cent, the highest renewal rate since February 6, 1920, and both new and renewal loans were held at that rate all day. Stock prices opened with moderate gains and then declined, but subsequently prices advanced sharply and at the close the Standard Statistics average was up 5.8 points for the day. Total brokers' loans declined $109,000,000 further, the decline for the New York banks' own account being $9,000,000, for out-of-town banks $20,000,000 and for the account of others $80,000,000.

On Thursday, March 28, the last day on which the Stock Exchange was open during the week, call money again renewed at 15 per cent, but as offerings were in excess of a smaller demand than had prevailed for some days past, the new loan rate was successively reduced to 12, 10, and then 8 per cent, and in the outside market loans were placed at 6 per cent, and a rather large amount was left unlent at the close of the day. Owing to the easy money conditions security prices continued their rise and at the close were 3.5 points above the close of the previous day. While complete figures are not available at this time, such figures as we have indicate that call loans made by the principal New York City banks for their own account declined by about $17,000,000** on Thursday.

On Tuesday, March 26, the Standard Statistics average for 90 stocks was 193.4 or 14.1 points below the high for the year, reached on March 16, while on March 28, or 2 days later, they had rebounded to 202.7 or only 4.8 points below the year's peak. Notwithstanding the high call rates and the urgent demand for money the total brokers' loans made by the 37 daily reporting banks declined from $5,841,000,000 on Saturday, March 23, to $5,678,000,000 on Wednesday, March 27.

The following table summarizes the figures of brokers' loans and borrowings of New York City member banks, also average stock prices, the call money renewal rate, and the number of shares sold on each day from Saturday, March 23 to Thursday, March 28:

	Mar. 23	Mar. 25	Mar. 26	Mar. 27	Mar. 28
		(Amounts in millions of dollars)			
Brokers' loans of 37 banks*:					
Total	5,841	5,826	5,787	5,678	5,637
For own account	1,124	1,131	1,097	1,088	1,091
For out-of-town banks	1,736	1,721	1,700	1,680	1,680
For others	2,980	2,974	2,990	2,910	2,866
Borrowings from F. R. Bank	178	213	200	220	189
Standard Statistics average price of 90 stocks	200.2	194.6	193.4	199.2	202.7
Call loan renewal rate		9%	12%	15%	15%
Number of shares sold		5,860	8,247	5,619	5,096

*The figures for these banks differ slightly from those for the 33 member banks included in the Federal Reserve Board's weekly statement.

We have obtained from the Federal Reserve Bank of New York a statement showing call loans for own account (not including time loans) made by all the principal New York City banks and their borrowings from the Federal Reserve Bank for each day from March 19 to March 30. A copy of this statement is attached. You will note from the statement that on Tuesday, March 26, on the afternoon of which Mr. Mitchell gave out the statement regarding his bank's attitude toward the market, the call loans of the National City bank for its own account increased $6,000,000 to $150,000,000, following an increase of $6,000,000 on Monday, while its borrowings declined $1,000,000 to $24,000,000. On the next day, Wednesday, the call loans of his bank declined $9,000,000 to $141,000,000, while its borrowings increased $11,000,000 to $35,000,000. On Thursday there was a further decline

**Complete figures recently received show that total brokers' loans for own account increased $3,000,000.

of $6,000,000 in the National City Bank's call loans and at the same time the bank liquidated its entire borrowings of $35,000,000 and did not borrow again during the remainder of the week.

Just what factors caused the sharp upward turn in the market on Tuesday is difficult to say, but I understand that when the market was at the bottom with no new purchase orders coming in, J. P. Morgan and Company placed very substantial orders for purchases and that this was really the main factor in the market's recovery. No doubt the Chicago situation was partly responsible for the sharp decline in prices. When the large Chicago banks forced a reduction in their security loans this made it necessary for the local brokers to borrow from some other source, and I understand that they did borrow from numerous sources, including a number of large industrial concerns that brought back to Chicago money they had on deposit or were lending in New York. In other words, part of the load carried by certain of the Chicago banks was shifted to other lenders.

Borrowings of member banks in New York City, which averaged about $197,000,000 for the week ending March 30, as compared with $135,000,000 the week before and $176,000,000 during the two weeks ending March 13, were no doubt influenced by the preparation for month-end and quarterly settlements, as also was the supply of funds available for loan on call.

CONFIDENTIAL

STATEMENT SHOWING BORROWINGS OF NEW YORK CITY BANKS AT FEDERAL RESERVE BANK AND CALL LOANS FOR OWN ACCOUNT
AS AT THE CLOSE OF BUSINESS DAILY MARCH 19 TO 30, 1929

Stmt of Mitchell

(In Millions of dollars)

	Tuesday 3-19	Wednesday 3-20	Thrusday 3-21	Friday 3-22	Saturday 3-23	Monday 3-25	Tuesday 3-26	Wednesday 3-27	Thursday 3-28	Friday 3-29	Saturday 3-30
Bank of America, N.A.											
Debt	-	-	-	-	-	-	-	-	8	8	4
Call loans	44	41	41	41	41	43	44	36	43	43	44
Bank of the Manhattan Company											
Debt	9	9	9	9	6	5	4	4	-	-	-
Call loans	8	9	9	5	6	7	6	6	11	11	13
Bank of New York & Trust Company											
Debt	-	-	-	-	3	-	-	-	-	-	-
Call loans	15	13	12	15	15	12	12	11	12	12	12
Bankers Trust Company											
Debt	7	7	18	16	16	20	16	15	15	18	18
Call loans	41	47	36	44	52	48	44	42	51	62	64
Central Union Trust Company											
Debt	-	-	-	-	-	-	-	-	-	-	-
Call loans	43	39	35	36	35	37	37	39	30	31	31
Chase National Bank											
Debt	-	-	-	-	5	15	8	8	48	26	50
Call loans	55	62	67	73	74	76	66	65	62	64	66
Chatham-Phenix Nat'l Bk & Tr. Co.											
Debt	19	23	23	23	23	22	14	21	19	21	21
Call loans	6	6	6	6	6	6	6	5	5	6	6
Chemical National Bank											
Debt	-	5	5	6	17	20	6	21	10	11	11
Call loans	32	37	29	36	36	31	38	34	32	32	33
Corn Exchange Bank											
Debt	-	-	-	-	-	6	6	6	6	4	4
Call loans	30	31	32	30	30	30	29	31	29	29	29
Equitable Trust Company											
Debt	5	10	6	-	11	8	8	3	-	-	-
Call loans	17	16	16	15	15	17	15	16	20	20	20
Farmers Loan & Trust Company											
Debt	3	3	-	-	2	-	-	3	-	-	-
Call loans	9	9	15	14	14	15	12	11	13	13	14
First National Bank											
Debt	-	-	-	3	-	-	24	15	-	-	-
Call loans	18	31	35	42	42	56	39	49	13	13	17

	Tuesday 3-19	Wednesday 3-20	Thrusday 3-21	Friday 3-22	Saturday 3-23	Monday 3-25	Tuesday 3-26	Wednesday 3-27	Thurs[illegible]	[illegible]	[illegible]turday [illegible]-30
Guaranty Trust Company											
Debt	-	-	-	3	17	12	10	7	-	[illegible]	-
Call loans	40	37	39	41	47	41	33	29	34	[illegible]	57
Hanover National Bank											
Debt	-	-	-	-	-	-	-	-	-	-	-
Call loans	20	25	21	23	24	22	21	24	21	21	22
Irving Trust Company											
Debt	-	-	-	-	-	-	-	-	-	-	-
Call loans	99	104	87	90	90	88	92	99	101	104	104
Manufacturers Trust Company											
Debt	10	10	12	15	14	11	15	17	21	23	20
Call loans	48	48	52	53	53	53	53	55	56	56	56
National Bank of Commerce											
Debt	9	5	-	7	13	19	10	2	-	2	14
Call loans	22	24	26	27	29	30	23	26	28	33	33
National City Bank											
Debt	14	25	-	14	-	25	24	35	-	-	-
Call loans	139	138	139	137	138	144	150	141	135	13[illegible]	135
National Park Bank											
Debt	-	9	9	11	11	11	14	11	13	12	-
Call loans	7	7	7	6	6	8	7	7	15	15	15
New York Trust Company											
Debt	5	6	-	-	7	5	6	10	3	2	2
Call loans	45	60	46	45	45	42	48	42	40	41	43
Seaboard National Bank											
Debt	-	6	6	7	12	12	10	11	11	10	10
Call loans	21	20	21	19	20	20	19	20	20	20	20
U. S. Mortgage & Trust Company											
Debt	2	-	-	-	-	-	2	1	-	-	-
Call loans	14	15	16	14	15	16	15	14	14	14	14
All other New York City banks*											
Debt	19	20	23	22	25	22	23	30	35	32	39
Call loans	88	86	92	90	88	89	88	91	91	92	94
TOTAL - Debt	102	138	111	136	182	213	200	220	189	169	193
Call loans	861	905	879	902	921	931	897	893	876	918	942

*Call loan figures not included for some of the smaller New York City banks which do not report to us.

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CONFERENCE OF BOARD AND GOVERNORS
April 4, 1929.

The Governors, among other things, reported against a differential on member bank collateral notes, but believed that if any differential should be contemplated it should be postponed until commercial rates could be reduced.

The Governors reported on Mr. James' proposition that banks having bank deposits not over 10% of their total demand deposits should be made non-reserve cities, that in their opinion the 10% should be applied to individual banks in the cities and not to the entire city.

Discussion of credit and rate situation.

Governor Calkins reported as a formula that the Governors unanimously subscribe to the opinion that no Federal Reserve bank should today have less than a 5% rate, and that rates should be advanced to 6% in the Federal Reserve banks in principal financial centers.

Governor McDougal said that the Governors were not speaking for their directors.

Governor Harding:

New England is a saving and loan section, and an investment section. He stated that the New England banks have lost heavily in deposits, as also the savings banks; that the reserve deposits of the member banks had dropped 140 millions, while all banks had dropped 250 millions; that the member banks loan largely on collateral loans which, in fact, were not liquid; that on January 26th the Boston bank had the lowest reserve ratio of the System; that just before the Board's warning he had sent out a confidential letter to 60 banks in his District; that later, after the Board had published the recommendation of the Federal Advisory Council, he sent out a general letter; that the response to his first letter was very encouraging, advances to member banks dropping from 83 to 53 millions; that the bill rate advances had killed the bill market in New England; that the recent improvement in his reserves was brought about by the cutting down of bills; that although the reaction at first was good in his District, on some days the discounts are as high as ever, and he is satisfied that direct action, although it has done much, will not be a solution of the problem unless assisted by higher discount rates.

He said that some banks were buying acceptances and rediscounting them at the discount rate of 5%, mentioning the Old Colony Trust Company, which had so discounted 5 millions, not for any stock speculation purpose. He also cited the instance of the Falmouth Bank which bought acceptances at 5-3/8% and discounted them with his bank at 5%.

As to the effect of an increased discount rate on small borrowers, he said that in the country districts the borrowers always pay about the same rate - 6%. In the cities where borrowers can go to other districts, they get a low rate not related so much to the Federal Reserve rate as to the security or call loan rate.

He said that an advance to 6% would possibly increase the small customers' rates from 5¾ to 6%, but not higher. He said that his suggestion made to the Board some time ago of a differential rate against collateral notes, was strongly objected to by his Class A Directors. He said that 70% of his loans are collateral notes secured by Government bonds.

On the basis of the present 5% rate, he would like a rate of 4½% on bills. He said it would not be possible to obtain any greater cooperation with the member banks than he is getting at the present time; that they still are making collateral loans; that a 6% rate would help them resist their customers and bring about a reduction in these loans. He agreed that the real menace is speculative credit, and that 6% may not clean up the situation but may be the forerunner of successive advances.

He again expressed the opinion that direct action, although it has done much, can not cure the problem except with the help of a 6% discount rate.

C.S.H. asked him about the statement in Mr. Curtiss' recent report that there is some commodity speculation in shoes and cotton. He did not seem to attach any importance to this, and said that his recommendation is not based on any existing commodity speculation.

To Dr. Miller he stated that the question was the control of collateral loans; that the member banks, although they have somewhat controlled them by direct action, can not refuse them, but that a higher discount rate would make it easier for them to control them. He thought that the increased rate would not affect general business in his District.

Governor Harrison:

States that in 1927 the System, rightly or wrongly, started an easy money policy; that gold imports were imminent, and that we were forced either to lower our discount rates, or to see Europe increase hers; that a European increase would seriously affect our export trade; that business at the time here was under depression, and it was felt that lower rates would help both the domestic and international situation; that lowering the rate did greatly help our exports, and it must be admitted also encouraged speculation.

States that at the end of 1927 a large gold export movement started in; that the Federal Reserve rates were increased three times, the policy at that time being to restrict an undue expansion of Federal Reserve credit; that speaking generally this policy has not succeeded; that there has been a great expansion of member bank credit and brokers loans; that the situation is all wrong, and pressure must be applied.

He pointed out that the bill rates had reduced acceptances, and he believes this is necessary in the present situation; that there has been a net increase of gold imports of 37 millions in the past year; that since the Board issued its warning they have vigorously worked along the lines of direct action, but we have done all we reasonably could be expected to do; that loans on collateral are only slightly less now than in February; that brokers loans have increased; that the Board has accomplished much by its warning, but the question is, "Are we getting now what we want through direct action?"

Dr. Miller asks him to state what it is we want.

He did not answer this question directly, but left it clearly to be implied that what the situation demanded was a cutting down of speculative loans on the New York Stock Exchange. He said that member bank credit was still expanding; that as the result of our firming policy, there had been a continuous firming of interest rates; that the situation probably would ultimately settle itself without an increase, but what he hoped for was an increase in discount rates as a more speedy settlement of conditions so as we could give lower rates to agriculture and business.

He then asked what it was the Federal Reserve Board wanted, and Mr. James replied he wanted a cessation of abuse of Federal Reserve credit. He again said that the ultimate problem was how to give business lower rates; that ultimately we may have to buy securities to ease up the conditions, but he could not say when the time was to begin this policy.

Dr. Miller says that he can say what the Board wants.

Governor Harrison said that, in his opinion, direct pressure should be continued, but assisted by increased rates. He said frankly he did not know whether the 6% rate would accomplish this; that we may have to go to 7% or higher; that he felt the job could be accomplished more quickly if we at once increased our rates; that under increased rates direct pressure would operate more uniformly; that if the Board or the banks were to try to go to the extreme of rationing credit, it would at once make panicky conditions arise, and would be very dangerous; that Chicago calling its loans brought pressure on New York, and for a time caused almost a panic in New York, because of the rumor not of direct action, but that credit might be absolutely denied to member banks; that an arbitrary refusal of credit would be dangerous.

He said that his Bank declined to advise any member bank as to the calling of loans or the fixing of call loan rates, but it had given assurances that if a panicky condition were suddenly to arise, the Federal Reserve bank would support the market; that he had duly reported this to Governor Young.

He said that a rate increase was necessary to supplement direct action. He quoted cables from McGarrah and Owen D. Young earnestly asking for a rate increase. He said that Owen Young pointed out that it was the call loan rate and not the discount rate that was injuring Europe and making it difficult for them to keep their funds at home. He admitted to Governor Young that probably there were some banks abusing credit facilities by frequent borrowings, but he said that he took this up with them as fast as the occasion arose; that really there was little abuse of Federal Reserve credit today in New York; that there was no commodity speculation; that the whole problem was an investment or a speculative condition; that direct action has accomplished all that can be reasonably expected without an increase in discount rates; that of course direct action could be carried further, - for example:

We could conceivably order every member bank to reduce its loans, say by 10% as did Schacht, but that the country would not stand for this, and it would probably cause panicky conditions. He said that the bill rate should not be below the discount rate if we increased to 6%; he admitted that there was now a serious slowing up of building operations; that mortgage loans were now difficult to obtain, and he admitted that business was being more or less affected by these conditions.

Dr. Miller asked him what situation it was that he wanted to correct by higher discount rates. He replied the control of the expansion of credit through stock speculation; that the existing rates or lower rates encourage speculation; that we should, however, continue direct pressure even with a higher discount rate.

Dr. Miller asked how he could control the speculative situation by increased rates. He replies that they would check expansion on the stock market by breaking the market. He said to Dr. Miller that he felt the existing rate situation would ruin us. Dr. Miller said the object that the Board has in view is the controlling of Federal Reserve credit so that only a reasonable amount shall be used in speculative loans; that with an 80% reserve, a 6, 7 or 8% rate is an emergency rate, and he asked Governor Harrison what the emergency was.

Dr. Miller says it is conceivable that it may be no longer possible or desirable to obtain direct action, but if this is Governor Harrison's opinion he should frankly say so. Dr. Miller added that direct pressure, in his opinion, has very nearly accomplished its purpose already.

Governor Norris:

Will endeavor to answer Dr. Miller's question as to what the situation is which we desire to correct. He said that the speculative craze is increasing the use of credit to unheard of amounts, drawing money from the interior to New York, and draining business; that this situation has decreased the price of bonds, and has seriously affected building operations; that it has turned the attention of business men from their business to speculation; that it has diverted funds to New York; that it has pressed down savings bank deposits; he said he had traced out one check paid in January which showed $150,000 paid to brokers; that the country has become demoralized; that of the total credit outstanding, Federal Reserve credit is only about 3%; that direct action has not reduced the volume of credit nor of brokers' loans, but that it has slowed up the rate of increase; that but for the warning of the Federal Reserve Board the growth of speculative credit would probably have been far greater than it has been; that although direct action has produced good results, it has carried with it some bad results:

1. It has caused friction with the member banks, although they have reluctantly complied with the Board's warning.

2. It has penalized the banks which have cooperated, to the benefit of banks which have not, and especially to the benefit of non-member banks.

3. It has raised business rates without correcting the situation.

As to the local situation, Governor Norris pointed out that his reserve ratio was 10% below the System average; that discounts were 40 millions greater than at this time last year; that the policy of low discount rates, on the one hand entice a bank to borrow, and then by direct action we refuse them this privilege; that to go further along extreme lines of direct action would be to disrupt the Federal Reserve System, so far as the Philadelphia District is concerned.

It is hard to refuse a customer, willing to pay 6%, when he points out that the bank can borrow at 5% on eligible paper. As to the effect on customers rates of an increased discount rate, it will have very little effect, as outside of Philadelphia and Scranton all customers now pay 6%, and always have; that probably no customer would have to pay more than a quarter of 1% increase, bringing it up to 6%.

Governor Norris said we have never developed an acceptance market in Philadelphia. We have only a small amount of acceptances, and have no interest in the bill rate.

To Governor Young he replied that direct action had not stopped speculation to any material extent; that we have done all we reasonably could along the lines of direct action, and that we need the assistance of a higher discount rate; that in Pennsylvania any rate over 6% is usury, excepting Federal Reserve rates, and that customers' rates, therefore, could not go above 6% under the state law, whatever the Federal Reserve rate; that there is very little frequent or continuous borrowing in our District today; that only one Philadelphia bank has been a continuous borrower; that our Directors believe that if 6% is not a sufficient advance to correct the speculative situation, - which is the real problem, - we should increase to 7% or perhaps 8%; that he would favor an increase to 6% even if it had no effect on speculative loans, in order to bring the Federal Reserve rate into line with other rates; that he believed, however, a 6% rate would have at least a tendency to help correct the situation.

Governor Young pointed out that a speculative movement has never been corrected by increased discount rates, but has usually ended up through some catastrophe, and that the Board wishes to try out direct action before increasing rates.

Governor Norris stated that he believed the stock market is toppling, and that one or two rate increases would settle the question. He admitted to C.S.H. that if rates, for example, were to go up to 8% and continue for any length of time, it would be a very sad day for business.

Governor Fancher:

Up to March 8th there was no occasion for higher rates, nor is there today, unless we look at conditions in other districts. We had a gradual liquidation to March 12th, going down 86 millions from December 23, 1928. Since then there has been a great increase in member bank loans.

Refers to the usury 6% law of Pennsylvania; says that our directors meet tomorrow, Friday, April 5th, but that he will recommend against any increase, but to wait until an increase is made in Boston, Philadelphia, or New York; that in such event we may have to follow; that there has been very slight abuse of Federal Reserve credit facilities in his district; that we have proceeded along the lines of direct action, and could have been even firmer without resorting to drastic action; that rates so far have not been a deterrent to business except to building operations; that an increase in the Federal Reserve rate would increase the customers rate to 6%; that leaving out consideration of other districts, there is no impelling reason today for putting up our discount rates.

Governor Seay:

For 18 months have been greatly concerned at the expansion of credit. The statistics as to brokers loans have obscured the situation. The problem is a broader one than that. The whole problem is collateral loans. What is it we want to accomplish? We want to correct credit inflation, speculative loans. No one thinks that the 5% Federal Reserve rate is responsible for the high rates on speculative loans, - the fact is, there has been a very great expansion against the declining gold reserves of the country. When we sold bonds to tighten up the market, the banks bought the bonds and at once borrowed from us on their notes collateraled by these bonds. The great expansion has been accomplished through the use of Federal Reserve credit. Once Federal Reserve credit is issued, it is a permanent addition.

While it is true that Federal Reserve credit is only a small percentage of the total loans, the banks are borrowing a billion dollars to support these credits; that some action is imperative to reduce Federal Reserve credit; that the real security loans are probably 31 billions, including bonds, and not the relatively small amounts brokers are borrowing.

The present situation is not an investment situation, - it is a speculative situation. There has been an enormous increase in the issue of securities, and buyers have to borrow to pay for them, and very many of them buy purely for the profit on resale.

Governor Seay pointed out that in 1919 we tried both direct action and increased rates, and finally agreed on the necessity of increased rates. He said he believed there was more danger in direct action than in increased discount rates; that if the banks were required directly to reduce their loans, it might cause a convulsion; that to increase to 6% would have no effect on the situation, unless the public believed that we were ready to go further if necessary; that an increase in the discount rate is the most effective way to discourage speculative borrowing; that the present high commercial rates were causing building operations to be postponed; that ultimately we are bound to lower rates to help business and agriculture; that our discounts are larger now than for four years; that our district is being drained of money to send to New York; that business is being injured and demoralized in our district; that there are very few frequent and continuous borrowers in our district.

He pointed out the large amount of credit in real estate loans which now, however, are not increasing. Governor Young states that he did not desire to contract present credit, but that if future expansion could be stopped our troubles would be over. Governor Young points out taking gold movements into consideration, Federal Reserve credit has been about the same for the past five years, 1924 to 1929. Governor Seay says he does not agree with this, and does not think that gold movements should be taken into consideration. Governor Seay believes that the amount of existing credit should be cut down and not merely restrained, as to the future.

Governor Young points out the tremendous cutting down which would have to be brought about from the reason that loans have increased against reserves on the ratio of about 15 to 1, and that converse action might be very serious.

Governor Seay says we have only a few frequent and continuous borrowers in our district, and that probably few are making speculative loans; that we could control our banks through direct action probably easier than could Boston, which is an investment center; that he sees no impelling reason for a 6% rate, if no other bank should increase. Admits that long continued high rates up to 6, 7 or 8% would badly injure business, but not more than the existing injury to business under present conditions.

Governor Young points out that higher rates, if permanently in force, would force England to put up her rates, which would cut down her purchasing power for our exports and seriously affect them, and he asks if Governor Seay, understanding this, is willing to go the limit on increasing discount rates. Governor Seay replied that 7% would be his limit.

Governor Black:

Stated that the situation was well in hand in his district; that there were few if any banks borrowing frequently or continuously; that he saw no reason for an increase in the discount rate unless it was forced on him by the action of other banks.

Governor McDougal:

The present discount rate is out of line with other rates, and should be brought into line and slightly above it; that the expected liquidation in January did not occur, but that the member bank indebtedness increased 91 million dollars; that on March 15th his directors practically all favored an increase in discount rates; that on March 22nd he so recommended to his directors; he said that the present problem was the tremendous expansion of credit, which constituted an emergency.

He denies that Chicago banks have abused Federal Reserve credit, but admits that it has been misused by being diverted from business to speculative channels. We have done about all we reasonably could by direct action, and we are getting its benefit now.

C.S.H. pointed out to Governor McDougal that on March 15th, when his directors wanted an increased rate, the total bills and securities were 301.1 millions, while on April 3rd they had declined to 243.8 millions, a decline of 57.3 millions, whereas the reserve ratio had increased from 61.5% on March 15th to 67.3% on April 3rd. C.S.H. asked Governor McDougal if this decline, about 18%, did not show a fine progress in direct action. Governor McDougal gave a somewhat equivocal answer.

Governor Young asks McDougal if he would favor going higher than 6% if necessary. He answered rather equivocally, but finally said that, in his opinion, we might have to go higher; that in his opinion business will be less penalized by increasing rates now rather than by waiting; that increased rates will probably increase customers rates to 6%. Said that for himself he would favor going higher than a 6% rate if necessary, and thinks probably it may be necessary.

Governor Young points out that the expansion since June 28th of last year is only a little over 2% in Federal Reserve credit, and shows progress made under direct action.

Governor McDougal said the best solution of the problem will be to have the state of New York make call loans subject to the usury laws. He said that the New York Federal Reserve bank bill rates have always followed market rates, and that we should not have a buying rate for bills which will fill the Federal Reserve banks with acceptances.

Governor Young expresses the opinion that the acceptance rates are not too high; that the trouble is we really have no open window for acceptances, and cites Governor Harding's failure in distribution to his bills.

Governor Worthington:

Three weeks ago some of our directors wavered as to the question of increasing discount rates. Last Thursday there was a strong feeling that we should increase to 5% because we were out of line with customers rates and not because of speculative loans. We voted not to increase, but if New York and Chicago increase, we will vote to increase to 5%. Some of our directors wish to go up to 5% in any event.

There is little or no abuse of Federal Reserve credit in this district, and no need for very much direct action. We really began direct action about a year ago.

There followed a discussion between Governor Young and Governor Calkins as to whether the Governor's memorandum meant that a rate increase is necessary or merely desirable. Governor Calkins said it meant that it was desirable but not absolutely necessary.

Governor Norris states that the memorandum does not mean that a solution can not be obtained by direct action, but that it is merely desirable to increase rates in addition to direct action.

Governor Martin:

Feels that direct action had a good effect in his district; that it caused the liquidation in brokers loans, but that his trouble chiefly came from large withdrawals of deposits; that they have done everything along the lines of giving up participation in Government securities, and in other ways; that deposits now apparently are slowly coming back; that we are so tied up with Chicago and New York, that we can not keep our rates permanently lower than theirs.

Is inclined to believe that we are forced to increase rates. An increase to 6% would not injure business as a whole in his district; that outside of St. Louis it would greatly decrease the profits of member banks but would not affect customers rates, as they now pay high rates, always as high as 6%, and in some states higher; that he would dislike to go up to 6% unless Chicago and New York does; that he is not prepared at the present time to go to 6%, apart from the action of the other banks, but of course he may have to do it. We are willing to go to 6% to help Chicago and New York only, but if there is no improvement in our reserve position I shall recommend an increase in discount rates.

Thinks that the withdrawal of deposits is closely connected with speculation; that there is little frequent or continuous borrowing in his district; that an increase in rate in the past has always improved his reserve position; that if speculation should ease down, we would not want to change our discount rate; that nationally speaking we would be willing to go to 6%, and further, even to 7, 8 or 9% until the desired result is obtained.

Governor Geery:

Says he came to the Conference opposed to an increase in rates, but, in his opinion, Boston, New York, and Chicago have shown the necessity for an increase; that such an increase would put our rates out of line; that there is no reason for an increase in his district unless the above banks increase their rates. Thinks very likely that he could maintain a 4½% rate even if Chicago went to 6%. He certainly could maintain a 5% rate as against a 6% rate at Chicago.

Governor Young points out to him that apparently direct action is making progress; that many think that Chicago and New York are even going ahead too fast.

Governor Talley:

We are all very happy over our increase to 5%. The banks are cooperating with us. The Board's warning has had a good effect. I believe we should be cautious as to rate increases. The whole question is one of control of speculative credit. We can probably go farther along the line of direct action. Do not think it imperative at the present time to increase rates in the country. I have a little doubt in my mind as to the advisability of immediate increase. It may be that we could not maintain a 5% rate if the other large banks went up to 6%. Have doubts in my mind as to the advisability of going up to 6, 7 or 8% to correct the speculative situation.

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Governor Calkins:

Believes that neither direct action nor discount rates alone can solve the present situation. Believes that it will probably be necessary to increase discount rates, speaking generally. Thinks the Governors views expressed in their formula were justified in spite of the doubts of Governor Talley and others. Says they arrived at the formula as the result of long discussion. I have advised no change in the discount rate at San Francisco, but feel that it may become necessary.

Reads a printed memorandum.

Says that our rates are now out of line and should be increased; that direct action has done much and can do more; that we have done so far as much as could reasonably be expected; that our bill window is tightly closed by the high acceptance rates, and in his opinion they should be kept closed, although he has sympathy for Governor Harrison's position.

Believes Federal Reserve rates should be increased at San Francisco now, wholly apart from what is done in other districts, to bring the Federal Reserve rate into line with other rates.

April 8, 1929.

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Secretary Glass.

October 28, 1919:

Governor Harding proposed putting up all rates to 4¾%, - the present rate on 90-day commercial paper, including paper secured by Government bonds, with the following exceptions:

1. 15-day collateral notes secured by Treasury certificates.

2. Acceptances

3. Trade acceptances

4. Agricultural paper

#1 was fixed at 4¼%. C.S.H. understood this plan was agreed upon by Secretary Glass, Governor Harding, Mr. Leffingwell and Governor Strong.

Governor Strong said he was prepared to recommend this to the New York directors tomorrow morning, but in his judgment 4¼% was too low for 15-day collateral notes secured by Treasury certificates; that it should be 4½%, and ultimately 4¾%, but that Leffingwell felt that any rate over 4¼% would shoot to pieces the Treasury policy.

All of the Governors expressed the same opinion, - that we could not bring about liquidation unless the Treasury as well as all other customers, were to pay higher rates.

Leffingwell came in and explained the Treasury policies. Said he wanted to put out an issue of Treasury certificates about November 15th at 4½%, in order that he might place in December a larger issue, at 4½%.

Leffingwell said a rate of 4½% now would smash the Treasury plans. Later he said he thought he could put out an issue of 4¼% in November, even if he fixed the discount rate at 4½%, but he rather retracted this later.

Governor Strong said he did not agree to the Treasury policy of issuing certificates at 4¼%, as that rate was too low, and should be 4½% even if it did force the Treasury to change its plans. He said, however, that he was prepared to accept 4½% if the Treasury insisted.

After an all-day discussion, Strong announced that in view of Leffingwell's position, he would advise his directors to fix a rate of 4¼%. He said he feared Leffingwell would think he had gone back on the schedule they had agreed upon in the morning, and Leffingwell said he felt such was the fact.

There was some discussion as to the $4\frac{3}{4}\%$ rate on 90-day paper secured by Government bonds. Leffingwell feared it would bring about a forced sale to the benefit of speculators who would borrow to carry the bonds they bought so that there would be no liquidation.

Governor Strong said speculators would not buy on a margin during rising interest rates, but that these bonds would be bought by investors for cash, and that this would bring about liquidation. All of the Governors agreed to this.

C.S.H. supposed that Leffingwell agreed to the $4\frac{3}{4}\%$ rate, and also Secretary Glass, as Leffingwell continually referred to the agreement as to rates.

At 10:30 p.m. Secretary Glass called C.S.H. on the telephone. Said he and Leffingwell had tried to find Governor Harding but could not; that he could not come to the meeting tomorrow, and asked postponement until Thursday. He was very much stirred up. He said Governor Strong was trying to dominate the Treasury and the Board; that if we approved the $4\frac{1}{4}\%$ rate he would come out publicly and protest; that rates should not be put up on paper secured by Treasury certificates in order to curb Wall Street gamblers; that credit should be rationed; that the Governors of the banks had permitted the gamblers to raid the Federal Reserve banks; that Governor Strong was unwilling to curb them, intimating that he should press for the removal of Governor Strong; that he, Governor Strong, had told the Bank of England that he would put up the New York rates; that at a meeting the other day he told him that the Federal Reserve Bank of New York was a central bank; that it had a right to fix rates, but the Federal Reserve Board had no right to initiate rates, etc. etc.

$4\,3/4$?

C.S.H. told Glass that Governor Strong, at the end of the meeting, said his directors would put in a rate as above indicated to take effect Thursday morning; that C.S.H. at once told Governor Harding that no rate could be effected until he approved it; that he at once said so to Governor Strong who, in C.S.H.'s presence, said C.S.H. had misunderstood him; that there would, of course, be no publicity as to the action of the directors on Thursday, until the Federal Reserve Board had approved it.

We are evidently in for a terrific fight. All this time C.S.H. thought Secretary Glass was referring to the 15-day $4\frac{1}{4}\%$ rate, and he suddenly said he disapproved the $4\frac{3}{4}\%$ rate on 90-day paper secured by Government bonds. C.S.H. told him he understood that Leffingwell and he did not object to this rate, and that it formed part of the schedule Governor Harding reported this morning as satisfactory to him (Glass) and Leffingwell.

Secretary Glass said Leffingwell had no authority to approve any such rate, - that it would injure the Liberty loans, etc.

October 29, 1919:

I asked Governor Harding about the above schedule. He said it represented an understanding between Secretary Glass, Leffingwell, Strong, and himself, and that they had accepted it as consistent with the Treasury policy. C.S.H. asked Strauss and he said that while the Treasury had not specifically agreed to it, as neither Secretary Glass nor Leffingwell wanted to interfere with our rates, yet they offered no objection to it as being inconsistent with the Treasury policy.

Governor Harding and Strauss both pointed out that member banks generally had marked up their rates to their customers on paper secured by Liberty bonds to 5%, and that the new rate of $4\frac{3}{4}$% would still be profit to the member banks.

Governor Harding said he feared the expansion was so great in the country that a panic worse than 1907 might come if we did not force liquidation. Strauss said an advance in rates would help but little; that it must be accomplished by vigorous credit rationing. C.S.H. told him he said this to Strong yesterday, who replied it could not be done.

Strauss said he absolutely disagreed as to this. The matter went over until tomorrow.

October 30, 1919:

Governor Harding said Strong telephoned from New York that his directors feared a $4\frac{3}{4}$% rate would depress Liberty bonds to 90, and might cause a panic. He will reconsider the whole matter.

October 31, 1919:

Governor Strong is here in consultation with Governor Harding. C.S.H. told him he had told Leffingwell he had played absolutely fair with him. He said he would have to insist on rate advances; that the reputation of the New York bank was at stake, etc. etc.

November 1, 1919:

The New York directors, after the agreement between Secretary Glass, Stfong, Leffingwell, and Harding, offered an increased schedule of rates which we at once approved. This schedule left the 90-day rate on eligible paper unchanged at 4¾%, but raised other rates, making all war paper rates 4½%. Our 15-day collateral notes on 90-day paper, except the paper secured by 4¼ Treasury certificates, was made 4¼%.

November 5, 6 and 7th, 1919:

Other Federal Reserve banks submitted rates which we approved when modified, so as to have uniform rates throughout the system on war paper, which Leffingwell insisted upon.

November 7th, 1919:

Strong telephones that his bank will have 100 millions of rediscounts today; that the demand for funds was increasing; that he was greatly disturbed and would come down Sunday.

Governor Harding submitted a resolution lowering the required reserve percentage on deposits at New York. Dr. Miller objected as this would ratify the course of the Federal Reserve Bank of New York. Governor Harding said this was better than pulling down the resources of other Federal Reserve banks, and C.S.H. agreed with him, but Strauss objected. Finally C.S.H. suggested a vote authorizing the reduction in the required reserves to be announced in the New York bank by Governor Harding only in case the facts warranted such a course. Governor Strauss to meet Strong and Harding in New York Sunday to confer with the leading bankers.

This vote was passed on the assumption that Counsel had said it was legal.

Dr. Miller voted No.

C.S.H. raised the point that such a lowering of reserves might require a tax to be imposed. Governor Harding said Counsel said no tax could be imposed for lowering the deposit reserve. We finally left this to Counsel.

C.S.H. raised the point whether we could lower reserves for one Federal Reserve bank and not for all.

Later Strong telephoned he would not need to rediscount with other Federal Reserve banks today.

Secretary Glass came into the meeting in the afternoon. He said he was glad Strong was scared, and it was monstrous for Federal Reserve banks to put up commercial rates to thwart Wall Street speculators.

Governor Harding said Secretary Glass wanted new legislation forbidding national banks to loan on call for other national banks.

We all agreed, - except Dr. Miller, - that the proper way was to ration credit, although Strong said this could not be done effectively but must be done through rate increases, thus reversing his position of a year ago. The whole trouble has arisen from the necessity for protecting the Treasury situation, but the Treasury assumes the whole responsibility for this.

Governor Harding read a letter from Secretary Glass stating that while the Federal Reserve banks properly looked to the Treasury while its operations were being carried on, now they must look to the Federal Reserve Board. C.S.H. does not quite understand this, as Leffingwell still insists on having rates on war paper made uniform at all Federal Reserve banks, although the banks largely are not satisfied with it. C.S.H. is inclined to think that from now on the Board will cease to make Treasury interests paramount.

<u>November 10, 1919:</u>

Dr. Miller read a statement to be filed, explaining his opposition to the Board authorizing Governor Harding to suspend the New York requirement. It was then voted that each member could file a statement. Governor Harding and Strauss prepared one which C.S.H. signed, but C.S.H. added a postscript to the effect that lowering the reserve requirements was a public notice of the condition, perhaps unavoidable, in the New York bank, which the public was entitled to know, and that permitting the reserve requirements to be lowered might deceive many of the public, while a few who knew the real condition could profit at the expense of the many who did not know.

<u>November 12, 1919:</u>

Governor Harding and Strauss reported as to the New York conference. They said they met Heplin, Alexander, McGarrah, Sullivan, Hines, and others, who all said they were doing all they could to check speculation; that the speculation was not being engineered in New York, but by western interests; that the stock exchange was to take hold of the situation; that we should wait awhile to see how matters developed before taking any drastic action. One of them suggested that rates should be increased at once to 6%; that such a rate would probably not discourage legitimate business. Most of them felt, however, we should wait before any further rate increase.

Governor Harding and Strauss advise taking no further action at present, and the Board concurred.

It appeared that about 700 millions was being loaned on call by western banks, and Strauss put the total loans on call at about 2 billions, but Governor Harding thought only 1.3 billions.

C.S.H. suggested asking each Federal Reserve bank to report on loans on call made in the New York market by its member banks. Governor Harding feared that this might result in the calling in of loans, which might be disastrous. C.S.H. suggested he did not want the Federal Reserve banks to examine individual banks, but merely to give us the benefit of their own knowledge, which C.S.H. thought would be fairly accurate. Governor Harding and all agreed to this suggestion.

P.M.:

Strauss reported a very critical condition in New York. The call loan rate was 25%, but no money is available.

Strong called up Governor Harding and confirmed what Strauss had said. Said he feared business failures; that he had advised some bankers to put out some money to help tide over matters, and that this had eased the situation somewhat. He said he was to be in Washington tomorrow to lunch with the Prince of Wales. C.S.H. and Miller said he should not leave his post in New York, and Harding told C.S.H. he had told Strong he felt he ought not to leave New York, but he said there was no reason why he should not go to Washington. C.S.H. told Harding that if anything untoward happened tomorrow with Strong away from his post, he ought to be removed. Governor Harding said in response to C.S.H.'s suggestion that we might order him not to leave; that if after such order he should leave, we might have to remove him, but that he feared that might precipitate a panic.

C.S.H. can not help feeling some lack of confidence in Strong. His health is bad, and he is inclined to be panicky, as shown in the recent rate discussion, when, on vote, the Leffingwell 4¼% rate was finally adopted, but he said 4½% was absolutely necessary, - then he went back to New York and said any increase would hurt Liberty bonds. Then he came back demanding higher rates, and finally compromised.

<u>November 13, 1919:</u>

Governor Strong before the Board. Said conditions were better late yesterday afternoon; that he suggested to McGarrah to go to the bankers and advise putting out some money to ease matters; that 23 millions were secured but only 6 millions were used; said that he suggested to McGarrah to do the same today, if necessary.

Governor Strong said he did not favor exercising any such control; that the only effective way was through increase in discount rates; that these would control if the rates were effective.

Secretary Glass, Leffingwell, and others disagreed with him, and believed that higher rates would rupture the Treasury policy and injure the country, all of which he believed to be "bunk."

Strong said he had loyally carried out the Treasury and Board policy of control, other than by raising rates, and would see this particular crisis through, but after this he would resign rather than continue any such policy. He quoted Baghot to the effect that in every war the insinuous hand of the Treasury appears; that they had had the same struggle last summer in England, and that the Bank of England had put up rates so that the British loaning rate became 5½%. He said that last August when Treasury revenues began to equal expenditures, rates should have been put up whatever the result on Treasury operations. He said the argument that the rate power in other countries did not succeed in bringing about liquidation, was because these rates were not effective because of the preferential rates on war paper, and that the same situation existed in the United States; that at the last conference with us he wanted all rates put up to 4¾%.

C.S.H. says this was true, but after arguing all day he finally suggested the 4¼% certificate rate, because of Treasury insistence, and he went back to New York and the same morning reported against any increase because he was fearful of injury to Liberty bonds; that later he came down and again demanded an increase.

C.S.H. believes that whatever Strong's views are, he certainly reached an agreement with the Treasury, which was reported to us at that conference. He admitted to C.S.H. that the whole question hinged on whether the Treasury policy of low rates was correct, and C.S.H. suggested to him that we did not fix Treasury policies, but that the Board did not feel it could deliberately wreck a Treasury policy decided upon by the Secretary.

C.S.H. believes that the whole trouble with Governor Strong is that he did not go to the mat with Leffingwell, but compromised, and it was on this compromise that the Board was called to act. C.S.H. still believes that higher rates would certainly wreck Treasury policies, and perhaps force a refunding of all outstanding bonds, and he does not believe that higher rates at this stage would check speculation, although some increase, of course, should be made, and in fact has been made.

The Board, for a long time, has tried in every way to discourage speculation. It could not stop speculation now by drastic rate increases without playing havoc with Treasury policies.

November 15, 1919:

Leffingwell told C.S.H. that Strong took part in a meeting at the Bank of England, and encouraged the bank to put up its rates and force the Treasury to put up its rates for Government loans, promising on his part that the Federal Reserve banks, or at any rate the Federal Reserve Bank of New York, would do the same. That Leffingwell considers he is thus committed to this, and that this explains his action as to rates; that Strong had told him this, and that he (Leffingwell) at once repudiated any such agreement, and told Governor Strong that he had no authority to speak either for the Board or the Treasury. He said that Governor Strong was a very sick man, and had lost all sense of proportion; that while putting up our rates might necessitate higher Government rates, he would not worry about this except for the fact that it would force Government bonds out of the hands of holders, and thus be of great injury. He said he fully appreciated that we must gradually increase rates, but should do so very cautiously, and that in a fery few months the Treasury would be in such a good position that the Federal Reserve rates would be a matter of indifference to it.

November 19, 1919:

At 12:45 the Board and the Governors of the Federal Reserve banks met at the office of the Secretary of the Treasury. Secretary Glass outlined briefly, and Leffingwell in more detail, the Treasury policy, stating that the coming issue of 500 million Treasury certificates would be issued at 4¼%, and that the remainder needed probably at 4½%.

Secretary Glass then cited the action of the Federal Advisory Council advising against further rate increases before January 1st. He said rates should not be increased until the Treasury was out of the market, but that what was needed was credit rationing to put down the speculators. Governor Strong, with some vehemence, then said that this could not be done; that the only way was a radical increase in rates. Secretary Glass replied with some heat that it could be done and must be done; that it was successfully done by the Money Committee during the war. Governor Strong replied that the way it was done was to pay off the loans made to the call loan market, and that that would require today 700 millions of dollars.

Secretary Glass said that the New York bank had fallen down and permitted its assets to be infringed upon by speculators. Governor Strong replied with some vehemence that the New York bank had done much to exercise a restraining influence.

The matter comes up again tomorrow, and Governor Strong will try to carry the Governors with him.

Secretary Glass later came into C.S.H.'s office, who reminded him that Governor Strong said nothing could be done while money from other districts was pouring into the New York call loan market, and that we must meet this and put a stop to it. He agreed, and said he would see Governor Harding.

C.S.H. feels that Governor Strong is either unwilling or lacking in courage to cope with the situation, and in his weakened physical condition may soon make some dramatic coup and leave the bank. C.S.H. feels that he knows he can not stand the straing much longer, and he will choose a dramatic method of exit.

Secretary Glass said that at one interview Governor Strong even denied the right of the Board to review rates established by the New York bank.

At the Board meeting today, Mr. Forgan came on and read the recommendation of the Federal Advisory Council against rate increases prior to January next. He said that before Leffingwell came into the meeting the Council all favored a vigorous advance in rates, ignoring the effect on Treasury policies, but that Leffingwell convinced them that this would be a grave error, and would seriously affect the outstanding bonds.

<u>November 20, 1919</u>:

Meeting of Governors continued.

Most of the Governors did not concur in the recommendation of the Federal Advisory Council. Governor McDougal pointed out that their recommendation was that rates should not be advanced at present, the heading of their report, - rates up to January 1st, - being merely the heading of this topic made by the Federal Reserve Board. On this statement some Governors changed their opposition. Many, however, followed Governor Strong in wanting a change in rates before the coming issue of Treasury certificates on December 1st, at 4¼%.

Governor Strong said that if no change were made prior to this issue, we should be morally bound to keep a rate of $4\frac{1}{4}\%$ during the life of the issue.

Governor Morss pointed out that there is much speculative activity in business; that, for example, a cotton concern would be offered a contract for a year ahead; credit being cheap it would borrow at low rates to buy raw material, and would be able to take advantage of high or higher rates for its finished product. He strongly advocated higher rates, even for commercial paper, in order to regulate production and consumption. He said the country was being flooded with products of the kind known as luxuries, which also should be restricted by higher rates. He said the vast majority of new credits were for business, as opposed to stock market transactions. Governor Strong took the same attitude.

Governor Strong pointed out that the Treasury called usually for larger sums than were needed, in order to give subscribing banks a Government deposit for which no reserves were necessary, and which they could keep for periods of 60 days or so, and loan; that they made over 6% out of these deposits of the proceeds of $4\frac{1}{4}\%$ certificates. He suggested the possibility of cutting down Treasury offerings to the absolute needs, the proceeds to be drawn by the Treasury at once, and put in Federal Reserve banks, and to compensate for the loss of use of deposits, the certificates should be given a higher rate; that in this way the credits could not be used for inflation purposes.

<u>November 21, 1919:</u>

Conference of Governors resumed. All feel that Leffingwell is absolutely wrong in putting out Treasury certificates December 1st to $4\frac{1}{4}\%$, as the banks will loan out the deposits created by their purchase of Treasury certificates on call, thus increasing the inflation and speculation.

Leffingwell tells C.S.H. that Governor Harding had absolutely no authority to throw out to the Governors any intimation or suggestion that Treasury certificates might be issued in smaller amounts to be paid off by the banks at once, and at a higher rate to compensate for the loss of the deposits. He said the banks would never do this unless paid a commission for placing the notes.

C.S.H. feels that Leffingwell is in a personal quarrel with Strong, and that neither will yield.

November 26, 1919:

Secretary Leffingwell tells C.S.H. he has about made up his mind that Governor Strong ought to be removed. C.S.H. suggested that he first take up the matter with our Government directors of the New York bank, and he agreed to this. Secretary Glass asked the Board to hear Leffingwell on the New York bank matter.

Leffingwell came in and said that Governor Strong, at a meeting of the Bank of England, had encouraged the bank to put up its rates so as to force the British Treasury to pay higher rates for their borrowings, and that he had pledged the Federal Reserve Bank of New York to do the same; that he was now unable to carry out his part of the agreement, and was determined to wreck the Treasury policies in revenge; that putting up the $4\frac{1}{4}\%$ certificate rate to $4\frac{1}{2}\%$ was ~~temporarily~~ designed to prevent the sale of the new $4\frac{1}{4}\%$ certificates; that putting up rates on paper secured by Liberty bonds would play havoc with the bond market; that a rumor had got out that the New York bank was to put up rates just after the Governors left Washington, and as a result large quantities of United States securities had been thrown on the market, and the Treasury had to buy a very large amount to steady the market; that yesterday alone the Treasury had to buy 12 millions; that one grade of Liberty bonds was now selling on a $5\frac{1}{4}\%$ basis; that he believed these bond sales had been made by "insiders" - either directors of the Federal Reserve Bank of New York or their friends who had inside knowledge that rates were to be put up.

He also said Governor Strong had told him that he did not expect our Board to approve the proposed increase; that friends of his in New York had told him that certain of the New York directors had said they were whipped into agreeing with this increase, although Governor Strong claimed they had forced him into it.

He also said that this morning a prominent banker and intimate friend of Governor Strong said that all his friends were worried about him; that in his state of health they feared he and the other New York directors might do something impulsively to rock the boat, and do great damage. He also said Governor Strong had dominated the other Governors, mentioning particularly Governor Morss. C.S.H. quickly denied this, and said Morss was absolutely independent, a man of great wealth, who stood on his own bottom, and he (C.S.H.) said this although he disagreed with Morss's opinions.

Leffingwell then said the Governors had dined with Strong twice before coming to our conference, - once in New York, and again in Washington. He also said that Governor Strong told Secretary Glass that his bank had the right to fix rates, wholly apart from the Federal Reserve Board. He also said Governor Strong said he wanted the increase which our Board granted to help him:

1. To control stock market speculation.

2. To do away with the dependence of interest on bank deposits on the Federal Reserve rates. Originally approved by the Board.

3. To cease buying bills in the market at such attractive rates.

He said that Strong, having got these rates, did nothing as to #1, #2 or #3, but absented himself from the bank and played golf in Washington. He also said that if the bond market kept steady, the floating debt of over 3 billions would be wiped out in 18 months. He said the situation was critical, and that the Board should act at once to save Treasury policies and protect innocent bond holders; that if the banks did not take the new $4\frac{1}{4}$% certificates the Federal Reserve banks must.

Dr. Miller said he believed on principle that rates should be advanced, but that he should vote to protect the Treasury. Strauss said he believed there was no occasion for increasing rates, but that it would have little effect as the merchants would merely add the cost of credits to their prices.

C.S.H. suggested that he summon the Governor and directors of the New York bank and ask for their reasons. This, however, not to affect an immediate decision. Governor Harding said they should have consulted us before taking any action, and we all approved this.

Strauss said he had no confidence in Mr. Peabody; that he was too old.

C.S.H. moved that in view of Leffingwell's statement we call upon each director to inform us whether they had sold Government bonds in faith of their intended increase in rates. Leffingwell deprecated this, and the other members also.

Leffingwell said that Secretary Glass contemplated calling on the stock exchange to report just who had sold bonds. He said, however, we could only get a list of brokers who had sold, and this would not disclose the principals. C.S.H. said this made it even more necessary to interrogate the directors.

C.S.H. said to Leffingwell that he felt that Strong had staged this for a dramatic resignation, and asked whether his resignation would cause any trouble in New York. Leffingwell said No, it would be a great relief to bankers general ly. Governor Harding concurred in this.

Strauss said all of the bankers he and Governor Harding saw in New York were increasing rates except **Hepburn**, and that Governor Strong brought **Hepburn** to the Directors meeting and that he told them he did not concur in the vote of the Federal Advisory Council against a rate increase at present.

C.S.H. wrote Forgan as to this.

Leffingwell said he thought the Treasury would be safe about January 15, 1920.

C.S.H. asked whether the matter could not be reopened in case any disaster should occur, e.g. as to our reserves, and Leffingwell said certainly; that he reserved that right even as to his own predictions.

Dr. Miller said he would support the Treasury even though the reserves went to smash, although he believed on principle that rates should be increased.

Leffingwell said that if we sustained the Treasury, Liberty loan bonds would reach par in a comparatively short time. On motion of Strauss the Board disapproved the action of New York in increasing rates, and by another vote that of Boston also.

<u>November 29, 1919</u>:

Governor Strong here. Governor Harding said Strong was in a panic; that he feared an industrial panic, and said it would not to do increase rates now; that it should have been done long ago; that to do it now would be to bring about a crisis.

<u>December 29, 1919</u>:

C.S.H. has talked with Secretary Glass on subject of giving Governor Strong a leave of absence.

<u>January 21, 1920</u>:

The New York bank sent in proposed schedule of 5½% for Treasury certificates, 5½% for paper secured by Liberty bonds, and the same for commercial paper.

Leffingwell objected bitterly, and Governor Harding asked some of the New York directors to come down for a conference. Jay and Alexander came down, and were closeted with Governor Harding, Strauss, and Leffingwell all day.

At noon C.S.H. took Strauss and Alexander in his auto to the Pan American lunch, and learned that an agreement had been reached; that the New York directors should be informed that they must keep a rate of 4¾% on Treasury certificates for the present, and that if they did not the Board would force them to do it.

Alexander went back with this message, with which he fully agreed.

At the meeting, Governor Harding told the Board the New York directors had accepted his message, and had unanimously sent in a schedule keeping 4¾% on certificates, and 5½% on everything else.

Governor Harding then announced that Leffingwell wanted us to put up commercial rates to 6%, and Liberty bond loans to 5½%, leaving certificates for a short period at 4¾%. Governor Harding said he agreed with this, and that Secretary Glass told him he could not be at the meeting, but that Leffingwell was authorized to speak for him. Leffingwell then came in and quoted a letter dated December 19th from Governor Strong, saying that at last after years of effort his bank had succeeded in establishing one rate for money, and that by this the New York bank had shown it was a real central bank like the Bank of England.

Leffingwell then quoted from Hartley Withers' book to show that Strong was in error and that the Bank of England did not have one rate for money. In this letter Governor Strong stated that he had done in two years what the Bank of England had taken 250 years to do, - one rate for money. Withers' book shows that the Bank of England rate is only a minimum rate, and that the bank frequently imposes higher rates without changing the official bank rate.

Leffingwell said that under the present rate of 4¾% there is a direct incentive to member banks to loan at 6% in order to rediscount at 4¾%, thus making considerable profit. He pointed out our low reserve position, and said nothing but a drastic increase in commercial paper rates to 6% would control the situation; that we were dangerously near leaving the gold standard; that the expected January liquidation had not set in; that on the contrary the member banks had increased their loans and investments enormously since September 1, 1919, and that the loans and investments of the Federal Reserve banks had increased nearly 800 millions; that although the currency in circulation was decreasing, credits were enormously expanding; that soon a new gold embargo would have to be put on, and that we were in danger of inflating up to the European standard; that the commercial paper held by Federal Reserve banks was "bunk", - that it was absolutely unliquid and would never be paid.

C.S.H. pointed out that while a 6% rate might be necessary, yet an immediate advance to $1\frac{1}{4}$% over the existing rate might well give rise to panicky conditions.

Leffingwell flouted this, but said that if a panic in New York should break out, he would be glad of it. C.S.H. suggested going up by degrees and taking two bites of the cherry, but Leffingwell opposed this.

The Board adjourned till afternoon, and C.S.H. insisted that Leffingwell should communicate with Secretary Glass as to the proposed increase to 6%.

In the afternoon Secretary Glass and Leffingwell kept us waiting for over $1\frac{1}{2}$ hours. When Secretary Glass came in he said he favored this immediate advance to 6%. C.S.H. said he feared it might cause much excitement and uneasiness, and even bring about panicky conditions.

Secretary Glass and Leffingwell both disagreed as to this, and asked C.S.H. to explain.

C.S.H. pointed out that distress might arise leading to violent contraction, and presentation, perhaps, of Federal Reserve notes for redemption in gold. C.S.H. also referred to the fact that just before adjourning this morning Strauss called up Case in New York and he later replied that the Executive Committee and Alexander were a unit in opposing such a drastic increase; that Mr. Alexander said an immediate increase to 6% would cause much uneasiness; that people would think the Federal Reserve Board had lost its head, or that conditions must be very critical to call for such a drastic increase. He also said there was danger that it might cause panicky conditions.

Governor Harding said 6% was right both to prevent profit from rediscounting, and because 6% was the legal limit the New York banks could charge under the usury laws on money loans.

Governor Harding and Leffingwell both said that a $5\frac{1}{2}$% rate on loans secured by Government bonds and Victory notes would do no harm, as you could not profitably borrow on Government bonds when the discount rate was $5\frac{1}{2}$%.

Governor Harding moved to fix the New York rates at $4\frac{3}{4}$% for Treasury certificates, $5\frac{1}{2}$% for Government bonds, and Victory notes, and 6% for commercial paper.

Comptroller Williams moved to amend by making the rates $4\frac{3}{4}$%, 5% and $5\frac{1}{2}$%.

On vote: Aye - C.S.H., Williams, Miller and Moehlenpah
No - Governor Harding and Strauss

At Governor Harding's request, C.S.H. moved to reconsider so that he could put the question before the Board in a different way. It was then reconsidered.

Governor Harding then moved:

1. Treasury certificate rate to be 4¾%, unanimously passed

2. Differential of 1/2% above Government bonds and commercial paper. Unanimously passed.

3. 6% rate on commercial paper. The vote on this was a tie. Dr. Miller changed his vote. The vote was:

   Aye: - Governor Harding, Strauss and Miller
   No: - C.S.H., Williams, Moehlenpah

Secretary Glass announced that the vote being a tie had failed. Williams said that Secretary Glass should vote. Secretary Glass thereupon voted Aye, and declared the motion carried.

Dr. Miller explained his change in vote by saing that harmony was necessary; that the Secretary of the Treasury and Governor Harding favored a 6% rate, and he had determined to vote for it; that evening at the Pan American reception, Secretary Glass said that C.S.H. should have come in and talked with him about the matter before the vote was taken. C.S.H. replied that Secretary Glass was at his home ill, and that he could not get at him.

Secretary Glass said that since the vote he was not so sure he had voted correctly; that it was all a matter of conjecture, and asked C.S.H. if he really thought that it might bring about a sudden injurious contraction.

C.S.H. said that was his fear, but hoped he was mistaken. C.S.H. added that Governor Harding was to take up the matter with the New York, Boston, and Philadelphia banks tomorrow, and that if there was much opposition, the matter might be brought up again. Secretary Glass said he regarded this vote as only tentative, and seemed disturbed and worried about the situation.

<u>January 22, 1920</u>:

Strauss reported that he had talked with Case in New York, who consulted his Executive Committee, which had reached the conclusion that they preferred to have the Board fix the rates on their own initiative, and not have it appear that the bank had recommended these rates. As a fact, they had absolutely opposed the 6% rate.

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Governor Harding reported that Governor Morss, at first staggered at this 6% rate, finally said he approved it, and said his directors wished to recommend this schedule and not have the Board fix it on its own initiative.

Governor Harding said Philadelphia had also agreed to it.

It was then voted to notify each of the three banks, the rate to go into effect tomorrow, Friday morning.

C.S.H. fears this sudden jump may do harm. He does not deny that such a rate is ultimately necessary, but he wished the Board had made two bites of the cherry.

COPY

Sec Bd

FEDERAL RESERVE BANK OF NEW YORK

april 9, 1929

P45

Dear Governor Young:

While as I think you realize, it is difficult if not impossible to set forth the particular reasons or motives which may prompt individual directors to vote at any given time for a change in the discount rate, nevertheless in a period such as this it is possible to review the more fundamental factors which the directors have had in mind in concluding that a change in rate is advisable. In his letter of February 21, 1929, Mr. McGarrah reviewed some of the steps already taken by this bank to prevent as far as possible any unnecessary use of Federal Reserve credit by its member banks. In a general way he also outlined our views with respect to the function of the discount rate in supplementing steps taken to control an undesirable expansion of the country's credit structure. Also, on several occasions, I have reported to the Federal Reserve Board in person the various factors in the present situation which the directors have had in mind in voting to establish a 6 per cent rate. It is not necessary now to review these discussions.

The directors, however, have requested me to write you in a general way concerning some of the conditions which have led them to seek an increase in our discount rate for a number of weeks past.

Broadly speaking they believe such an increase will hasten the time when business may have the benefit of easier money.

There is increasing evidence that the present money market position and prevailing high money rates which are all above our discount rate are beginning to have a detrimental effect on business. Serious effects may well be anticipated from the following causes if they continue to operate over an extended period:

1. Reduced building construction largely because of difficulty in obtaining mortgage money and loans,
2. Postponement of various business undertakings because of difficulty in financing new enterprises,
3. Reduced foreign purchasing power for our exportable products because of reduced foreign financing in the United States, and because of rising money rates and stringent money conditions and weak exchanges in such countries as England, Holland, Germany and Italy due largely to our high call money rates.

It is therefore important for business that as promptly as possible a more normal financial position be restored under which money rates may be at lower levels.

The one thing which has prevented and now prevents the restoration of more normal money conditions is a large expansion of the credit structure due largely to speculation in securities. This credit expansion has forced the Reserve System to adopt firm money policies, including three increases of discount rate, the sale of government securities, a restrictive bill policy, and careful scrutiny of the borrowing of the individual member banks. These various steps have to some extent checked the rate of expansion of credit but they have not yet brought about a condition in which the Reserve System may safely throw its influence towards easy money.

While the continuance of the policies of restricted purchases of bills and careful supervision over member bank borrowing alone may ultimately have the desired effect, nevertheless in view of the urgent need for restoring more normal money conditions as quickly as possible in the interest of business it seems desirable that further steps be taken to make Federal reserve policy more promptly effective.

We believe an increase in our discount rate by one per cent will be a helpful step in this direction because

1. It will bring our rate more nearly in line with outside rates, thus removing the temptation to borrow from the Reserve bank solely for a profit,
2. A rate increase quite apart from any psychological reaction on borrowing member banks will be a definite and affirmative influence and support to all member banks in their efforts to control unnecessary borrowings by their customers. Thus it will have an important effect on member bank loan policies,
3. We have in the past had the experience of dealing with possible abuse of our credit by one group of banks only to have it manifest itself in another group. A rate increase will tend to put pressure equally and simultaneously on all groups,
4. A rate increase will have a direct effect upon the possible use of Federal reserve credit for speculative purposes because a large part of the credit now granted on the basis of securities consists of loans by banks directly to their customers as distinguished from loans to brokers on the open call money market. Recent increases in credit for security operations

have been almost entirely in this form of loan. In this district many such loans are being made at rates between $5\frac{1}{2}\%$ and 6%.

5. A rate increase would have the further result of giving definite public notice to the country that the Reserve System is ready to supplement and support all its other efforts by an affirmative rate policy. Public realization that the discount rate would be employed incisively and repeatedly, if necessary, would greatly strengthen the effectiveness of the System's policy and in itself hasten the time when the System might lend its influence towards easier money conditions.

As far as the immediate effects on business of a rate change are concerned business borrowers are already paying $5\frac{3}{4}$ to 6 per cent, or in acceptance credits over $6\frac{1}{2}$ per cent, for their money in the principal centers and higher figures elsewhere, in many cases close to the legal maximums, so that an increase in the discount rate to 6 per cent would probably have little effect on the cost of funds to business. In any event the directors believe business can better afford to pay a higher rate for a short time than even present rates over too long a period. Moreover, the influence of credit conditions upon business is much more largely felt in the market for new securities to finance new business developments than in the rate which business pays on commercial loans, so that a hastening of the time when the new securities market will once more be upon a stable basis appears to be much more important to business than a fractional difference in commercial rates.

A further consideration which our directors believe the Federal Reserve Board no doubt has in mind relates to the responsibility of this bank for the administration of Federal reserve credit within this district. The responsibility for dealing withthe member banks rests primarily upon the Federal Reserve banks. The Board's public announcemet on February 7 emphasized that responsibility. The directors now feel that an increase in the discount rate will aid the bank materially in performing the duties imposed upon it at this difficult time.

The directors earnestly desire easier money for business. They believe an adjustment of our rates to the present money market will serve to hasten the time when the Reserve System can take active steps to bring about easier money.

Very truly yours,

(Signed) George L. Harrison
Governor

Hon. Roy A Young,
Governor, Federal Reserve Board,
Washington, D. C.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date Apr. 11, 1929.

To C. H. Hamlin

Subject: Substitute Resolution

From E. H. Cunningham

amend F. R. Act
Cunningham

2-8495

P47

At a regular meeting of the Federal Reserve Board on February 8th, there was introduced a resolution purporting to amend Section 13 of the Federal Reserve Act. You will recall that the amendment was dictated by me to the secretary during the meeting, consequently, there was little opportunity for considering it. Since that time the subject has had consideration and a substitute is being contemplated for the original. There is attached hereto a substitute amendment which probably covers the question more fully. Will you kindly give this your consideration in order that you may have the subject matter fully in mind. It is my intention to ask for formal action on the question in due time.

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Resolved that the Federal Reserve Board recommend to Congress enactment of the following Bill as an amendment to Section 13 of the Federal Reserve Act:

A BILL

To amend Section 13 of the Federal Reserve Act and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 13 of the Federal Reserve Act, as amended, (Section 343, Title 12, United States Code) be further amended by inserting therein, immediately after the second paragraph thereof, a new paragraph reading as follows:

"Except with the permission of the Federal Reserve Board and subject to such rules, regulations, limitations, restrictions and conditions as may be prescribed by said Board, no Federal reserve bank shall discount or rediscount any note, draft, or bill of exchange for, or make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or Government, State or municipal securities from, or in any other manner extend credit accommodations to, any member bank which at the time: (1) Has loans outstanding to, or holds the notes, drafts or bills of exchange of, any person, firm, partnership, corporation or association, or the agent or representative of any person, firm, partnership, corporation or association, whose principal business it is to deal in, or to negotiate purchases or sales of, stocks, bonds or other investment securities (except bonds and notes of the Government of the United States), either for itself or for the account of others; or (2) has, in the judgment of the Federal Reserve Board, unreasonably large amounts of loans outstanding secured by, or the proceeds of which have been or are to be used for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. The Federal Reserve Board is authorized and empowered to promulgate and enforce such further rules, regulations, restrictions and limitations as may be necessary to prevent the use of the credit resources of the Federal reserve banks, either directly or indirectly, for the purpose of financing dealings in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States."

A B I L L

To amend Section 13 of the Federal Reserve Act and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 13 of the Federal Resérve Act, as amended, (Section 343, Title 12, United States Code) be further amended by inserting therein, immediately after the second paragraph thereof, a new paragraph reading as follows:

> "Except with the permission of the Federal Reserve Board and subject to such rules, regulations, limitations, restrictions and conditions as may be prescribed by said Board, no Federal reserve bank shall discount or rediscount any note, draft, or bill of exchange for, or make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or Government, State or municipal securities from, or in any other manner extend credit accommodations to, any member bank which at the time: (1) Has loans outstanding to, or holds the notes, drafts or bills of exchange of, any person, firm, partnership, corporation or association, or the agent or representative of any person, firm, partnership, corporation or association, whose principal business it is to deal in, or to negotiate purchases or sales of, stocks, bonds or other investment securities (except bonds and notes of the Government of the United States), either for itself or for the account of others; or (2) has, in the judgment of the Federal Reserve Board, unreasonably large amounts of loans outstanding secured by, or the proceeds of which have been or are to be used for the purpose of carrying or trading in, stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. The Federal Reserve Board is authorized and empowered to promulgate and enforce such further rules, regulations, restrictions and limitations as may be necessary to prevent the use of the credit resources of the Federal reserve banks, either directly or indirectly, for the purpose of financing dealings in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States."

(Prepared April 10, 1929, at request of Mr. Cunningham. WW)

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date March 25, 1929.

To Mr. Hamlin

Subject:

From Mr. Wyatt

G P O 2—8495

Dear Mr. Hamlin:

For your personal convenience I am handing you herewith a tentative draft of a regulation designed to enforce the principles regarding the proper use of credit facilities of the Federal reserve system laid down in the Board's letter of February 2, 1929, which regulation I have prepared in accordance with the request made at the Board meeting on March 21.

I realize that some modifications of and exceptions to this draft of a regulation may be necessary for practical reasons, but I understand that the regulation will be submitted to the Federal reserve banks before being promulgated, and I feel that the Federal reserve banks will be in a much better position than I am to suggest such modifications and exceptions as they may consider necessary. The regulation, therefore, is drawn with this in view and the present draft was purposely made extremely strict.

Respectfully,

Walter Wyatt

Walter Wyatt,
General Counsel.

Draft herewith.

(CONFIDENTIAL TENTATIVE DRAFT)

FEDERAL RESERVE BOARD

REGULATION M, SERIES OF 1929.

Loans, Discounts or other Credit Accommodations for Member Banks having Speculative Security Loans.

SECTION I. DEFINITIONS.

(a) Security Broker. Within the meaning of this regulation, the term "security broker" shall include every person, firm, partnership, corporation, company, or association, whose principal business it is to negotiate purchases or sales of, or to purchase, sell, or otherwise deal in, stocks, bonds, or other investment securities, either for his or its own account or for the account of others.

(b) Speculative Security Loan. Within the meaning of this regulation, the term "speculative security loan" shall include every loan to a security broker and every other loan the proceeds of which have been or are to be used for the purpose of purchasing, paying for, carrying, or trading in, stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

Every loan made, renewed, extended or permitted to run past due after the effective date of this regulation which is secured by a pledge of stocks, bonds, or other investment securities (except bonds and notes of the Government of the United States) shall be deemed to be a speculative security loan within the meaning of this regulation, unless there is attached to the note, draft, bill of exchange or other evidence of such loan a written statement signed by the borrower to the effect that:

(1) The borrower is not a security broker as defined in this regulation;

(2) The stocks, bonds or other investment securities pledged to secure such loan are, and for at least thirty days have been, the absolute property of the borrower;

(3) The proceeds of the loan have not, and will not be, used for the purpose of purchasing, paying for, trading in, or carrying stocks, bonds or other investment securities, except bonds and notes of the Government of the United States;

(4) The proceeds of the loan have not, and will not be, loaned to any security broker or to any other person, firm, partnership, corporation, association or company for the purpose of purchasing, paying for, trading in, or carrying, stocks, bonds, or other investment securities; and

(5) The proceeds of such loan have been or are to be used for another purpose, which shall be stated in such affidavit.

SECTION II. RESTRICTIONS.

Except with the permission of the Federal Reserve Board, no Federal Reserve Bank shall discount or rediscount any note, draft or bill of exchange for, or make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreement or otherwise) from, any member bank which at the time has any speculative security loans outstanding.

SECTION III. EVIDENCE OF ELIGIBILITY.

In addition to the evidence of eligibility required by Regulation A, every application made by a member bank to a Federal

P47

Reserve Bank for any discount or rediscount or any loan, advance, or other credit accommodation, shall be accompanied by a statement of the applying bank as to the amount of speculative security loans, which such bank has outstanding at the time of such application.

SECTION IV. PERMISSION OF THE FEDERAL RESERVE BOARD.

A Federal Reserve Bank desiring to obtain the permission of the Federal Reserve Board to discount or rediscount any notes, drafts, or bills of exchange for, make any loan or advance to, or to purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreements or otherwise) from, any member bank within the prohibitions of this regulation, shall make application therefor in writing or by telegraph (not by telephone) to the Federal Reserve Board and shall furnish with such application a full explanation of the circumstances giving rise to such application and the reasons why the applying Federal Reserve Bank thinks it should be granted.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 16, 1929

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

EAG

P48

2—8495

Col. Ayres

I am sending you herewith a copy of my letter to Mr. Creech about Colonel Ayres' bulletin for April. At your request, I am adding for your own information my view about his last paragraph which relates to Federal reserve policy.

I believe that Colonel Ayres is entirely wrong in his interpretation. Member banks have not to any extent been borrowing from the reserve banks because of the margin. This has neven been tolerated to any extent and as you know, the objections to it have become more acute in the past few months. I think that quite contrary to his statement, it would be fair to say that no central bank has ever had a discount rate at any time above? below the rate charged to commercial and industrial customers. This is probably an overstatement but it is substantially correct when the corresponding classes of borrowers are taken into consideration. The Bank of England charges more on bills than the rate that the bills carry, but the discount rate of the Bank of England is always considerably below the rate charged by the joint stock banks to their commercial borrowers.

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April 16, 1929

Dear Mr. Creech:

I thank you for sending me an advance copy of the Cleveland Trust Company Bulletin for April 15. I always read it with great pleasure, and was particularly glad to have this copy earlier.

Colonel Ayres certainly is a past master of expressing complicated ideas in words of one syllable and thoughts of two dimensions suitable for charting. His simplification of the quantity theory of money in the present bulletin is a masterpiece. Nevertheless, it still leaves the question open in my mind whether the volume of money (times its velocity) is the reason of the high prices of stocks, or whether it might not be to some extent the result. I should be inclined to look for the causes of the present stock market inflation in the seven fat years since 1922 with their exceptional prosperity and easy money, induced chiefly by gold imports, which were not in any way sterilized by the Federal reserve system. The greater velocity of bank deposits, which appears as the villain in the piece in Colonel Ayres' story, would seem to me to be an incidental effect of the fact that high money rates attracted nonbanking money into the market with the consequent decrease of deposits and a greater turnover of the remainder. I agree with him that the growth of investment trusts has been a factor in the situation.

Sincerely yours,

E. A. Goldenweiser
Director of Research and Statistics

Mr. Harris Creech
President, Cleveland Trust Company
Cleveland, Ohio

Sec Bd

(COPY)

FEDERAL RESERVE BANK
OF NEW YORK

April 17, 1929

P49

Confidential

My dear Mr. Platt:

In my letter of April 9, addressed to Governor Young, I discussed in a general way some of the conditions which have led the directors of this bank to seek an increase in our discount rate for a number of weeks past.

When I reported to you on the telephone last Thursday that our directors had renewed their action with respect to the discount rate, I mentioned that they had done so in view of the factors outlined in this letter of April 9, and that they had also given further consideration to the importance from an international standpoint of an early conclusion to the present strain on our own credit position.

I am writing this letter to confirm some of the matters which I mentioned over the telephone on Thursday.

In the past seven years, that is since the end of 1921, the United States has had a net export balance of merchandise to the rest of the world amounding to about $4,850,000,000 and to Europe alone about $8,000,000,000. In the year 1927 net exports of merchandise to Europe amounted to $1,046,000,000 and in 1928 to $1,126,000,000.

In face of the magnitude of these figures we must necessarily give consideration to the effect upon our trade and commerce of a continuation of our present credit situation. With the floatation of foreign securities in this market practically stopped the payment for merchandise purchased from this country, together with the movement of foreign funds to New York for employment in the call money market, has already caused such pressure on the foreign exchanges as to result in a considerable depletion of the gold and foreign exchange reserves of European central banks. As the usual autumn purchases of cotton and grain would tend still further to depress the exchanges a continuation of present credit conditions until that time may possibly result in a serious curtailment of Europe's purchasing power for our goods this fall unless it becomes possible shortly to relieve the pressure upon these reserves and to open our market to foreign loans. Quite apart from our own selfish interest in maintaining a European market for our exportable surplus is the broader problem of the gold standard which may be hazarded by too long a drag on foreign bank reserves caused by high money rates in this country.

World trade means, generally speaking, what the name implies, an exchange of goods and services between countries. The balance of payments due on trade between different countries may be settled by the shipment of gold or by short credits or long term loans. The easy money policy of 1927 no doubt greatly facilitated the purchase of our crops and other products during 1927 and 1928. It is possibly true that during 1927 and the early part of 1928 we loaned too much or too rapidly to Europe.

At least there may be some grounds for a difference of opinion on this point. It is apparent, however, that at the present time our money market is virtually closed to foreign borrowers. Having become a great creditor country, having opened our market to borrowers all over the world, we enjoyed for a while, at least, the prestige of being the world's principal money center and by our loans and credits greatly aided in the stabilization of both monetary and economic conditions abroad.

Suddenly, as a result of the developments in 1928, we find interest rates advancing rapidly to levels which not only have seriously checked foreign borrowings here but have also sucked funds to this market from all over the world.

Since last July, nine principal European banks of issue, exclusive of the Reichsbank, lost approximately $430,000,000 in gold and foreign exchange. The Reichsbank's position is difficult to estimate for the reason that foreign exchange not serving as legal cover is included in other items where it is unidentifiable. While it is probable that the Reichsbank showed a gain in both gold and exchange during the latter part of 1928, there is little doubt that since the first of this year their loss in gold and exchange, considered together, has well exceeded $100,000,000.

Thus we see that largely as a result of high rates of interest in America foreign bank reserves have rapidly diminished, many of the principal exchanges are now at the gold import point, and rates of discount abroad have been advanced not because of any inflation in credit abroad but rather because of a need to protect their basic reserves against the absorption of credit in this market. A continuance of this pressure upon the foreign exchanges will no doubt result in further losses of foreign balances now held by these various banks of issue and in further shipments of gold to this country. How long they can stand this pressure it is of course impossible to forecast. One thing seems probable and that is that a continuance of the present strain over any protracted period, at a time when our bond markets are virtually closed to foreign borrowers, might seriously affect our export trade because of impaired purchasing power abroad, prejudice the gold standard and undo much that has been accomplished in rehabilitating monetary and economic conditions throughout the world.

These conditions seem to emphasize the need of speed in adjusting our position as quickly as possible in order that we may lend our efforts towards easier money for business both at home and abroad as soon as it is reasonably safe to do so.

It has been said that higher discount rates in this country would only aggravate the strain upon European reserves by raising still further the general level of interest rates in this country. While that might appear superficially to be true, nevertheless, we should not lose sight of the fact that at the present time the call money rate is the internationally effective rate and the governing rate so far as the international movement of funds is concerned. The discrepancy between prevailing call money rates and the rediscount rate is now so great that an advance in the rediscount rate might not necessarily make a substantial or comparable increase in call rates. But even if it should, the important consideration from every standpoint is that higher discount rates would, we believe, serve to hasten the return of more normal rates, which is what is desired both at home and abroad. The element of time has now become the essence of the situation.

It is with all of these factors in mind that our directors have felt that it is so important to make our rate effective by bringing it more nearly in line with outside rates, most of which, as pointed out in my letter of April 9, are well above our rate.

This subject has so many different and complicated aspects that it is difficult to cover it in the scope of a letter but as you suggested, when we discussed it on the telephone, that you would like to have me write to you, I am glad to send you this resume for further consideration in relation to our rate problems.

Very truly yours,

(s) George L. Harrison, Governor

Honorable Edmund Platt,
Vice Governor, Federal Reserve Board,
Washington, D. C.

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C O P Y

FEDERAL RESERVE BANK OF PHILADELPHIA

April 24th, 1929.

P.50

Federal Reserve Board,
Washington, D. C.

Dear Sirs:-

Your letter dated April 16, 1929, addressed to our Mr. Austin, was read to the Board of Directors of this bank at its meeting on April 17th. In that communication the view of the Board is expressed:

#1. The Philadelphia bank has not accomplished results in connection with the suggestion of the Board contained in its letter of February 2nd, comparable to those shown by most of the other Federal Reserve Banks.

#2. The Board makes the request that the Directors of the Philadelphia bank consider the matter and advise the Board as to the reasons for the apparent failure to obtain a reasonable cooperation from our member banks.

#3. The Board wishes to know if the Directors of the Philadelphia bank feel that there are good and sufficient reasons for the present condition in this district, as reflected in the statement of the Philadelphia bank.

#4. Are the Directors of the opinion every reasonable and practical method has been employed and exhausted by our bank to protect its credit facilities against diversion into channels not contemplated by the Federal Reserve Act?

While the Directors of the Philadelphia bank are in harmony with the principles set forth in the Board's letter of February 2nd, and are equally deeply concerned, individually and collectively, in the prevention of that which the Board has termed "seepage" of Federal Reserve credit into channels not contemplated by the Act, the Bank has been brought face to face with some practical difficulties that would be hard to overcome without the use of such methods as might cause serious ruptures.

In answering -

#1. It is true the reserves of this Bank are the lowest at this time of any of the districts and that its borrowings are high. This has been brought about by several reasons:

a. There has been the increased seasonal demand for productive purposes.

b. With call money bringing from 8 to 15 per cent in New York, it is practically impossible to attract funds to this Federal Reserve District where our legal rate is 6 per cent and, in addition, a large amount of money usually loaned in this District by banks, individuals, and corporations located in this District has been withdrawn and sent to the New York market. This, combined with a shrinkage in deposits occasioned by high money rates, has compelled some of our leading banks to lean quite heavily on this bank to take care of their legitimate business.

c. Our member banks and trust companies have had to take care of considerable re-financing, much of it essentially of a commercial nature, illustrative of the transition in the character of corporate financing that is occurring at this time.

In answering -

#2. The Directors of the Philadelphia bank had sought the cooperation of our member banks even before the issuance of the Board's letter of February 2nd, and have continuously done so as they believe it to be a sound, fundamental policy. The Directors also feel that through their offices we have received a reasonable amount of cooperation. Not satisfying in the light of our reserve and the amount of borrowing today, but measured from the standpoint of the difficulties the district has been laboring under, as set forth above, we feel the cooperation has been commendable and has prevented a worse situation. In considering this point, there has been an unwillingness on the part of member banks and trust companies to liquidate at a loss their holdings of government securities. In many cases these holdings were accumulated as a secondary reserve and are being so used at this time in borrowing from this bank. Many banks in this district are carrying large amounts of Treasury obligations, which were put out last summer at such rates of interest that they cannot now be sold except at a discount of 3% or over. In the case of some banks, such sales could not be made without materially reducing surplus. As our banks have always been liberal subscribers to these issues, in good times and bad, we feel that it would be an undue hardship to enforce immediate sale at such a sacrifice.

In answering -

#3. It is unnecessary for us to repeat, for what we have said in answering #1 and #2 covers this.

In answering -

#4. We wish to say that we will enumerate that which we have done:

a. Established the principle of cooperation with the member banks. This effort has been carried out by personal inter-

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views by both the Governor and Deputy Governor with member banks wherever the situation seemed to require it.

b. After the receipt of your letter of February 2nd, the Directors instructed the officers to issue a letter to all member banks. A copy of this letter, which was submitted to and approved by Governor Young before issuance, is enclosed.

c. As you know, the question of raising the rediscount rate has been freely discussed.

The only other instrument we know of is to deny discount privileges to member banks when they are using these privileges and, at the same time, making or maintaining call loans to brokers. It would be very difficult, if not impossible, to make the distinction between legitimate collateral loans and so-called "call" loans to brokers for speculative purposes. Moreover, the exercise of such a function may well be fraught with such serious results that it is not to be contemplated, unless the situation warranted a uniform practice throughout the entire system, and exercised only by some well defined rule of reason.

This Board would respectfully add that in its opinion, the officers of this bank have enforced the policy above mentioned as rigidly as in the judgment of the Directors is at this time advisable.

Very respectfully,

(s) Harry L. Cannon
Acting Chairman of the Board.

FEDERAL RESERVE BANK OF PHILADELPHIA

ANALYSIS OF LETTER OF APRIL 24, 1929.

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States views expressed by Federal Reserve Board.

Our directors are in harmony with these views. Board has met particular difficulty hard to overcome without the use of such methods as might cause serious ruptures.

Explains decline in reserve percentage caused by increased seasonal demand for productive purposes.

Money usually loaned in this district by banks, individuals and corporations located in this district has been withdrawn and sent to the New York market.

The above combined with a shrinkage in deposits caused by high money rates has compelled some of our leading banks to lean heavily on this bank to care for their legitimate business.

Our member banks and trust companies have had to take care of a considerable refinancing, much of it of a commercial nature, and we sought cooperation of our member banks before the Board's letter of February 2d, and have continuously done so believing it to be a sound fundamental policy.

We have received a reasonable amount of cooperation. Considering the difficulties in the district, the cooperation has been commendable and has prevented a worse situation.

The member banks and trust companies have been unwilling to liquidate at a loss their holdings of government securities, which were cumulative in many cases as a secondary reserve, and are so used at this time in borrowing at this bank.

Many banks in the district are carrying large amounts of Treasury obligations put out last summer at such rates that they can not now be sold at a discount of 3 percent or more.

In case of some banks such sales could not be made without materially reducing surplus.

As our banks have always been liberal subscribers to these issues, in good times and bad, we feel it would be an undue hardship to enforce an immediate sale at such a sacrifice.

Enumerates as to what has been done.

(a) Our cooperation with member banks by personal interviews whenever necessary.

(b) Have instructed our officers after receipt of your letter of February 2d to issue a letter to all member banks. This was approved before issuance by Governor Young.

(c) The question of raising the rediscount rate has been freely discussed.

(d) The only other instruction would be to deny discount privileges to member banks using these privileges and at the same time making or maintaining call loans to brokers.

Very difficult, if not impossible, to make the distinction between legitimate collateral loans and brokers loans for speculative purposes, and exercise of such a function may well be fraught with such serious results that it is not to be contemplated, unless the situation warranted a uniform practice throughout the entire system

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and exercised only by some well defined rule of reason. In the opinion of our Board of Officers of this bank having forced the policy above mentioned as rigidly as in the judgment of the directors is at this time advisable.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date April 26, 1929

To Mr. Hamlin

Subject: Resources of each F. R. Bank as of April 24, 1929.

From Mr. Smead

2—8495 GPO

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In accordance with your telephone request I am giving below certain figures relating to the resources of Federal reserve banks.

Resources

Boston	$379,452,000	Chicago	$787,323,000
New York	1,515,846,000	St. Louis	188,887,000
Philadelphia	370,907,000	Minneapolis	140,046,000
Cleveland	499,295,000	Kansas City	204,113,000
Richmond	202,983,000	Dallas	152,608,000
Atlanta	237,813,000	San Francisco	401,392,000
		Total	5,080,665,000

Resources of Boston, New York, Philadelphia, and Cleveland,	$2,765,500,000
Percentage of total for twelve banks	54.4
Resources of Boston, New York, Philadelphia, Cleveland and San Francisco	3,166,892,000
Percentage of total for twelve banks	62.3
Resources of Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas	1,913,773,000
Percentage of total for twelve banks	37.7
Resources of Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco	2,315,165,000
Percentage of total for twelve banks	45.6

Res. Bost. N.Y. Phil., Clev., San F. 3454.7
% of total 12 FRBanks 68%

Res. Clev., Rich., Atl., St Louis
Minn., Kan. C., Dallas 1625.4
% of total FRBanks 33%

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FEDERAL RESERVE CREDIT

1. The question before us is whether there is an over-expansion of member bank loans and for investments and to what extent, if any, is Federal reserve credit responsible therefor.

I would define over-expansion as follows:

> An increase of bank credit which produces purchasing power in excess of the amount of commodities and services available, resulting in competitive bidding for a limited supply, causing increase of prices either of commodities, real estate, or securities.

Applying this definition to the existing situation it would appear that the growth of member bank credit in 1928 has not been exceptionally rapid. The increase was only 4 percent as compared with an increase of 8 percent in 1927.

If therefore there is over-expansion or inflation in member bank credit it must have been generated during the period of 1922 to 1927 and not in 1928 or 1929.

Taking the period January 1, 1922, to January 1, 1929, we find that security loans and investments have increased $7,671,000,000 or 52 percent, while commercial loans have increased only $1,338,000,000 or 17 percent.

In 1922 security loans and investments constituted 49 percent of the total, while in 1929 they had increased to 61 percent of the total.

On the other hand, commercial loans in 1922 constituted 51 percent of the total, while in 1929 these had dwindled to 39 percent.

Since 1922 security loans and investments have increased over five times as much as commercial loans.

It would seem clear from the above that there has been an over-expansion or inflation of member bank security loans and investments.

This over extension has been made possible by increases in member bank reserve deposits. Among the possible causes of these increases are Federal reserve credit, withdrawal of money from circulation, gold imports, and Treasury credits. There is also another cause, namely, a change from demand to time deposits brought about without the necessity of increased reserves.

2.) The question next arises how far has Federal reserve credit contributed to this over-expansion or inflation.

The figures show that from 1922 to 1927 Federal reserve credit has changed but little and that the over-expansion of member bank credit must have been based on some or all of the other causes above enumerated.

The figures show that Federal reserve credit had increased on April 1, 1929, over the average for the years 1922 to 1927 by about \$300,000,000. This increase however is fully explained by discounts procured to offset the exportation of gold.

While the total volume of M credit had increased the total amount of member bank credit did not increase but remained practically stationary so far at least as regards the increase in Federal reserve credit.

The figures also show that the member banks during 1927 and 1928 discounted to the extent of about \$600,000,000 to offset gold exports and also sales of securities by the Federal Reserve System. This however was not inflationary. Had the banks not rediscounted, other things being equal, they would have had to ~~deplete~~ deflate their loans by 15 times this \$600,000,000, that is, by 9.6 billions of dollars. When it is remembered that during the deflation period of 1920 there ~~is~~ was a deflation of only $2\frac{1}{2}$ billions in member bank loans some realization can be had of the effect of the deflation of over 9 billions of dollars.

It would ~~then~~ thus appear that Federal reserve credit, speaking generally, during the period 1922 to 1929 has been used rather to check deflation than to encourage inflation.

3) The fact remains however that the credit structure is now resting in material part on Federal reserve credit where formerly it rested on gold obtained through imports, withdrawals of money from circulation, etc. It appears that at the present time, after meeting the demands for money in circulation out of their own resources, the contribution to the member banks reserve from Federal reserve credit was 57 percent for the period 1922 to 1927 and 64 percent for 1928 and 1929. From every point of view it would seem desirable and necessary to reduce greatly this percentage.

4) The Board's warning was intended to bring about cooperation of member banks, to check further extension of speculative loans and to bring about a gradual liquidation thereof without an increase in the discount rate.

It is not possible to measure the direct effect of this warning for the reason that other causes, e.g., gold imports, withdrawal of money from circulation, Treasury credits, etc., have also been at work, all tending to produce a liquidation in Federal reserve credit.

5) It is sufficient to point out that, from whatever cause, there has been a reasonable liquidation of Federal reserve credit going

on since the beginning of the year 1919. Taking the dates January 1 and April 1 the average liquidation by years has been as follows:

1922 to 1927	70 millions
1928	17 millions increase
1929	238 millions

After allowing for changes in the gold stock the average liquidation was

1922 to 1927	31 millions
1928	73 millions
1929	137 millions

The actual liquidation in Federal reserve credit between the dates January 1 and April 1, 1929, was 519 millions. This was brought about substantially by increases in gold stock,- 72 millions,- and falling off in demand for currency,- 395 millions,- and a decline ~~in~~ of 56 millions in member bank reserves.

The liquidation of Federal reserve credit for the System for the year 1929, taking averages, is well shown in the following table, and a similar table shows the liquidation for the Federal Reserve Bank of New York.

(Monthly averages of daily figures: millions of dollars)

	Total reserve bank credit	Total bills & securities	Discounts	Acceptances	Reserve ratio
System					
January	1,613	1,570	859	473	66.8
February	1,502	1,468	889	385	69.4
March	1,481	1,442	969	265	70.3
April 1 to 19	1,375	1,348	1,008	160	72.4
F. R. Bank of N. Y.					
January	448	430	246	131	70.4
February	342	329	216	91	78.6
March	345	327	231	55	79.0
April 1 to 19	328	308	258	22	80.0

6) From the above it would seem reasonably clear that the proportion of Federal reserve credit ~~of~~ in member bank reserve balances should not be increased but on the contrary should be reduced and it would seem to me that this change is being accomplished ~~in~~ under the 5 percent discount rate by so-called direct action and the other causes above enumerated which have been at work, and that there is no present necessity for rate increase to accelerate this change.

7/ The principal reasons advanced by the Federal Reserve Bank of New York for an increase in the discount rate ~~was (1)~~ were (a) to put the Federal reserve rate in line with other rates.

a) To my mind, if we accepted this necessity, there would be no reason for an increase higher than 5½ percent, whereas the New York Bank requests 6 percent as preliminary to a further advance.

A Federal reserve rate is said to be out of line where there is an excessive spread between that rate and the open market rate on commercial paper and acceptances.

Today the open market rate on commercial paper is about 6 percent and an increase to 5½ percent would make the spread about one-half of one percent which experience has shown is the normal spread in recent years.

The obvious answer to the claim that Federal reserve rates are out of line with the acceptance open market rates is that it has been put out of line with such rates deliberately ~~only~~ in order to carry out the restrictive credit policies of the Federal Reserve System. In other words, if we were to consent to an advance of 6 percent, under our restrictive credit policy we should have to increase our buying rates for bills by an equal amount and there would be the same dispar~~age~~ity that exists today.

b) ~~Other~~ another reason~~s~~ given for ~~the~~ increase at New York are is that present market rates generally are above Federal reserve rates thus ~~not~~ interferring with building construction, requiring postponement of business undertakings because of the difficulty in financing new enterprises, ~~reduced~~ reducing borrowing in the United States by foreigners thus lowering their purchasing power and affecting our exports and ~~the train~~ causing a blow of foreign gold which is rapidly coming into the United States.

The above reasons ordinarily would serve as powerful reasons for lowering/re-discount rates rather than increasing them and these various reasons were advanced in the summer of 1927 for a reduction of rates at which time rates were reduced from 4 to $3\frac{1}{2}$ percent.

What is the explanation of this apparent anomally that an increase of discount rates is now asked for for the same reasons that a decrease was asked for in 1927.

The real reason is that although in form the New York Bank asks for an increase in discount rates what it really desires is a decrease in call loan rates which are responsible for the general increase in rates in this country, and believes that an increase in discount rates will bring about a decrease in the call loan rates.

To my mind however, a simple increase in discount rates to 6 percent would, other things being equal, tend to build a firm foundation for holding up call loan rates rather than reducing, them.

8) The issue before the Board raised by the Federal Reserve Bank of N.Y. is not however a change in discount rates from 5 to 6 percent but a

~~but~~ a change from the 5 percent rate to ~~a formative~~ an affirmative rate policy beginning at 6 percent and going up to any point necessary to correct the speculative situation in New York. I quote from the letter of Governor Harrison sent to the Board dated April 9, 1919.

> "A rate increase would have the further result of giving definite public notice to the country that the Reserve System is ready to supplement and support all its other efforts by an affirmative rate policy. Public realization that the discount rate would be employed incisively and repeatedly, if necessary, would greatly strengthen the effectiveness of the System's policy and in itself hasten the time when the System might lend its influence towards easier money conditions."

The above brings out clearly the real issue, that is, whether we shall continue under a 5 percent rate using direct pressure ~~but~~ to restrict speculative loans, or whether we shall adopt a new policy beginning with an advance to 6 percent and further advances to any height necessary to correct the speculative situation.

I believe that bringing about drastic liquidation in the stock market is not one of the duties of the Federal Reserve Board; that it should confine itself to bringing about reasonable liquidation in Federal reserve credit, and I further believe that such liquidation is now proceeding in an orderly manner without any necessity for drastic, spectacular rate increases.

The Federal Reserve Bank agrees that were it not for speculative conditions in the New York stock market agriculture and business today would be entitled to a rate of not more than $4\frac{1}{2}$ percent. The New York directors believe however that the quickest way to achieve this is by quick increases in rates necessary to liquidate the stock market and then by reversal to come down to a $4\frac{1}{2}$ percent rate.

In this connection it should be remembered that 7 out of the 12 F.R. banks, comprising 1/3 of the System resources, have advanced their rates, there is no real reason to force other districts necessarily to an increase in F.R. rates

I do not believe that this process could be accomplished, even if we were ready to adopt, it as quickly as the New York directors seem to believe, unless indeed the drastic rate increases were to create a panicy condition which might injure business almost as much as existing speculation.

I believe on the contrary that if we were to increase rates we shall be entering upon a new era of high money rates from which we can not hope to recover quickly, and that the consequent injury to business will be far greater than ~~an~~ the injury we all admit it is now suffering but from which we believe it ~~is~~ will gradually ~~being~~ be relieved, under the present policy of the F.R. Board.

An increase in discount rates even to 6 percent would mean that the above 7 F.R. banks must also increase their rates and that customers rates in all ~~states~~ cities at least would be at once increased to the great damage of the small business man now being crowded to the wall by the competition of what we will call "big business". I freely admit that big business is not interested much in the rate question for many of these larger concerns borrow but little from banks and many are actually lending surplus funds in the call loan market. An increase in rates however would be very disadvantageous to the small manufacturer, stock raiser, merchant, and many farmers.

The New York directors claim that customers rates could not be increased very much because of the State usury laws but under the practice system of requiring compensatory balances I am unable to see how these usury laws would prevent the member banks from charging customers any rate they saw fit to impose.

The policy of drastic increases in rates in order to bring about liquidation in the stock market, even if the Board should favor such action, could only be accomplished directly by drastic increases in the rates charged agriculture and commerce.

As a member of the Board I feel that the Board should confine itself to preventing the diversion of credit into channels other than those of agr., ind. & com. leaving the stock market out of consideration.

P53

I am unwilling, at least while the present liquidation is going on satisfactorily under the 5 percent rate, to use agriculture and business as a ~~cloak~~ club with which to strike speculation on the New York stock exchange.

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F DERAL RESERVE BAN

Of Atlanta.

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Office of
Chairman of the Board.
Federal Reserve Agent.

May 7, 1929.

The Federal Reserve Board,
Washington, D.C.

Attention: Mr. E. M. McClelland,
Assistant Secretary.

Gentlemen:

Your letter of May 2nd in which you review banking developments (as disclosed in the statements of condition of 592 weekly reporting banks) since February 6th, received and carefully noted and will be brought to the attention of our Directors at their meeting on May 10th, and I am sure that most careful attention will be given the suggestions in your letter.

In your letter you state that there has been an improvement in the aggregate situation, but that a detailed analysis does not appear to show that the improvement in the aggregate situation has been realized in this district.

The figures in your letter are taken from your statements for the press, St. 6172. In studying your letter I have compiled certain figures from the same statements to which I respectfully call your attention. The figures compiled by me which I enclose herewith show the following situation.

First: The ratio of loans on securities by reporting banks in this District to total loans by the same banks on February 6th and April 24th shows a lower percentage than the same ratio of any other Federal reserve bank.

Second: The percentage of decrease of loans on securities by reporting member banks in this District in the period February 6th to April 24th is only three-tenths of one per cent less than for the System as a whole.

Under present conditions, and conditions that have existed for more than a year in this District, I feel that our bank has made a fairly creditable showing, in view of the fact that the ratio of security loans to total loans of reporting member banks in this District was, and is now, lower than that of any other district.

I am not attempting to justify the full situation in our district. This situation has received my very earnest attention and my efforts have been used jointly in the earnest efforts of the other officers of this bank. We have given careful attention to the uses of Federal Reserve credit in this district and particularly to any use of such credit by member banks who were borrowing from us and who at the same time had loans to brokers or dealers in New York or elsewhere outside of this district. I feel that our efforts in this respect have been rewarded by the situation in our district relative to such loans.

In the condition report of March 27th, 1929, there were only six banks which were borrowing from us and had loans to brokers and dealers in New York (see memorandum attached). While this was a pleasing situation, even so small a sum so used was not satisfactory to us and on April 30th Mr. Black wrote to these banks. I beg to hand you herewith copies of these letters to these banks and copies of four replies received. This correspondence is sent you in order to show the reasons given us by these four banks as to why they had any money loaned to brokers or dealers in New York.

Mr. Black did not write to the Atlanta & Lowry National Bank, which reported a small loan of $45,000 to brokers and dealers in New York, but saw the Vice President of that bank who stated to him that that loan was for a cusromer of that bank and that the bank itself did not have a penny of its own money loaned to brokers or dealers in New York. My further information relative to this $45,000 item is that it was money loaned for the Berry School of Rome, Georgia, and that the amount has now been reduced to $5,000. Mr. Black has not yet heard from the Algiers Trust and Savings Bank of New Orleans.

Very truly yours,

(Signed) Oscar Newton
Chairman.

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Enclosures.

Ratio of Security Loans to Total Loans on February 6 and April 24, 1929, of reporting member banks in 101 leading cities of the United States, and percentage of increase or decrease in security loans from February 6, to April 24, 1929, reported by Federal Reserve Districts.

(Figures in millions of dollars)

District	February 6, 1929 Loans on Securities	February 6, 1929 Total Loans	Ratio	April 24, 1929 Loans on Securities	April 24, 1929 Total Loans	Ratio	Increase or decrease in security loans between Feb. 6 and April 24, 1929.
Boston	467	1,126	41.5	469	1 114	42.1	+ 0.4
New York	3 289	6 226	52.8	3 139	6 347	49.5	- 4.6
Philadelphia	510	897	56.9	519	937	55.4	+ 1.8
Cleveland	712	1 506	47.3	702	1 521	46.2	- 1.4
Richmond	202	519	38.9	191	518	36.9	- 5.4
Atlanta	153	506	30.2	149	513	29.0	- 2.6
Chicago	1 188	2 569	46.2	1 201	2 572	46.7	+ 1.1
St. Louis	258	542	47.6	232	521	44.5	- 10.1
Minneapolis	84	255	32.9	81	250	32.4	- 3.6
Kansas City	151	449	33.6	140	444	31.5	- 7.3
Dallas	128	368	34.8	102	350	29.1	- 20.3
San Francisco	412	1 293	31.9	412	1 300	31.7	- same
Total United States	7 555	16 255	46.5	7 335	16 388	44.8	- 2.9

MEMBER BANKS WITH OBLIGATIONS TO THE FEDERAL RESERVE BANK OF ATLANTA AND OTHER BANKS, HAVING LOANS TO BROKERS AND DEALERS IN SECURITIES IN NEW YORK CITY - AS SHOWN BY REPORTS OF CONDITION AS OF MARCH 27, 1929.

Name of Bank - Location		B/P & Redscts with F.R.Bank of Atlanta.	B/P & Redscts with other banks.	Loans to N.Y.Brokers and Dealers.
Atlanta & Lowry Nat.Bank,	Atlanta,Ga.	$ 3,675,000	$	$ 45,000
Winder National Bank,	Winder, Ga.	29,000		30,000
Algiers Tr.& Sav.Bank,	New Orleans,La.	245,948		200,000
Hibernia Bk.& Tr.Co.	" " "	2,224,500	3,500,000	1,224,299.75
Interstate Tr.& Bkg. Co."	" "	208,300		1,600,000
Britton & Koontz Nat.Bk.,	Natchez,Miss.	97,413.47		59,460.25
	TOTALS	$6,480,161.47	$3,500,000.00	$2,158,760.00

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May 4, 1929.

Mr. J. H. Williams, Vice President,
Winder National Bank,
Winder, Georgia.

Dear Mr. Williams:

I have your letter of May 2nd explaining that your bank has no funds loaned to brokers and dealers in New York and that the fund which appears to be loaned by your bank is loaned to the City of Winder.

With my regards, I am

Yours very truly

Governor.

COPY

WINDER NATIONAL BANK

Winder, Ga. May 2, 1929.

Mr. E. R. Black, Governor,
Federal Reserve Bank,
Atlanta, Georgia.

Dear Mr. Black:

Your letter of April 30th, referring to the funds we have on call, addressed to our Mr. Maynard, President of this institution, has been handed the writer for reply.

In July of last year the City of Winder set up $50,000 to be used in erecting two school buildings. There was some delay in letting the contract and the City Council decided it would be to their interest to place the funds on interest, and requested us to assist them in that connection. We placed the funds through our New York correspondent, and they have been reduced from time to time as needed to pay on the buildings, and now stand at $20,000, which amount is expected to be retired in the next thirty days.

We do not consider this special deposit as our funds, but have only handled them to assist the City in earning something while they were not needed. If they had been deposited in the regular course of business we would not have placed them on call.

This institution only borrows funds from the Federal Reserve to meet decline in deposits and to care for the needs of the farmers, merchants and manufacturers in our trade section, and the funds we are now using obtained from rediscounts are covered by loans for this purpose.

Yours very truly,

J. H. Williams,

Vice President and Cashier.

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P
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May 4, 1929.

Mr. R. S. Hecht, President,
Hibernia Bank and Trust Company,
New Orleans, Louisiana.

Dear Mr. Hecht:

I appreciate very greatly your letter of May 2nd in reply to mine of April 30th.

I note that the item which you appear to have loaned to brokers and dealers in New York is loaned to Curtis and Sanger covering a new Orleans transaction.

I take this opportunity to assure you that I knew in advance that I had your co-operation in reference to the special policy about which I wrote you, just as I have had your co-operation in all matters of interest to the Federal Reserve Bank.

With my warm personal regards, I am

Sincerely yours,

B-C

Governor.

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HIRBERNIA BANK AND TRUST COMPANY

New Orleans, La. May 2, 1929.

Hon. E. R. Black, Governor,
Federal Reserve Bank,
Atlanta, Georgia.

Dear Mr. Black:

Your letter of April 30th is accepted by us in the same friendly spirit in which we feel sure it was written.

If the item of which you speak really represented what it seems to be on the surface your comments would be more than justified. However, the facts are that this $224,000 is not a loan made to a New York brokerage house on a call money basis, or for any speculative purposes whatever. It is a loan to the firm of Curtis & Sanger, who maintain a very substantial account with us and who have borrowed this money from us, not on New York securities, but on some strictly New Orleans transaction in which they happen to be interested at this time.

The rate which we are charging them is 7%, so that you may readily see how far removed the loan is from an ordinary New York loan made on call.

You may rest assured that you will continue to have our full cooperation in trying to carry out the policies mentioned in your previous letter, but we feel equally sure that you recognize that we cannot refuse to make a legitimate bank loan to a customer, even though the head office of such customer may be in Boston or New York.

With kindest personal regards, I am

Cordially yours,

R. S. Hecht,
President.

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May 3, 1929.

Mr. Lynn H. Dinkins, President,
Interstate Trust and Banking Company,
New Orleans, Louisiana.

Dear Mr. Dinkins:

I have your valued favor of May 1st in reply to my letter to you of April 30th.

My information as to your rediscounting during the past and at present leads me to know that such rediscounting is on a most conservative basis. Itis unnecessary to say that we have taken pleasure in handling your rediscounts for you.

I especially appreciate that part of your letter in which you assure me of your desire to cooperate with me in the respect urged in my letter of the 30th.

With my regards, I am

Sincerely yours,

B-C Governor.

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INTERSTATE TRUST AND BANKING COMPANY

New Orleans, May 1, 1929.

Hon. E. R. Black, Governor,
Federal Reserve Bank,
Atlanta, Ga.

Dear Governor Black:

I have carefully noted your lines of the 30th ultimo, and beg leave to request that you make an examination of your records in order to ascertain our position in the matter of rediscounting during the past ten (10) years. In my opinion this examination will disclose that we do not abuse our rediscounting privileges.

At the moment we have on deposit some public funds which are likely to be withdrawn in substantial amounts without notice.

We now owe the Federal Reserve Bank less than $100,000, which amount, when compared with the position of our neighbors, would appear to be reasonably conservative.

I cordially appreciate the kindly tone of your communication and wish to assure you of our desire to cooperate with the agencies you mention for the purposes you name.

With regards and best wishes,

Yours very truly

Lynn H. Dinkins,

President.

May 4, 1929.

Mr. M. R. Beltzhoover, President,
Britton and Koontz National Bank,
Natchez, Miss.

Dear Mr. Beltzhoover:

I thank you for your letter of May 2nd in reply to my letter of April 30th.

I note the confusion about your situation arises from the condition report sent in by your bank. I am delighted to find there was a mistake.

With my regards and appreciation of your cooperation at all times, I am

Very sincerely yours,

Governor.

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Natchez, Miss. May 2, 1929.

Mr. E. R. Black, Governor,
Federal Reserve Bank,
Atlanta, Georgia.

Dear Mr. Black;

Referring to your favor of April 30th I was surprised to note that our report showed that we loaned brokers and dealers in New York $59,460.25, and in checking up the report find that our Cashier filled in Schedule E 5 "Loans secured by U. S. Government and other securities".

(a) To brokers and dealers in securities in New York City	$59,460.25
(b) To brokers and dealers outside N Y City	40,539.75
(c) To others	8,000.00

At that time nor at any other time were we carryingloans for brokers or dealers in New York and the figures given under item (a) represented loans to local customers secured by bonds or stocks listed on the New York Stock Exchange. Item (b) represented loans to local customers secured by municipal bonds and other non-listed securities. Item (c) loans to local customers secured by Liberty Bonds. All of the above are loans to our customers secured by securities, but made for commercial or agricultural purposes and none, so far as we know, for speculative purposes.

The only excuse I can offer why these items were itemized under Schedule E 5 (a) (b) (c) instead of all under (c) as they should have been, is that this statement was made up by our bookkeeper just after the run and closing of the Bank of Commerce and Peoples Savings Bank of this city, and all of our officers were very busy with the liquidation of these banks and we failed to notice the error when approving the statement.

Please be assured that at all times we wish to cooperate with your policies and deeply regret this error in our report.

With kindest regards, I am,

Sincerely yours,
M. R. Beltzhoover, President.

FEDERAL RESERVE BANK OF CHICAGO

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May 7, 1929.

Borrowings. Chic. Mbr.

SUBJECT: Board's letter of May 2, 1929, on the subject of the use of Federal Reserve credit by member banks, etc.

Federal Reserve Board

Washington, D. C.

Gentlemen:

The above mentioned letter has been carefully considered by Governor McDougal, Deputy Governors Blair and McKay, Mr. Childs, our Controller of Credits, Mr. Cation, Manager of our Detroit Branch, and myself.

In this letter, the Board specifically mentions four member banks, commenting on the fact that these banks have all been more or less continuous borrowers and have not effected any substantial liquidation in their loans since February 6.

The Board's letter also contains the following paragraph:

> "The Board desires that it be ascertained from each of the member banks concerned, which has not yet readjusted its position, why it should not bring about the readjustment expected by the Board."

Regarding the four banks specifically named in the Board's letter, I submit the following:

1. CENTRAL TRUST COMPANY, CHICAGO.

For the year 1928, this bank was out of debt each month, except August and December. The high point in its borrowings was $10,000,000, and its average borrowings $2,900,000.

For 1929, it has been a continuous borrower except for one day in February, the high point being $14,400,000. Its borrowings today are $4,600,000, with the general trend downward. It is quite probable that its borrowings may fluctuate both up and down from this amount before it is entirely out of our debt.

Our records show the following contact with the bank in connection with borrowings since the first of the year:

February 23: Governor McDougal wrote regarding Federal Reserve Board's published statement.

February 26: Mr. Dawes, Vice-President, replied: "Are curtailing loans and are endeavoring to liquidate indebtedness with Federal Reserve Bank.

March 19: Governor McDougal interviewed both Mr. Dawes, Vice-President, and Mr. Otis, President, and received assurance that the bank was endeavoring to put on even greater pressure in the effort to reduce borrowings and curtail collateral loans.

Collateral Loans are Reported as Follows:

March 27:	Loans to brokers and dealers in New York	$ 0
	Loans to brokers outside of New York	16,400,000
	Collateral loans to others	46,300,000
May 1:	Loans to brokers and dealers in New York	$
	Loans to brokers outside of New York	14,400,000
	Collateral loans to others	38,800,000

Comparison of the above showings indicate that between March 27 and May 1, loans to brokers outside of New York decreased $2,000,000; collateral loans to others decreased $7,500,000; or a total reduction in collateral loans of $9,500,000, between the dates mentioned, indicating progress in curtailing collateral loans.

It is expected that the bank will be entirely out of our debt in the not distant future.

2. FIRST WISCONSIN NATIONAL BANK, MILWAUKEE, WIS.

For the year 1928, the borrowings of this institution were continuous except for a few days in January and a few days in February. The high point for that year was $16,880,000, with average borrowings about $8,000,000.

For 1929, borrowings have been continuous to date, the high point being $16,900,000, with present borrowings of $7,000,000.

Our contact with this bank in connection with continuous borrowings has been as follows:

Nov. 2, 1928: Mr. McKay called on this bank and interviewed Mr. Kasten, President. Borrowings were occasioned by heavy commercial and collateral loan demand; deposits off; country bank balances low; expect a very substantial reduction in borrowings before the first of the year.

Jan. 30, 1929: Mr. Kasten, President, called at Governor McDougal's request. He expects to be out of debt soon and will do his utmost to avoid continuous borrowings in the future.

Feb. 23, 1929: Governor McDougal wrote regarding the Board's published statement.

Feb. 25, 1929: Reply received from bank promising co-operation.

Mar. 20, 1929: Governor McDougal conferred with Mr. Kasten over the telephone. Mr. Kasten stated, "have been unable to reduce borrowings because of loss of four millions in deposits."

Mar. 21, 1929: Governor McDougal requested Mr. Vogel, our director, to call on the bank urging a reduction of borrowings.

Apl. 23, 1929: Mr. Dreher, Vice-President, called on Mr. McKay and stated that they were endeavoring to reduce collateral loans. Thinks loan demand has reached the peak; continued heavy commercial demand. This call was made at our instance.

Collateral Loans are Reported as Follows:

March 27:	To brokers and dealers in New York	$ 0
	To brokers outside of New York	3,000,000
	Collateral loans to others	32,600,000

May 1:	To brokers and dealers in New York	$ 0
	To brokers outside of New York	1,047,000
	Collateral loans to others	34,000,000

Comparison of the above showings indicate that between March 27 and May 1, total collateral loans have been reduced $1,600,000.

At one of our Executive Committee meetings, Mr. Vogel reported that he had called on this bank in response to Governor McDougal's request and had seen Governor McDougal's correspondence and learned of Governor McDougal's personal talks with officers. Mr. Vogel stated that in his opinion, every reasonable effort had been put forth from this office to accomplish desired results.

Our own opinion is, in regard to this particular institution, that the proceeds of its loans on collateral have not been unduly used for speculative purposes. The officers of the bank report an unusually heavy and continuous demand for legitimate commercial purposes, and that they have in many cases requested and received collateral on already existing loans. But for this procedure, their loans on collateral to others would have shown a considerable decrease.

We are convinced that in this particular case, the institution is endeavoring in good faith to co-operate with us and with the Federal Reserve Board in its effort to avoid the granting of credit to be used for speculative purposes, and to effect reduction of any existing loans, the proceeds of which may have gone into speculation.

3. <u>PEOPLES WAYNE COUNTY BANK, DETROIT, MICH.</u>

For the year 1928, this institution was out of our debt each month except June, July, August, September, and December. Its high point of borrowings was $20,500,000; its average borrowings $6,300,000.

For 1929, borrowings have been continuous, the high point being $18,250,000, with present borrowings $4,000,000. These borrowings at times appear to be high. In this connection, however, it should be borne in mind that the total footings of the bank are $300,000,000 and sometimes larger.

Our contact with the bank in connection with continuous borrowings has been as follows:

1928: Our records show at least four different occasions on which our Detroit Manager was instructed to confer with the institution regarding its borrowings.

Feb. 21, 1929: Mr. McKay advised our Detroit Manager that inasmuch as the institution was already owing us and already held a very large amount of Governments, it was inadvisable to loan them for the purpose of increasing Government bond holdings.

Feb. 23, 1929: Governor McDougal wrote regarding the Federal Reserve Board's published statement.

Feb. 28, 1929: Detroit Manager advised that increase in this bank's borrowings was occasioned by loss of deposits and commercial demand.

Mar. 23, 1929: Mr. McKay advised Detroit Manager in substance as follows: "Are glad to lend this bank for commercial demand, but additional requirements for this purpose should come from liquidation of collateral loans and investments. Local banks should not lean upon this institution continuously for credit when they have secondary reserve of bonds." About the same date Governor McDougal visited Detroit and conferred with President Julius H. Haass.

Collateral Loans are Reported as Follows:

March 27:	To brokers and dealers in New York	$ 0
	To brokers outside of New York	8,500,000
	Collateral loans to others	39,600,000
May 1:	To brokers and dealers in New York	$
	To brokers outside of New York	8,800,000
	Collateral loans to others	38,000,000

Comparison of the above showings indicate that between March 27 and May 1, collateral loans were reduced in total a little over $1,000,000.

The trend of this bank's borrowings at present is downward, and we expect them to be entirely out of our debt in the near future.

Particular attention is called to a letter from our Detroit Manager which is quoted in connection with comments on the First National Bank in Detroit, appearing immediately below.

4. FIRST NATIONAL BANK, DETROIT, MICHIGAN.

For the year 1928, the borrowings of this institution were continuous since early in January; high point $21,450,000; average borrowing $9,500,000.
For 1929, borrowings were continuous except for eleven days in January; high point $18,950,000; present borrowings $11,300,000.

Our contact with this bank in connection with continuous borrowings has been as follows:

1928: Our records indicate nine different occasions on which the institution has been written to or conferred with in regard to its continuous and large borrowings, collateral loans, the call money situation, etc.
Jan. 9, 1929: Detroit Manager advised that bank had liquidated its indebtedness.
Feb. 23, 1929: Governor McDougal wrote regarding Federal Reserve Board's published statement.
Feb. 28, 1929: Bank's reply assuring cooperation.
March 8, 1929: Governor McDougal interviewed Mr. Douglas, President, and received his assurance that borrowings would have the careful consideration of the entire board of directors.
March 25, 1929: Governor McDougal met with the board of our Branch urging liquidation of member banks' borrowings.
April 24, 1929: Governor McDougal again conferred with Mr. Douglas, President.

Collateral Loans are Reported as Follows:

March 27:	To brokers and dealers in New York	$ 0
	To brokers outside of New York	4,300,000.
	Collateral Loans to Others	28,700,000.
May 1:	To brokers and dealers in New York	247,000.
	To brokers outside of New York	3,800,000.
	Collateral loans to others	32,000,000.

Comparison of the above showings indicates an increase in collateral loans between March 27 and May 1 of approximately $3,000,000.

On April 4, the following appears on the records of our Executive Committee:

"Special consideration was given to the member banks who are large and continuous borrowers, the borrowings of the First National Bank of Detroit being given more than ordinary consideration. Mr. Simpson moved that we state to the First National Bank of Detroit that our Executive Committee has been very much disappointed by the increase in their loans, as well as in the continuity of their borrowings; that we insist that their loans be materially reduced to the end that they get out of debt within a reasonable time; that such measures be adopted as may be necessary to accomplish this, and that if a reduction in their borrowings cannot be accomplished without the sale of their bonds, we recommend to the bank's board that they consider the sale of such securities."

There were five members of the Committee present, and Mr. McKay, who represented the Governor. The vote on this expression was unanimous.

This expression was transmitted to the board of our Detroit Branch with the request that they convey the expression to the bank in question.

The following appears in the minutes of our Executive Committee meeting of April 12:

"Upon due consideration, it was moved by Mr. Simpson that the officers and the board of directors of the First National Bank of Detroit be informed that our Committee is not satisfied with the reduction made to date; that means should now be adopted to hasten liquidation, and that in our opinion, the situation justifies the sale of bonds; furthermore, that the bank again be informed that we shall expect it to adopt whatever plans may be necessary to bring about complete liquidation of its indebtedness, and in the future adopt a policy which will enable it to operate within its own resources for a good part of the year, resorting to the use of Federal reserve credit only for seasonal and emergency requirements."

The records show this motion duly seconded and carried, and it was transmitted to the Board of our Detroit Branch with the instruction that it be in turn conveyed to the First National Bank of Detroit.

On May 6, a tentative program was submitted by Governor McDougal to our Detroit Manager for transmittal to the First National Bank of Detroit, calling for liquidation of borrowings by June 1, or before if possible, substantial reduction to be effected each week from now on. Our Detroit Manager had already indicated that the First National Bank expected to reduce its indebtedness to $9,000,000 by the end of the current week.

Permit me at this point to call attention to another phase of this particular situation. I quote from the National Bank Examiner's report as of December 7, 1928, as follows:

"There are, in my opinion, only two matters of importance on which comment can be made. One is the rather considerable amount the bank is borrowing and in that respect the length of time it has been in the borrowing class is the principal feature. The bank has been borrowing money continuously for many months. The necessity to borrow by all of the banks in Detroit is rather unusual, and I went into this examination with the idea that possibly the borrowing was caused by stock market activities on the part of customers or, perhaps, because of a loss in deposits. I found that neither one of these reasons applied. The demand for funds by the bank's customers, and, in fact, throughout the city, has been inordinately heavy, but so far as I am able to determine in this bank, that demand has been a legitimate one, legitimate in the sense that the money was used in established businesses, with only a few exceptions here and there."

I now quote a letter received this morning from the Manager of our Detroit Branch:

"Dear Mr. McDougal:

Confirming out today's telephone conversation, I called on our director, Mr. Julius H. Haass, this morning to discuss with him some of the points that we talked over when I was in Chicago yesterday and particularly the matter of working out a plan of liquidation in connection with the First National Bank, Detroit. I permitted Mr. Haass to read a copy of the Federal Reserve Board's letter of May 2nd, 1929, which was addressed to Mr. Heath and when he saw the name of his bank listed among those criticised as more or less continuous users of Federal Reserve credit, he became greatly incensed and was determined to resign as a member of our board. He stated that he resented such criticism in view of the fact that he is earnestly doing his part to bring about, without injury to the good business of Detroit, an early liquidation of the borrowings of Detroit banks. I called attention to the fact that I was talking to him as a director of the Detroit Branch and not as President of the Peoples Wayne County Bank and wanted to discuss a plan of liquidation for the First National Bank. Mr. Haass stated he was convinced that the First National was doing everything in its power, consistent with the best interests of business and for the good of that institution, and feels that it would be a mistake to demand complete liquidation by the end of this month. He has talked with both Mr. Clark and Mr. Gray very recently and believes that with the effort the bank is putting forth they will be out of our debt within a reasonable length of time.

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"Mr. Haass called my attention to a statement made by Governor Young in San Francisco with respect to the use of savings deposits in the Twelfth Federal Reserve District for the purchase of securities, which had resulted in the reduction of deposits of approximately $100,000,000 during the last 90 days. He felt that a statement such as this might have a very bad effect on the public generally by putting into their minds the withdrawal of savings deposits for such a purpose. Up to the present time, however, this practice has not been resorted to in Detroit.

I shall endeavor to see Mr. Douglas, President of the First National Bank, tomorrow and will write you with respect to my interview with him.

Very truly yours,
(Signed) Wm. R. Cation, Managing Director."

There are, probably, not to exceed twenty-five banks in this district beside those specifically mentioned in the Board's letter, which we have under special observation. We are endeavoring to deal with each case in a manner which the particular circumstances seem to warrant, and I think that the comments on the four banks specifically remarked upon in the Board's letter and in this reply, will indicate in a general way the manner in which we are proceeding.

The Board's letter, to which this is a partial reply, will be presented at the next regular meeting of our Executive Committee.

Very truly yours,

(Signed) W. A. Heath,

Chairman.

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FEDERAL ADVISORY COUNCIL

Office of the President
38 South Dearborn Street

Chicago, May 7, 1929.

Dear Mr. Platt:

I found your letter of April 23 upon my return to the office yesterday. In the resolution adopted by the Federal Advisory Council on February 15, 1929, the Council in its statement "correct the present situation of the money market" undoubtedly meant that it desired the rediscount rates to be such that they would be either equal to or higher than the rates charged by the member banks to their choice customers.

In recommending "that the Federal Reserve Board permit the Federal Reserve banks to raise their rediscount rates immediately and maintain a rate consistent with the cost of commercial credit" the Council desired that the rates be such that it would be impossible for member banks to borrow from Federal Reserve banks and lend out such borrowed sums at a profit. The Council also feels that it is highly desirable to avoid the inconsistancy which existed a year ago between open market operations and the prevailing rate on acceptances, and in a reverse way is equally bad now.

I trust that this will answer your inquiry and make plain the views of the Council.

Very truly yours,

(signed) F. O. Wetmore

President.

Mr. Edmund Platt, Vice Governor
Federal Reserve Board,
Washington, D. C.

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FEDERAL RESERVE BANK OF ST. LOUIS

May 8, 1929.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I beg to acknowledge receipt of your letter of May 2nd relative to the use of Federal Reserve credit by member banks having loans to brokers and dealers in New York and brokers and dealers outside of New York.

Governor Martin has had personal interviews and has been in touch with the officers of a number of the member banks having such loans, and he feels that there is a spirit of cooperation on the part of these gentlemen with the policies of the Federal Reserve Board, and a considerable reduction in the amount of such loans has been made.

Regarding the three banks specifically mentioned in your letter - viz.,
First National Bank in St. Louis,
Mississippi Valley Trust Company, St. Louis,
National Bank of Kentucky, Louisville.

The First National Bank of St. Louis, while it still has loans to brokers and dealers in New York City, has not been under rediscount with us since April 23rd, except for $500,000 on May 3rd, which it immediately paid up and now has no rediscounts with us.

The Mississippi Valley Trust Company, which had $3,800,000 borrowed from us on February 6th, has been entirely out of debt to us on the following dates:

February 8th to February 12th inclusive
February 14th
February 18th to February 25th inclusive
March 5th
March 7th to March 16th inclusive
March 19th
March 21st to March 22nd inclusive
April 25th to April 30th inclusive
May 2nd

It rediscounted on May 3rd, $800,000 and increased that amount until on May 7th it was $1,700,000. During this same period its total loans have decreased, its total investments have decreased, and its deposits have decreased. Its loans to brokers and dealers in New York on May 1st were $77,000, and while loans to brokers and dealers outside of New York and to others have increased, we believe that the President is sincere in his

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efforts to cooperate with the Federal Reserve Board, and it seems to us that the above record confirms the fact that he is making an effort.

The National Bank of Kentucky at Louisville presents a little different picture in that it has suffered a very real loss in deposits. Between February 6th and May 1st, 1929, this loss amounted to $13,600,000. On May 1st it was borrowing from us $9,842,000 and Government bonds it had on hand that date amounted to $9,581,000. It could pay off its rediscounts with us if it would sell its Government bonds, but is very loath to take the loss the sale of these bonds would necessitate. This bank has had no loans to brokers and dealers in New York City since March 13, 1929.

I feel that the members of the Board of Directors of the Federal Reserve Bank of St. Louis are most willing to comply and cooperate with the policy of the Federal Reserve Board.

Very truly yours,

(S) Rolla Wells,

Chairman of the Board.

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FEDERAL RESERVE BANK
OF BOSTON

B 61

May 8, 1929

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

The Federal Reserve Board's letter of May 3, 1929, on the subject of the use of Federal Reserve credit by member banks, was presented at the meeting of our Board of Directors today and given the most careful consideration. It was

> VOTED that the Governor and the Chairman be instructed to confer with the executives of such banks in this district as in their opinion may come within the scope of the Board's letter of May 3, 1929, presenting to them said letter and getting their opinion as to the best method of dealing with the subject as it bears on their particular situation and on the district as a whole.

I shall hope to send to the Board in the near future the results of these interviews.

The analysis of the situation in the New England District, as set forth in the Board's letter, does not fully picture the situation that has developed in this district. During the last year member banks in this district have lost somewhere from one hundred and fifty to two hundred millions of dollars of deposits, and they have been faced with the situation of liquidating bond accounts. In your analysis there is an increase shown of $18,000,000 in investments. This increase is due entirely to the fact that one of our large Boston banks over-subscribed to the extent of some $30,000,000 to Government bonds of one of the recent issues, and until about two months ago had loaned these bonds so that they did not appear among their investments. They have recently been obliged to take these back, and if it were not for this particular transaction the investment account, instead of being increased $18,000,000, would have decreased $12,000,000. The executive officers of this bank have invariably taken up with any member bank any apparent misuse of reserve credit, and invariably the member bank has adjusted its situation or has satisfied us that the use of reserve credit was justified.
I am,

Yours very truly,

Frederic H. Curtiss,
Chairman of the Board.

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FEDERAL RESERVE BANK OF BOSTON

COPY-

May 7, 1929.

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Federal Reserve Board,
Washington, D. C.

Dear Sirs:

I beg to acknowledge receipt of the letter of the Federal Reserve Board of May 3, setting forth in detail an analysis of the member bank situation in this district as of April 24 compared with February 6, and referring to certain of the member banks who have not affected any substantial liquidation of their security loans since February 6. I have had made a careful analysis of other banks in this district that might appear to be in the same general class, and I will present the names of these banks, together with the Board's letter, at the meeting of our Board of Directors to be held tomorrow.

I will advise the Board after our meeting tomorrow just what procedure our Board of Directors deems advisable to be taken in this matter, or whether there is anything in the situation which makes an adjustment undesirable from the point of view of the public interest.

Yours very truly,

(S) Frederic H. Curtiss,

Chairman.

FEDERAL RESERVE BANK OF
RICHMOND

B62

May 9, 1929.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Our board of directors today discussed at length and in detail the subject matter of the Federal Reserve Board's communication of May 3rd with respect to banks in this district which have been borrowing, more or less, continuously from the Federal Reserve Bank and which have, apparently, not effected any substantial liquidation in their security loans since February 6th.

The Governor of our Bank was requested by our board to continue the efforts of the operative officers with a view to securing from member banks that full cooperation with Federal reserve policy and methods which is desired by the Federal Reserve Board. The Governor informed the board that he would take the matter up in a proper way, through personal representation wherever practicable, with those banks in this district which are listed in the Federal Reserve Board's letter of May 3rd and with such other banks in the district as may appear to be withholding that full cooperation requested by the Federal Reserve Board in its statements of last February.

Very truly yours,

(S) W. W. Hoxton,

Federal Reserve Agent and
Chairman of the Board.

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May 10, 1929.

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Federal Reserve Board,

Washington, D. C.

Sirs:

The letter from the Federal Reserve Board dated May 1, 1929, referring to the borrowings of certain member banks in this district and suggesting certain methods of procedure with respect thereto, has been considered by the board of directors of this bank. At their meeting yesterday they instructed me to advise you of their unanimous views.

In my letter of February 21, 1929, I reviewed in considerable detail the various steps taken by this bank in endeavoring to prevent any abuse of its facilities by its member banks. I outlined what has been and still is its procedure in dealing with member banks which are considered to have been in our debt too continuously or in too large amounts, or with banks which are considered to be borrowing not because of any economic conditions in the community which they serve but solely because of some voluntary investment policy designed only for a profit.

While we have received no reply from the Federal Reserve Board to this letter, we have been informed from time to time in conversations with members of the Board not only that they were in agreement with the policy which we have pursued for a considerable time but also that they considered that we had done all that was proper in discouraging individual member banks from abusing our facilities.

The Federal Reserve Board's letter of May 1 lists a number of member banks which they believe to be indicative of a group of banks that are uncooperative with the efforts of the Federal Reserve System. The officers and directors have carefully watched the borrowings of all of these banks and have dealt with them in accordance with the policy outlined in our letter of February 21, and with full consideration of their individual requirements in relation to our own problems. We shall, of course, continue our policy with respect to these and other member banks. On the whole, however, with possibly one or two exceptions, the principal member banks in this district have given satisfactory evidence of their cooperation with the efforts of this bank.

The Federal Reserve Board's letter of May 1, in effect, requests us to follow some different procedure or to put still further pressure upon member banks to repay their borrowings from the Federal reserve bank. It seems clearly to imply that we should apply a stricter criterion as to the propriety of member banks' borrowings than that which we have set forth in our letter of February 21, and predicates its request for a readjustment of the position of banks which have been borrowing from us continuously or frequently upon the fact that they are "carrying a considerable volume of security loans." In other words, the letter indicates that a test of "abuse" of Federal reserve credit is to be the

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amount of the member bank's loans on securities.

Every bank in the country doing a general banking business must necessarily make loans on securities. Much of the country's legitimate business is financed by that method. To imply that a bank's right to borrow from the Federal reserve bank on eligible paper is prejudiced by the mere fact that it has made loans on securities fails, it seems to us, to recognize these conditions. The question whether security loans are or are not speculative is one which is impossible of determination even by the member bank. It is much less possible by the Federal reserve bank. We question whether the Federal reserve bank has a right to deny accommodation to a member bank solely on these grounds provided the member bank offers eligible paper for discount to repair its reserves.

We believe it was one of the main purposes of the Federal Reserve Act to establish a credit system that would be an insurance to the country against the evils of those money panics which have always followed in past years when money became unavailable. It may be felt that it is not so serious if, in other cities or other sections of the country, member banks are required by direct action to liquidate loans in order to pay off the Federal reserve bank. In such cases recourse to the country's principal money market in New York has always been possible as a back-log. But, if because of any policy or procedure of the Federal Reserve Board or the Federal reserve bank, member banks should be led to believe that Federal reserve credit is unobtainable in this market at our discount rate, one of the chief purposes of the Federal Reserve Act will have been defeated, public confidence impaired, and the usual adverse effect upon business and prosperity invited.

If, in face of all these conditions, we should now take those further steps suggested by the Board in dealing with individual member banks in this district, we believe that no matter how carefully explained, they would be regarded substantially as closing our loan window with a view of rationing credit. This, we believe, might of itself produce a condition which we cannot afford to risk.

Our directors have noted the Board's request that they communicate with the member banks listed in its letter, in such ways as they may deem most suitable, in an effort to bring such member banks into effective cooperation in adjusting their positions. They desire me to state that in their judgment the most suitable way of doing this, apart from the question of the discount rate, is to continue the procedure that has been followed by this bank as outlined in my letter of February 21, believing that to adopt any different procedure might precipitate serious consequences.

Very truly yours,

(S) Gates W. McGarrah,

Chairman.

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FEDERAL RESERVE BANK OF NEW YORK

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May 10, 1929.

Dear Mr. Platt:

At the meeting of our directors yesterday afternoon, prior to the vote taken to establish a rate of 6 per cent subject to the review and determination of the Federal Reserve Board, there was still further discussion of the various factors which, in the minds of the directors, make an increase in our rate necessary.

The directors expressed themselves as being in agreement with the statement in the Board's letter of May 1, that the Federal Reserve System owes it to the country and itself to put its house in order to meet the credit needs arising from crop harvesting and moving which will begin in about three months. They pointed out that it was partly for the very reason that the Board has emphasized that in their earnest effort to correct present conditions as quickly as might be possible, the directors of this bank have urged upon the Federal Reserve Board the need of an increase in our discount rate since February 14. The increase in the rate by itself might not immediately accomplish the purpose but as a supplement to all the other efforts that have been, and will continue to be made, it will expedite the accomplishment of that purpose. The delay in increasing the rate, in the judgment of our directors, has only delayed the correction of the conditions, the importance and urgency of which the Board, in its letter, asks us to impress upon our member banks. If thé amtter is so urgent that there must be no unnecessary delay in bringing about needed correction, then might it not be assumed that the experiment of direct action without rate action during the past three months, has by itself failed to accomplish the desired results, and that rate action, even now, should be added to our other efforts to correct the situation. As we have repeatedly stated, time now seems to be the essence of the problem.

Very truly yours

(Signed) Gates W. McGarrah,
Chairman.

Honorable Edmund Platt,
Vice Governor, Federal Reserve Board,
Washington, D. C.

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Mr Hamlin

FEDERAL RESERVE BANK OF CHICAGO

May 10, 1929.

SUBJECT: Board's letter of May 2, 1929, on the subject of the use of Federal Reserve credit by member banks, etc.

Federal Reserve Board

Washington, D. C.

Gentlemen:

At the regular meeting of our Executive Committee held today, the above letter was presented and read in full.

My letter of May 7, intended as a preliminary, or partial, reply to the Board's letter of May 2, was also read in full.

Both letters were discussed quite fully.

I was instructed to advise the Board that the Executive Committee is in full accord with my letter of May 7; also, that further careful consideration will be given to the Board's letter of May 2. The Committee members present expressed the opinion that our operating officers are handling the situation in a proper and efficient manner, and that if at any time it appears that additional procedure is necessary or desirable, our Committee will not hesitate in insisting that such steps be taken.

The Committee was advised that the First National Bank of Detroit had, at the close of business last night, reduced its indebtedness to $8,900,000, or $100,000 more than had been promised.

The following expression from the Executive Committee of our Detroit Branch was also read and made a matter of record, five members of our Detroit Board having been present when the action was taken:

"In the face of an unusual demand for legitimate commercial credit, the Committee is satisfied that the Detroit banks have handled the situation as well as they possibly could and are doing all they can to work in cooperation with the policy outlined by the Federal Reserve Board, keeping in mind the best interests of business. The Committee also believes that it is not desirable to force the sale of Government securities at this time, under the present conditions.

Members of our Committee commented on that paragraph of the Board's letter which reads as follows: "The Federal Reserve System owes it to the country and to itself to put its house in order to meet the credit needs arising from crop harvesting and moving which will begin in about three months, and which will be accompanied by the usual autumnal increase in trade." Different members of the Committee commented on the fact that this institution appears to have already put itself in position to care for such seasonal requirements,

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Federal Reserve Board.

calling attention to the fact that the reserve percentage of this bank was on May 8, 85.4, as compared with a total for the System of 74.3 on the same date, and a reserve of only 71.2 shown by this institution on the corresponding date of last year. However, for several years past, demands on this institution for crop-moving purposes in the Fall have not been excessive.

Each member of the Committee present expressed himself as regretting that the Federal Reserve Board has disapproved our repeated action favoring an increase in our discount rate, believing that such increase at this time would be a most valuable aid in securing the effect desired by both the Federal Reserve Board and our own board of directors.

Very truly yours,

(S) W. A. Heath,

Chairman.

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COPY-

Mr. Hamlin

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FEDERAL RESERVE BANK OF SAN FRANCISCO

May 10, 1929.

Dear Sirs:

At a meeting of our Board of Directors, held May 9, the Federal Reserve Board's letter of May 2 was read and discussed. The Chairman and the Governor of this bank were authorized by its Board of Directors to take whatever steps they deemed necessary to improve the situation in the district to which the Board directed attention, and were directed to prepare a reply to your letter for submission at the next Directors' meeting which will be held on May 16. Immediately thereafter, I shall communicate the findings of our Board of Directors to you.

Yours very truly,

(S) Isaac B. Newton,

Chairman of the Board.

Federal Reserve Board,
Washington, D. C.

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4. McGarrah to Federal Reserve Board, May 10, 1929:

Acknowledges receipt of letter of Board dated May 1, 1929, and states that by his letter of February 21, 1929 he reviewed in detail the steps taken by his bank in endeavoring to prevent any abuse of its facilities by its member banks.

I outlined what has been, and still is, its procedure in dealing with member banks which are considered to have been in our debt too continuously or in too large amounts, or with banks which are considered to be borrowing not because of any economic conditions in the community they serve, but solely because of some voluntary investment policy designed only for a profit.

(See letter in files)

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M. Hamlin

FEDERAL RESERVE BANK OF ATLANTA

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May 11, 1929.

The Federal Reserve Board,
Washington, D. C.

Dear Sirs:

Under date of May 7th, I acknowledged receipt of your letter of May 2nd, in which you reviewed banking developments (as disclosed in the statements of condition of 592 reporting banks) since February 6th.

In my letter of May 7th I called your attention to ratio of loans on securities by reporting banks in this District to total loans since February 6th, and to percentage of decrease of loans on securities by reporting member banks in this District from February 6th to April 24th.

In my letter of May 7th I briefly reviewed the situation in our District relative to loans by borrowing member banks to brokers and dealers in New York.

I stated in my letter of May 7th that your letter would be submitted to our Directors at our meeting on May 10th and I would make further report to you.

On yesterday our entire Board attended our Board meeting. In addition to our Board, we had the pleasure of having with us Mr. George R. James, of your Board, and Mr. J. P. Butler, Member of the Federal Advisory Council representing our District.

Your letter was submitted to the consideration of our Board and my letter to you of May 7th was considered in connection with your letter.

A very full discussion was had as to the situation in this District, both as to loans by our member banks to brokers and dealers outside of our District, and to loans made upon securities by our member banks, including such loans by the banks which are not borrowing from us and banks which are borrowing from us.

Information was given on the question of loans within our District by each member of our Board who was informed as to the special conditions within the community in which he resided. Mr. H. Lane Young discussed the question with respect to Atlanta and Savannah; Mr. Simon with respect to New Orleans; Mr. Melvin with respect to Selma and the surrounding part of Alabama; Mr. Ware with respect to Florida; Mr. Kettig with respect to Brimingham; Mr. Lea with respect to Nashville, Chattanooga and Knoxville. The information obtained from these different Directors was not as specific as we could have desired because copies of your letter of May 2nd, which I had sent to each director, had reached them only a short time before they had left their homes for our meeting, and we hoped to get more direct information from these Directors with respect to the situation in their communities.

Federal Reserve Board.

We were fortunate at having at our meeting Mr. Butler, who is the Member of the Federal Advisory Council and who also happens to be President of the Canal Bank and Trust Company. We felt that his presence was especially helpful at the meeting in view of the fact that your letter of May 2nd had specifically named three New Orleans banks. Mr. Butler had received a copy of your letter only a short time before he left New Orleans for our meeting but he had investigated the situation thoroughly in his own bank and as thoroughly as he could with respect to the other two New Orleans banks and the situation relating to the security loans in those banks, and in his discussion covered the general condition in New Orleans which had made necessary continuous borrowing by the New Orleans banks.

It is my purpose to pursue this subject further, and to furnish you with more specific information relating to the three New Orleans banks and the banks at other points in our District and I, therefore, would not at this time write you in detail information furnished us by Mr. Butler. It is fair to say that relative to the three New Orleans banks Mr. Butler made a very fair, frank and full presentation. After his presentation it was the opinion of all present that the situation in New Orleans had been explained thoroughly and satisfactorily, and the New Orleans banks named in your letter were complying with the spirit of the policy of the Reserve Board and this bank with respect to the proper uses of reserve credit.

I have been elected by the Atlanta Presbytery as a Commissioner to the General Assembly of the Presbyterian Church and will be absent from this office for about ten days, in attendance at the meeting of the Assembly. While I am away my office and Mr. Black will endeavor to obtain more specific information in order that I may report more in detail upon the New Orleans situation, and the situation in other parts of our District, relative to the subject matter of your letter of May 2nd.

Very truly yours,

(S) Oscar Newton,

Chairman.

COPY-

NASHVILLE BRANCH
FEDERAL RESERVE BANK OF ATLANTA
NASHVILLE, TENNESSEE

May 11, 1929.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I attended a regular meeting of the Board of Directors of the Atlanta Bank yesterday. All of the directors and senior officers of the Bank, with the exception of Deputy Governor Foster, were present as was also Mr. Butler of the Advisory Council.

In addition to the regular routine of business the meeting discussed at considerable length the so called "Present Credit Situation" and with particular reference to the Board's letter bearing upon the continuous or frequent borrowings in this district.

Mr. Butler and Director Simon explained quite fully and frankly the position of the three New Orleans banks that were referred to in the Board's recent letter and the officer of the bank made similar explanation as to other borrowing banks.

I was convinced that the borrowings were not for the purpose of making or maintaining speculative loans or investments but were caused by, more or less, local conditions peculiar to each bank. For instance the conditions in New Orleans are the result of floods, crop failures, accumulated stocks of grain, cotton and sugar, and other minor matters of local nature.

It was, I believe, the unanimous opinion of those present at the meeting that very little or any reduction in borrowings of the member banks in the district was possible before crops move. On the other hand the seasonal borrowings must be expected.

Every one present was fully alive to the dangers of the excessive speculation that is going on throughout the country and I am thoroughly of the opinion that the officers and directors of the Atlanta Bank, as well as those of the member banks in the district, are heartily in accord with the Board's desire to prevent reserve credit being used in speculation and that the Board may expect the fullest cooperation.

Mr. Oscar Newton especially expressed gratitude at the Board's action in sending the recent letter. He stated it was very helpful to the officers in impressing on the member banks the seriousness of the existing conditions.

All of those present expressed regret that the aggregate borrowings of the member banks should be in excess of the member banks' deposits for the district but there is no doubt full justification for it in the unfortunate local circumstances and conditions.

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Federal Reserve Board

All of those present were opposed to raising the discount rate so far as the Atlanta Bank and district is concerned. Several expressed themselves as feeling that such action would be an unjustified and an unwarranted penalizing of those member banks who borrow only to meet seasonal demands for crop production harvesting and marketing. Undoubtedly an increase in rates would be an addition to the already heavy burden under which the business interests of the district are now being operated.

With the exception of Director Ware, who favored a "System" advance in rates, all of the others present were opposed to such action. However, the opinion was unanimous that if the rate at New York was raised it would be necessary to make an advance in the Atlanta rate.

While I am not very optimistic as to the business outlook in this section, there is hopeful sign in the tendency on the part of the people to get out of debt. The folks generally, and especially the farmers, are working hard and I know that this policy always stages a come-back in the South.

I shall be in Memphis Sunday, Monday and Tuesday.

Respectfully,

(S) George R. James.

COPY -

May 13, 1929.

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Proposed Reply to Letter of Chairman McGarrah dated May 10, 1929,
By C. S. Hamlin. Not sent and filed in Board (cancelled)

The Federal Reserve Board has directed me to acknowledge your letter of May 10, 1929, in response to the Board's letter of May 1, 1929.

In this letter you state that your directors have dealt with the member banks in the manner set forth in detail in your letter to the Board of February 21, 1929 in reply to the Board's letter of February 2, 1929, and that, with one or two exceptions, the member banks in your district have given satisfactory evidence of their cooperation with the efforts of your bank.

You state, however, in your letter that the Board, by its letter of May 1, 1929, has directed a different procedure from that set forth in your letter of February 21st, and that it lays down a different and stricter criterion of the propriety of member bank borrowings, making such propriety depend upon whether the member banks are carrying a "considerable volume of security loans," thus laying down a new test of the abuse of Federal Reserve credit.

You further state that such a procedure would be considered by the banks to be a rationing of credit and might be productive of very serious consequences, and you add that, in your opinion and that of your directors, the best way to bring the member banks into more effective cooperation in adjusting their position, - apart from an increase in the discount rates,-

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would be for you to continue the procedure outlined in your letter of February 21st.

You further call in question the right of your bank to refuse to accommodate a member bank offering eligible paper for discount, solely on the ground of the amount of its security loans, although its purpose in obtaining such rediscounts is to make good its required reserves against deposits created by such loans.

The Board understands from the above that your directors seem to be of the opinion that the Board, in its letter of May 1, 1929, has ruled as a matter of law that a member bank carrying a "considerable volume of security loans" should be denied the rediscount privilege.

The Board directs me to inform you that it did not make or intend to make, - whatever its legal powers may be, - any such ruling of law in its letter of May 1st, but, on the contrary, it merely laid down certain principles of sound banking applicable to the present abnormal banking conditions in the country, and that its references in said letter and previous letters to the reasonable claims of member banks for rediscount facilities, should be construed as applicable to present abnormal conditions.

The Board stated in the Federal Reserve Bulletin for February, 1929, - released for publication February 7, 1929, - that, when conditions are arising which obstruct Federal Reserve banks in the effective discharge of their functions of so managing the credit facilities of the Federal Reserve System as to accommodate commerce and business, it is its duty to inquire into them and to take such measures as may be deemed suitable and effective in the circumstances to correct them, which, in the immediate situation, means to restrain the use, either directly or indirectly, of Federal Reserve credit facilities in aid of the growth of speculative credit.

The Board feels that it would be generally admitted that such obstructive conditions are now in evidence, and that the references above quoted will make it clear that the Board's letter and statement were a declaration of sound banking policy, and not a ruling of law imposing a new test of the abuse of Federal Reserve credit facilities.

It would seem clear to the Board that your directors so understood the Board's position when you stated in your letter of February 21st that they were "in full sympathy with the Board in the objectives sought, and that they proposed to do everything they properly may to cooperate in their attainment."

It may, however, be pointed out that the alleged new test of the abuse of Federal Reserve credit was promulgated in the letter of May 1st, and that the directors in the letter of February 21st were merely expressing their sympathy with the policies laid down in the Board's letter of February 2nd and the published statement of February 5, 1929.

The Board desires to state emphatically that it did not intend to establish any new policy in its letter of May 1st, and that ~~it is confident that~~ the principles of said letter were the same as those underlying its earlier letters and its statement above referred to.

The Board would call attention to the fact that the "obstructive conditions" referred to in the Board's statement of February 5th, grew out of the fact that there were many member banks who had been borrowing from the Federal Reserve banks, for some time past, either continuously or so frequently that they were in effect securing capital through their rediscounts and loaning this capital largely on speculative securities. The Board expressly disclaimed any desire to interfere with the lawful practices of the member banks so long as they did not involve the Federal Reserve banks, but the Board feels that such frequent or continuous borrowing most decidedly does involve the Federal Reserve banks, and consequently it called upon them and also upon the member banks to cooperate to remove these obstructive conditions.

It should further be noted that while the Board, in its letter of February 2nd, uses the phrase "speculative security loans," the Federal Advisory Council on February 15th construed this reference to include "loans based on securities" and that a copy of this statement of the Council was sent to every Federal Reserve bank.

The Board believes that a brief consideration of your letter of February 21st and its appendices, will show clearly that the executive officers of your bank pointed out to your directors the danger involved in the alarming increase in security loans to customers as well as to brokers, and that they also pointed out the manner in which the banks making such loans should be treated by the Federal Reserve bank.

For example, in the memorandum dated February 7, 1929, attached to your letter of February 21, 1929, the following appears: - "Undoubtedly collateral loans for buying stock exchange securities have been of importance in bringing about the increased average borrowings of the banks throughout this district, and also in bringing about the increase in the number of banks borrowing over six months."

Again, in your letter of February 21st you state: - "In such cases we usually indicate to the banks the reason for our position and our expectation that they will not borrow from us purely for profit, or to obtain the equivalent of capital funds to carry on business that is otherwise too large for the amount of their capital account."

In a letter from Governor Harrison to Governor Young, dated April 9, 1929, Governor Harrison used the following language:

> "The one thing which has prevented, and now prevents, the restoration of more normal money conditions is a large expansion of the credit structure due largely to speculation in securities. This credit expansion has forced the System to adopt firm money policies, including three increases of discount rates, the sale of Government securities, a restrictive bill policy, and careful scrutiny of the borrowings of the member banks."

In the same letter Governor Harrison expressed the opinion that while the continuance of policies of restrictive purchase of bills and careful supervision over member banks borrowings alone may ultimately have the desired effect, further steps should be taken along the line of increasing discount rates.

The banks referred to by way of illustration in the Board's letter of May 1st, and probably many others in your district, were, in the opinion of the Board and in the language of your letter of February 21st with enclosures, banks whose "borrowings have been too continuous or have averaged too much", and to quote further your words, - "These banks were obtaining the equivalent of capital funds" and were using these funds in loans on speculative securities, and the Board, in its letter of May 1st, requested you to take up the matter with these banks with a view to having them adjust their position.

The Board does not consider its letter of May 1st as imposing a new test for abuse of Federal Reserve credit, but merely as pointing out a condition in these banks "requiring careful scrutiny and careful supervision of their borrowings" - to use the very words of Governor Harrison in his letter of April 9th quoted above.

Governor Harrison further says in that letter, that he has already explained the position of the Board to the principal New York City banks in order that they might cooperate towards checking the expansion of the total volume of credit.

~~The Board feels confident~~ that The above quotations show conclusively that its letter of May 1st laid down no new test of the abuse of Federal Reserve credit, but merely suggested the course of action which Governor Harrison and your Board have stated was already the avowed practice of your bank.

The Board in its letter of May 1st, whatever its legal power may be, as above stated, did not request your directors to inform the member banks that those carrying a "considerable volume of speculative security loans" would henceforth be denied the rediscount privilege; nor did the Board request that these banks should reduce the volume of their speculative security loans.

You were merely asked to confer with these banks to find why they could not cooperate more closely with the effort of the Federal Reserve Board to bring about some liquidation of the Federal Reserve credit which they were using.

The Board's letter of May 1st might have been considered as having accomplished its purpose in substance, if these banks had liquidated a reasonable amount of their borrowings from funds in their possession derived from the return flow of surplus currency, ~~withdrawel of money from circulation~~, or from gold imports, without liquidating any of their customers' security loans.

The Board further feels that while its letter of May 1st was strictly in accordance with the avowed practice of your bank, it regrets to perceive that your directors apparently have radically changed their views from those set forth in your letter of February 21st.

In your letter of May 10th you stated that, in your opinion and that of your directors, collateral security loans are lawful loans; that it is impossible for a member bank or a Federal Reserve bank to find what portion of these collateral loans are speculative loans; and you finally apparently take the position that your bank has no right to deny accommodation to a member bank offering eligible paper to restore its reserves solely on the ground that the restoration of these reserves was necessitated by an increasing volume of deposits arising from security loans.

The Board finds nothing in existing conditions making it necessary, - whatever its legal powers may be, - to decide this question at the present time, but would content itself with pointing out to you that such an opinion on the part of your directors necessarily would seem to imply that a member bank may borrow from a Federal Reserve bank all it pleases, provided it is willing to pay the established discount rate, free from any interference on the part of the Federal Reserve Bank.

The Board would point out that such a theory would seem of necessity to throw into the discard all questions of scrutiny, supervision, and direct action or pressure.

The Board has noted that in carrying out the principles laid down in your letter of February 21st, your bank has apparently confined its efforts to bringing banks to correct their position who were loaning on call in the New York market, although it must also be noted that the principles underlying said letter of February 21st and the letter of Governor Harrison, went very much farther than this.

The Board also notes your statement that members of the Board have from time to time expressed agreement with the policy pursued by your bank, and have considered that you have done all that was proper in discouraging individual member banks from abusing the Federal Reserve facilities.

The Board recognizes that as a whole satisfactory results have been and are being achieved by your bank, and this was probably the reason for the statements attributed by you to some members of the Board. There was nothing, however, in your letter of February 21st to give the Board to understand that the scrutiny and supervision which you stated was extended to all the loans of the member banks who were borrowing too frequently, was in fact, limited to scrutiny and supervision of brokers loans and not of customers' loans. The Board is of the opinion that the frequent borrowings of the banks cited as illustrations in its letter of May 1st, justify a call for a careful scrutiny and supervision of all their loans on securities whether to customers or to brokers, and in fact of all their other loans, leaving, however, to the banks concerned, in the first instance at least, to determine just how they will adjust their condition to bring about more complete cooperation with the Board's policy.

It is hardly necessary to add that the Board neither suggests nor desires that you shall approach these banks with any threat, open or veiled, of refusing the rediscount privilege, or any unwarranted interference with their management. It will only be necessary, in the first instance at least, to point out that their frequent borrowings are accompanied by speculative loans of large volume, and that you hope and believe they will find some way in which to adjust their position and to bring it into line with the Board's policy. The Board feels that it will be time enough to consider what its legal powers may be after all efforts at mutual cooperation have failed. It will, however, state at this time that it has been advised by its Counsel that its legal powers are broad enough to meet any situation, such as the present, completely and decisively.

The Board requests that you read this letter to your directors at the next meeting, and that a copy be sent to each director absent from such meeting.

May 15, 1929.

2nd draft

Proposed short Reply to Letter of Chairman McGarrah, dated May 10, 1929, by C. S. Hamlin.

The Federal Reserve Board has directed me to acknowledge your two letters of May 10, 1929.

In the first letter, you state that, in the opinion of your directors, the Federal Reserve Board has laid down a new test of the abuse of Federal Reserve credit, namely, carrying "a considerable volume of security loans," and that this will be construed as a rationing of credit which may be productive of very serious consequences.

The Board directs me to reply that it had no intention in said letter of laying down any new test, but merely emphasized the necessity for cooperation between certain of your member banks and the Federal Reserve bank.

The Board, as frequently stated, does not consider it one of its functions to regulate the New York Stock Exchange. It simply confines itself to the use of Federal Reserve credit given to the member banks through rediscounts. It considers also that when a member bank continuously or frequently rediscounts with a Federal Reserve bank, it is really obtaining capital which is not in accordance with Federal Reserve policy.

Your letter of February 1st sets out that when banks are borrowing too frequently, you admonish them that they must not obtain the equivalent of capital funds to carry on business that is otherwise too large for the amount of their capital account.

Governor Harrison, in his letter to Governor Young, dated April 9, 1929, said that the expansion of the credit structure due largely to speculation in securities, has forced the System to adopt firm money policies, including three increases of discount rates, the sale of Government securities, a restrictive bill policy, and careful scrutiny of the borrowings of the member banks.

It was just this careful scrutiny of the borrowings of the member banks, as stated in our letter of May 1, that the Board suggested you undertake, as these banks, in the opinion of the Board, have been "borrowing too continuously or have averaged too much" - to quote the words of your letter of February 21st, and you were asked to confer with them to find why they could not cooperate more closely with the effort of the Federal Reserve Board to bring about some liquidation of Federal Reserve credit which they were using, and the Board feels that you should approach them in a spirit of mutual cooperation to see if they can not bring themselves into line with Federal Reserve policy.

The Board notes your statement in your first letter of May 10th, that the member banks in your district, with one or two exceptions, have given satisfactory evidence of their cooperation with the efforts of your bank. In your second letter of May 10th, you state that if the matter is so urgent that there must be no unnecessary delay in bringing about needed correction, then might it not be assumed that the experiment of direct action without rate action during the past three months, has by itself failed to accomplish the desired results. The Board sees some apparent inconsistencies in the statements quoted above from these two letters, and would ask why, if the member banks on the whole have given satisfactory cooperation, you now desire to increase the discount rate, and would ask what your purpose is in increasing the rates under the conditions pointed out.

In the first of your letterx of May 10th you raised doubts as to whether you could lawfully refuse accommodation to member banks even though the accommodation is for the purpose of sustaining or increasing security loans. The Board would ask whether, in your opinion, a member bank under the Federal Reserve Act has the right to obtain any amount of accommodation it desires, on presenting eligible collateral, free from any scrutiny or supervision of the Federal Reserve bank? It would scarcely be necessary to point out that if this be your opinion, the banking doctrine of direct action would necessarily be thrown into the discard.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date May 17, 1929.

To Mr. Hamlin

Subject: Proposed reply to Mr. McGarrah's letter of May 10,1929.

From Mr. Wyatt

2—8495

Dear Mr. Hamlin:

In accordance with your request, I submit below a memorandum of the detailed suggestions which I submitted to you orally this afternoon with regard to the text of your proposed reply to the letter addressed to the Federal Reserve Board by Mr. McGarrah, Chairman of the Board of Directors of the Federal Reserve Bank of New York, under date of May 10, 1929.

On page 2, line 6, you speak of a bank's "required reserves against such loans". This is technically inaccurate because the Federal Reserve Act does not require any reserve against loans, but requires member banks to maintain reserves only against their deposit liabilities. It is possible that you had in mind the reserves which might be required against deposits arising out of the making of security loans or possibly the restoration of a bank's reserves after such reserves have been depleted as a result of making security loans.

On page 3, line 20, I believe your statement would be stronger and more appropriate if you omit the words "it is confident that".

On page 6, line 12, I believe the sentence would be much stronger and more appropriate if you would strike out the words "the Board feels confident that".

On page 7, line 2, you use the expression "the withdrawal of money from circulation", and I fear that this expression might be misunderstood or might be twisted by adverse criticism so as to convey the impression that you desired the banks to withdraw money from circulation. I believe it would be better if, instead of referring to the withdrawal of money from circulation, you would use the phrase "the return flow of surplus currency".

My comment on the suggestion referred to in the second paragraph on page 7 of your letter is that Federal reserve banks are not required by law to extend any definite amount of credit accommodation to a member bank nor are they required by law to extend credit accommodation to a member bank under any definite circumstances. On the contrary, such a requirement was specifically considered by Congress and was specifically rejected while the original Federal Reserve Act was under consideration. Senator Hitchcock had proposed an amendment which would have compelled the Federal reserve banks to rediscount for any member bank an amount equal to the capital and surplus of such member bank and this proposed amendment was voted down because it was felt that it was unsafe and contrary to all banking practice to deprive the directors of any bank of the right to exercise their discretion in accepting or rejecting any application for credit accommodation. As a compromise measure there was inserted in Section 4 of the Federal Reserve Act the following provision:

> "The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.
>
> "Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations <u>as may be safely and reasonably made with due regard for the claims and demands of other member banks</u>."

This provision clearly forbids partiality, unfairness and discrimination in the administration of affairs of the Federal reserve bank, but the requirement that the Federal reserve bank shall "extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks" clearly leaves to the board of directors of the Federal reserve bank a broad discretion and would not be violated if the board of directors should deny credit accommodation because it had reasonable grounds to feel that such credit accommodation could not be safely granted, or could not be reasonably granted with due regard for the claims and demands of other member banks. I believe, therefore, that if a member bank has a large amount of surplus funds loaned on call to brokers and dealers in stocks, bonds or other investment securities and should apply to a Federal reserve bank for rediscounts or other credit accommodations, the board of directors of the Federal reserve bank would be acting entirely within its rights if it should decline to grant such credit accommodation on the ground that it could not "reasonably" be granted under such circumstances. In other words, the board of directors would be entirely within its rights in taking the position that a member bank cannot reasonably demand the use of a portion of the country's ultimate bank reserves when such member bank has surplus funds temporarily invested which it could call in on demand.

This is merely an informal expression of my own personal views and is intended solely as a constructive criticism of your proposed letter. If I can be of any further help to you, please do not hesitate to call upon me.

Respectfully,

Walter Wyatt,
General Counsel

Mr Hamlin

FEDERAL RESERVE BANK
OF CLEVELAND

B 73

May 13, 1929

Federal Reserve Board,
Washington, D. C.

Gentlemen:

Receipt is acknowledged of the Board's letter of May 3, in which is restated the principle which should govern certain uses of Federal reserve credit by member banks as outlined in your letter of February 2. With this principle we are in complete accord.

Your letter also points out that, while some progress has been made toward the Board's objective in the country generally, the volume of security loans in the Fourth District in the aggregate is not appreciably below that shown on February 6 and that certain banks which have been more or less continuous borrowers at the reserve bank have not effected any substantial liquidation of security loans since that date.

The following is an extract from the minutes of the meeting of the Board of Directors of this bank held on Friday, May 10, 1929:

> "The Chairman read a letter from the Federal Reserve Board dated May 3, 1929, with further reference to the general subject of the principles which should govern the use of Federal Reserve credit by member banks and directing attention to certain of our member banks, which, in the opinion of the Federal Reserve Board, had not as yet made satisfactory progress in adjusting their security loans. After a full discussion of all of the phases of the problems presented thereby, it was the consensus of opinion that in handling this particular situation the process of bringing the member banks of this district into effective cooperation with the reasonable purposes of the Federal Reserve System be left to the officers of this bank, keeping in mind the intricate problems confronting member banks and the delicate situations which may arise. The Chairman was directed to prepare a reply to the Federal Reserve Board expressing the attitude of this Board".

The Board of Directors of this bank is wholly in sympathy with the object which the Federal Reserve Board seeks to accomplish. It is recognized, however, that in dealing with the problem with member banks as a practical matter, there is a considerable body of responsible opinion which does not incline to the reserve bank point of view, including many banks which are not borrowing, and that a too-active campaign on the part of the reserve banks might be resented as unwarranted interference with lending policies of member banks. While

(COPY)

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in the judgment of our Board this difference of opinion does not in any sense relieve us of the obligation to insist upon the proper use of our credit facilities or the liquidation of existing indebtedness in cases where borrowing can be traced to extension or maintenance of speculative credits, the matter is patently one of extreme delicacy.

In the cases of certain banks, local conditions have practically compelled an increase of borrowing on collateral security. There has also obviously been a shift of margin accounts at brokers to this form of loans at banks to escape the higher rate charged by the broker. There has been and continues to be a marked tendency on the part of a number of our larger city banks to restrict any further expansion of security loans, this policy finding expression in refusal to make such loans at all; in requiring an increase in the margin of protection for the bank, or in higher interest rates for this class of loan.

It will be the policy of the officers of this bank to proceed at once to call into conference those member banks which are or which seem to be out of line, using the most expedient method in each individual case. We shall be pleased to report to your Board the reaction of our member banks to such conference. It is our belief that this procedure is consistent with the thought outlined in your letter.

Very truly yours,

(Signed) Geo. DeCamp
Chairman of the Board and
Federal Reserve Agent.

Mbr of Cleveland
Resolution

See Bk

COPY

FEDERAL RESERVE BANK

OF CLEVELAND

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May 15, 1929.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

At the regular meeting of the Board of Directors of the Federal Reserve Bank of Cleveland held on May 10, the following resolution was unanimously adopted:

> "RESOLVED, That it is the opinion of this Board that the most effective control of the present disturbed credit situation arising from the condition of the speculative security market is to be found in a prompt advance in the rediscount rates of the Federal Reserve Banks. The Chairman of this Board is instructed to communicate this resolution to the Federal Reserve Board as the well-considered opinion of the directors of the Federal Reserve Bank of Cleveland".

You will appreciate that this is a voluntary action on the part of our Board and came as a result of a great deal of discussion and consideration of the general situation.

Very truly yours,

(S) Geo. DeCamp,

Chairman of the Board.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 15, 1920.

To Mr. Hamlin

Subject:

From Mr. McClelland

GPO 2—8495

There is attached hereto copy of the proposed letter to the Federal Reserve Bank of New York, submitted by Mr. Cunningham at the meeting of the Board this morning.

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May 15, 1929.

Dear Mr. Chairman:

The Board acknowledges receipt of your letter to it under date of May 10th and also your letter of the same date to Vice Governor Platt, and at this time wishes to take cognizance of the language in paragraph four of your letter first mentioned, from which the following excerpt is quoted:

> "On the whole, however, with possibly one or two exceptions, the principal member banks in this district have given satisfactory evidence of their cooperation with the efforts of this bank."

The above is interpreted by the Board as meaning that with one or two exceptions you are satisfied with the cooperation you have had from your borrowing banks in your efforts to correct the situation which was referred to by the Board in its letter of February 2nd as an improper use of Federal Reserve credit facilities by member banks.

In view of the satisfaction you feel as to the situation in your district, it is inferred that you are expecting to carry on with the same efforts that you have been making in the past. From all of which the Board feels that the situation in your district is rapidly being corrected and that it may expect, in the very near future, that the situation will be fully adjusted so far as any mis-use of Federal Reserve credit is concerned; and conveys to the Board the impression that any necessity for an increase in the discount rate at the New York bank from five to six per cent, which in the past seemed desirable by the Board of Directors of your bank, has been largely eliminated.

The Board also notes with more than passing interest the following excerpt from the last paragraph of your letter:

> "believing that to adopt any different procedure might precipitate serious consequences."

It would appreciate your writing them explaining more in detail what is meant by "to adopt any different procedure might precipitate serious consequences"?

Your letters refer to a number of questions which are of a more or less controversial nature and which may be made the subject of a later communication.

The Board feels that the mis-use of Federal reserve credit by borrowing banks is rapidly being adjusted to more fully comply with the intention of the Board outlined in its letter of February 2nd, 1929, and expresses the hope that you will continue to insist upon every reasonable correction in order to fully accomplish its purpose. It is sincerely hoped that this shall be accomplished with the least possible disturbance to industry and commerce.

Yours very truly,

Secretary.

Mr. Gates W. McGarrah, Chairman,
Federal Reserve Bank,
New York, N. Y.

Mr. Hamlin

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FEDERAL RESERVE BANK OF BOSTON

May 15, 1929.

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

Supplementing my letter to the Federal Reserve Board of May 8, in answer to the Board's letter of May 3 on the subject of the Use of Federal Reserve Credit by Member Banks, I beg to say that the Governor and myself have analyzed the condition reports of all of our member banks and have communicated with such of those banks that might appear to be carrying a considerable volume of security loans, or which have been continuous or frequent borrowers of this bank. With the possible exception of one member bank in the western part of the State, which is borrowing $1,000,000 and has had $1,200,000 out on call in New York, the borrowings of our member banks from this reserve bank would appear to be justified by their condition. The Governor has communicated with the bank above referred to and we hope to have an interview with its President in the near future. This particular member bank has lost about $2,000,000 in deposits since the first of the year and is carrying something over $5,000,000 in United States securities and $8,000,000 in other bonds. The weakness of the bond market, especially Governments, has prevented this bank liquidating its security account without considerable loss.

Since the first of the year there has been a loss of about $100,000,000, in the deposits of member banks in this district. This loss in deposits and the situation existing in the security market, more especially in connection with Government securities, namely, the continued weakness in the bond market has, in many cases, prevented our banks from correcting their position without taking heavy losses. The officers of this bank have followed very closely the borrowings of all of our member banks, and the banks in this district are not only cognizant of the Board's views in relation to loans against securities but are cooperating as far as their own particular position warrants in carrying out its policies. In view of their large security holdings our member banks are especially anxious to see more normal conditions in the money market.

Yours very truly,

(S) Frederic H. Curtiss,

Chairman.

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COPY-

Mr. Hamlin

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FEDERAL RESERVE BANK OF PHILADELPHIA

May 16th, 1929.

Dear Sir:-

I am instructed by the Board of Directors of this bank to reply as follows to your letter of April 30th:

That letter called attention to eight member banks in this city which had been borrowing more or less continuously from this bank, and had "not effected any substantial liquidation in their security loans since February 6th", and requested us to cooperate with the Federal Reserve Board in inquiring from each of these banks whether there was anything which made it impracticable for it to readjust its position in accordance with the views of the Board, or anything which made such readjustment undesirable from the point of view of the public interest, and, further, "why it should not bring about the readjustment expected by the Board".

Answers to these questions had been given by the writer in the Conference held with the Board on April 4th, and have since been elaborated in letters to the Acting Governor of the Federal Reserve Board. These answers might readily have been repeated immediately upon receipt of your letter. We realized that there was no possible way in which such inquiries could be made of the member banks without creating friction, ill-will, and resentment. Potent among the reasons which made it difficult for them to readjust their positions in accordance with your views was your insistence upon the maintenance of a discount rate below all other rates for money.

Desiring, however, to cooperate in your policy to the extent of our power, and to put before you replies directly from the banks concerned, we enclosed a copy of your letter to ten member banks - seven of the eight on your list (the eighth having entirely paid off its indebtedness to us on the day your letter was received), and three others "in the same general class" as determined from our records.

We enclose herewith a copy of our letter of transmittal, and copies of the replies received from nine of the ten banks addressed. The tenth bank - a large trust company, which, upon the completion of a pending consolidation, will have about $30,000,000 capital and surplus - had decided, we hear from the outside, to make no reply to the letter and to withdraw from the System.

Our member banks are generally cooperative, and willing to abide by any rules of general application, but they resent what they regard as interference with their conduct of their own affairs. Most particularly do they resent this interference when it comes from Washington.

We believe that we have now realized substantially the full benefit anticipated from the Act of April 19th, 1929, authorizing special rates of interest on security loans. This was referred to in the writer's letter of the 3rd instant to Acting Governor Platt, in which was enclosed a memorandum

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of changes resulting from the passage of this Act between April 26th and May 2nd. Continuing this record for another twelve days, it appears that between April 26th and May 14th our discounts to out-of-town banks have increased $1,100,000 - from $45,500,000 to $46,600,000 - but during the same period our discounts to banks in this city have decreased $47,500,000 - from $71,900,000 to $24,400,000. Our local banks have thus been able, in less than three weeks, to get back a large part of the money which they had been steadily losing to New York for a year or more previously.

I am,

Very truly yours,

(S) Geo. W. Norris,

Governor.

Mr. E. M. McClelland, Assistant Secretary,
Federal Reserve Board,
Washington, D. C.

May 6th, 1929.

Mr.__________________,
____________________,
_____________________,

My dear Mr.__________:-

Following previous correspondence on the same subject, the Federal Reserve Board addressed to the Acting Chairman of the Board of Directors of this bank a letter, copy of which is enclosed herewith, omitting the names of the particular member banks referred to therein. The significant fact in this letter is that, whereas the 592 weekly reporting banks in the country as a whole have reduced their security loans to brokers by 410 million dollars, and have increased such loans to "Others" by only 189 million dollars, effecting a net reduction of 221 million dollars, the weekly reporting banks of this District have reduced their loans to brokers by only 14 million dollars, and have increased their security loans to others by 22 million dollars, resulting in a net increase of 8 million dollars. You will recall that in our letter of February 21st last, asking for the cooperation of all our member banks in correcting the existing over-extension of credit, we especially asked them to be on guard against "the growing tendency of persons speculating in the stock market, under the pressure of high carrying charges by brokers, practically to transfer their accounts to banks".

As the________________Bank is in the general class referred to in the Federal Reserve Board's letter, I am instructed by the Board of Directors of this bank to request a reply from you on the points referred to in the paragraphs indicated by a marginal note.

Thanking you in advance for your compliance with this request, I am,

Very truly yours,

(S) Geo. W. Norris,

Governor.

SOUTHWARK NATIONAL BANK

Philadelphia, Pa., May 15, 1929.

Mr. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

Dear Mr. Norris:-

We are in receipt of your favor of May 6th, and in reply beg to state that it has always been our endeavor to cooperate with the Federal Reserve Bank in every way possible.

Both our loans to brokers and our loans on security to others have been reduced since the first of the month. While our securities have increased during the period, it is largely due to bonds which were purchased by us - being part of an issue put out by one of our good customers. However, since the first of May our securities have also been decreased.

Yours very truly,

W. W. Foulkrod, Jr.,

President.

THE NATIONAL SECURITY BANK

Philadelphia, Pa., May 9, 1929.

Mr. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

Dear Mr. Norris:

We have at hand your favor of the 6th, in which you state that our loans on securities to others have been increased by about $520,000 between the periods of February and April.

I was rather surprised that such was the case, especially in view of the fact that we have been making no loans to customers on stock exchange collateral except in a very few cases where the connection has been such that it was impossible for us to refuse.

I went over the weekly report of the member banks furnished by us, and find your information is correct, but it is not a true state of affairs according to our report, as our Assistant Cashier has doubled up in this particular matter. On our last Government report as of March 27th our loans to others secured by U. S. Government and other securities, in other words 5 C, showed $1,886,000, and to this amount our Assistant Cashier added $335,000 represented by 6 B under the same schedule, making in all a total of $2,100,000, which amount he has been approximately reporting.

I have had our Discount Department take off exact figures on our loans to others as of April 8th, and these amount to $1,622,000 instead of $2,000,000 as reported, which accounts for the $500,000 increase as mentioned in your letter.

In this total of $1,600,000 there is an amount of $468,000 loaned on the stock of corporations doing business with us, none of which are listed on either the Philadelphia or New York stock exchange, but all of which we consider first class loans. Some are closely held commercial corporations; some of these collateral loans are on building and loan stock which would really pull the amount loaned to others down to a figure of $1,150,000. At the present time we have no loans to brokers in New York City, nor have we had any for at least seven or eight months. Our loans to brokers in Philadelphia at our last call amounted to $145,000, which was granted more to an investment house instead of the broker having a seat on the exchange, against which he keeps a very satisfactory balance. I think when you match this figure up with our total loans and discounts approximating $10,600,000, you can see that the balance of our paper would be entirely for commercial purposes.

We regret very much the error on our part, and can assure you that we are working along with the Federal Reserve Bank in every way possible. I am,

Yours very truly,
John W. Whiting,
President.

COPY-

THE FIRST NATIONAL BANK

Philadelphia, Pa., May 10, 1929.

Hon. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

My dear Governor Norris:-

I wish to acknowledge your letter of May 6th, and beg to submit the following data and explanations.

On the sheet marked "Copy A", you will notice an increase in secured loans to others amounting to $576,000, or 4%, while loans to brokers increased $1,310,000, or 15%. The decrease in our investments account of $653,000 was more than enough to take care of the increase of $576,000 in loans to others. The security was of similar nature and a substantial margin exists in the loans which was not in the investment account so that the Bank has $77,000 less at risk against securities which are of value in excess of the amount of $653,000 that was in the investment account.

Included in secured loans to others are loans to correspondent banks which for February amount to $4,526,542, and on May 1st were $5,815,748, an increase of $1,289,206. It would, therefore, seem that the increase in our loans to others than brokers is accounted for by loans to correspondent banks, which, during the period under discussion show an increase of $1,289,206, while our total loans to others than brokers increased only $576,000, indicating a reduction of over $700,000 in secured loans to individuals.

The increase in direct loans to brokers of $1,310,000 is accounted for by a decrease in loans for account of correspondent banks of $1,530,000, the result of money being taken away from this market because of higher rates elsewhere. These direct loans to brokers are to brokers who have had substantial balances with us for some time.

In connection with the above discussion you will find on "Copy A" comparative figures as of April 24th and May 8th showing a somewhat different picture.

Respectfully,

Livingston E. Jones

President.

(COPY)

1929

	February 6	April 24	Increase or Decrease
	(Amounts in millions of dollars)		
Total Loans and Investments	51,846	54,073	+ 2,227
Security Loans:			
To Brokers	8,777	10,087	+ 1,310
To Others	14,289	14,865	+ 576
All Other Loans	12,805	13,799	+ 994
Investments	15,975	15,322	- 653
	April 24th	May 8th	
Total Loans and Investments	54,073	51,672	- 2,401
Security Loans:			
To Brokers	10,087	7,422	- 2,665
To Others	14,865	14,587	- 278
All Other Loans	13,799	14,440	+ 641
Investments	15,322	15,223	- 99
	February 1st	May 1st	
Loans to Correspondent Banks	4,526	5,815	+ 1,289
Loans to others than brokers			+ 576
Reduction in secured loans to individuals			- 713
	April, 1928	April, 1929	
Average Participation	3,446	1,916	- 1,530

BANK OF NORTH AMERICA & TRUST COMPANY

Philadelphia, Pa., May 7, 1929.

Hon. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

My dear Governor:-

In reply to your valued favor of the 6th of May, I beg to submit the following information:

	February 6	May 6	
	(Amounts in millions of dollars)		
Total Loans and Investments	48,611	47,441	- 1,170
Security Loans:			
To Brokers	10,548	7,305	- 3,243
To Others	12,975	15,228	+ 2,253
All Other Loans	15,502	18,559	+ 3,057
Investments	9,586	6,349	- 3,237

I have taken the liberty of bringing our record up to May 6th instead of as April 24th, as records of this character which are approximately two weeks old are more or less inaccurate.

Insofar as this Company is concerned, it is always a delight to me to give you the fullest information, but I cannot restrain myself from expressing my view that if the Federal Reserve Board had been awake to the conditions that existed a year to a year and a half ago, they might have adopted a policy that would have proven better for them and better for the banks. As I see it, the policy pursued at that time of maintaining an artificially low rediscount rate to aid the Treasury in refunding the Second and Third Liberty Loans was unsound and to a great extent the cause of the unfortunate credit condition of today.

However, this water has gone over the dam and the banks that have had the courage to strain themselves to uphold a proper credit position have the honor to be on the censure list of the Federal Reserve Board. It may not be out of place to call your attention to this Company, that at the Federal Reserve Bank this morning our debt is <u>only</u> $1,200,000. I am,

Very truly yours,

John H. Mason

President.

COPY-

TRADESMENS NATIONAL BANK & TRUST CO.

Philadelphia, Pa., May 9, 1929.

Mr. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

My dear Governor Norris:-

Referring to your letter of May 6th and the letter of the Federal Reserve Board dated April 30th, a copy of which was enclosed, we have prepared a schedule showing the amounts outstanding in the various classes of loans, following the schedule on page 2 of the Board's letter. In addition to the condition on the dates specified, February 6th and April 24th, we have added our condition as at May 7th. If the fact that this bank does a very large commercial business is taken into consideration, it will be apparent that our cooperation, as indicated by the figures of April 24th, was well in line with that of the system as a whole, and if the general condition since April 24th has not improved in the system as a whole, then the figures that we present as at May 7th would show a more marked cooperation. The statistics of this bank indicate that in the early spring and in the early fall of each year we have a very heavy demand from our commercial borrowers, which liquidates itself seasonally. Despite the generally large divergence of loanable funds into speculative channels, it occurs to us that we have kept our situation well in hand.

The results that we have achieved have been at some cost to us, because through the play of competition other banks appear to be willing to do those things that we felt were in defeat of the plan proposed by the Federal Reserve Board to bring about a more wholesome condition in the use of credit. This play of competition brings with it questions which make complete cooperation upon the part of the banks practically impossible, and this will continue, it occurs to us, just so long as the spread between the rediscount rate and the rate obtainable for speculative loans is as great as it is at the present time. It is most discouraging to a bank that is trying to give whole-hearted cooperation to find that the only result of such action upon its part is in frequent loss of valuable business. We here feel that until the spread hereinbefore referred to is reduced through the application of an appropriate rediscount rate, the result will be indifferent.

While you will realize that we are expressing no new thought on the subject, yet we feel that this is an appropriate occasion to record our views. If we are expected to aid in a program based entirely upon individual cooperation, it occurs to us that the possibility of profit to those who fail to cooperate should not be so great as to penalize too heavily those who do cooperate.

Sincerely,
Howard A. Loeb,
Chairman.

COPY-

	Feb. 6 1929	April 24 1929	Increase or Decrease	May 7 1929	Increase or Decrease
	(Amounts in thousands of dollars)				
Total Loans and Investments	41,588	43,156	+ 1,568	41,436	- 152
Security Loans to Brokers	4,065	3,900	- 165	3,368	- 697
To others	15,392	15,482	+ 90	15,052	- 340
All Other Loans	16,559	19,072	+ 2,513	18,336	+1,797
Investments	5,572	4,702	- 870	4,660	- 912
Owing Federal	2,400	4,650		3,200	

(COPY)

THE PHILADELPHIA NATIONAL BANK

May 9, 1929

My dear Governor Norris:

This will acknowledge your letter of May 6th, enclosing copy of a letter addressed to the Federal Reserve Bank of Philadelphia by the Federal Reserve Board under date of April 30, 1929.

This bank has used every reasonable effort to keep its loans with the Federal Reserve Bank down to a minimum, but as I have advised you on several occasions as the largest bank in the Philadelphia Reserve District, the legitimate calls on us by Banks and Trust Companies keeping accounts with us, plus the many commercial demands upon us and again plus reduced deposits, have caused us to borrow for what we would call the legitimate needs of our clients and they are not speculators.

We have on the other hand for many months been fully aware of the nedessity of curtailing credits for speculative purposes and since the recent enactment of the Pennsylvania State Law permitting the charging of over six per cent (6%) on demand loans, have been able to reduce our brokers' loans from $26,938,000 on March 19th to $12,464,000 on May 7th, which is a ridiculously small amount for a Bank of this size to be carrying when you consider that our total loans and investments are $229,000,000.

We have also been refusing to make loans to individuals for the purpose of taking up speculative accounts with brokers.

During the past two weeks and before receiving your letter of May 6th, we have reduced our debt to you from $26,000,000 to $5,500,000. which is evidence of our ability and willingness to co-operate with the spirit of your communication.

We beg to assure you, however, that we are in a highly competitive business and at times need varying sums of money to care for a widely diversified clientele of legitimate users of money and we feel for this purpose, we have a right to call upon the Federal Reserve Bank for rediscounts within reason.

Respectfully submitted,

(Signed) Joseph Wayne, Jr.

President

To the
Honorable George W. Norris,
Governor, Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

(COPY)

THE MANAYUNK-QUAKER CITY NATIONAL BANK

Philadelphia, May 7, 1929

Hon. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia.

Dear Governor Norris;

We are in receipt of your letter of May 6th and have very carefully noted its contents.

You say our loans on securities have increased about $291,000. This is correct, but a large majority of these loans have been loans to industrial business, but as the notes carried collateral we have accordingly listed them as time loans with collateral.

We are carrying at the present time $685,000 loans to brokers, who have been doing business with us for some time and naturally look for some accommodation. We are not increasing these loans.

Please note also that our bond account as of December 31, 1928 stood at $2,129,000. On May 6th this account had been reduced through sales to $1,550,000.

On April 16, 1928 at the time of the merger of this institution we had on deposit ....$12,502,146.
On December 31, 1928 .... 11,962,000.
On May 6, 1929 .... 10,869,000.
a reduction of approximately $1,600,000. We are not taking into consideration the new accounts, which we have put on our books during the past year, which would increase this reduction very much.

We are trying to co-operate with your bank in every way, but I feel that while the Federal Reserve System has been cognizant of the credit situation, which has been growing for some time, a lack of sufficient action has produced a condition which is responsible for large balances being withdrawn to be placed on call in the stock market.

At the time I received your letter one of our customers was at my desk, advising me that he was withdrawing a $100,000 deposit, which he had with us to be placed with a broker at the 14% rate today.

If we had the balances, which we know have been reduced to be placed on call in the market due to this situation, we would not be borrowing any money from your institution.

We feel that we are not making any loans inconsistent with your policy and we are doing our utmost to help in the situation.

Yours very truly,

(Signed) W. A. Dyer
President.

(COPY)

CORN EXCHANGE NATIONAL BANK AND TRUST COMPANY

Philadelphia, May 8, 1929.

Mr. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pennsylvania.

My dear Governor:

The officers of this bank have carefully read your letter of May 6, and the letter of the Federal Reserve Board attached.

In the latter letter, there is an inquiry as to whether there is anything in the bank's condition which makes it impracticable for it to readjust its position in accordance with the principle outlined, in our particular case there is.

At the request of the Philadelphia Clearing House and the State Banking Department, we have taken over the Union Bank and Trust Company and are attempting to liquidate it. The Union Bank deposits dropped $10,000,000 in a few weeks' time with practically no drop in loans and investments. We are liquidating this bank in cooperation with the banks of the Clearing House, and I feel we have done the public a very good service in taking on this work. If this bank had closed with twenty-five or thirty millions of assets when the money market in New York was 20% it might have caused widespread trouble and very likely would have caused several other banks in Philadelphia to close. We have succeeded in liquidating quite a lot of this business, and with borrowing only four millions from the Federal Reserve at the present time, I think is doing very well.

My sympathy has been with the Federal Reserve Bank, and I know their task is a most difficult one, but I think the statement that a member bank is not within its reasonable claims for rediscount facilities because it has some speculative loans in its portfolio is not a proper statement for an important body like the Federal Reserve Board to make, and while I have been in favor of curbing speculation, I think there is a great deal of truth in Secretary Owens' statement made a few days ago in the papers. The Federal Reserve Board can carry its plans too far for the good of the country. Many commercial loans that formerly were financed through the banks are being handled through the open market, and I think the basis for the whole trouble as far as tightening of money is that we have bought some fifteen billions of foreign bonds. Perhaps it might have been better if the gate had been closed when these issues were flowing so steadily from foreign countries.

I do not wish you to get the impression that we are not anxious to cooperate with you in this matter, but we feel that the situation is one that will have to be handled very carefully, and the statement that the Federal Reserve Board makes is too drastic. I think it might be well the next vacation the Board takes, instead of crossing the Atlantic to the east, that they cross the Rockies to the west, and see what a wonderful country the United States really is. It seems that very few people in this country realize the tremendous wealth and resources that we have, and I further feel that the amount of loans on collateral are not very much out of the way in proportion to the wealth of the country.

(COPY)

CORN EXCHANGE NATIONAL BANK AND TRUST COMPANY

Enclosed is a copy of "The Corn Exchange" published by this bank whic h contains an article on "Brokers Loans." This was written some time ago, but I think it contains many pertinent facts.

I see the railroads have been asked to reduce freight rates on wheat shipments to help in the exporting of our surplus. If some of these shippers wanted several thousand dollars to finance this, with the present condition of the money market, and the temperament of the Federal Reserve Board, I should be inclined to turn them down. Personally, I feel there is plenty of credit in the country to move all the crops that it will be necessary to move in the Fall and still allow the banks to carry a reasonable amount of collateral loans on their books.

Sincerely yours,

(Signed) CHAS. S. CALWELL,
President.

CSC-G

(COPY)

PROVIDENT TRUST COMPANY
OF PHILADELPHIA

May 8, 1929 877

Hon. GGeorge W. Norris, Governor,
Federal Reserve Bank of Philadelphia,
925 Chestnut Street, Phila., Pa.

My dear Governor Norris:

I am writing in reply to your letter of May 6th, enclosing copy of letter addressed to the Acting Chairman of your Board of Directors by the Federal Reserve Board under date of April 30, 1929.

We had duly noted the request contained in your letter of February 21st last to co-operate "in correcting the existing overextension of credit" and "to be on guard against 'the growing tendency of persons speculating in the stock market, under the pressure of high carrying charges by brokers, practically to transfer their accounts to banks'." While the "security loans" of this Company have in the past represented a comparatively small proportion of its total "loans, discounts and investments", particular attention was given to your request, a substantial decrease was effected in the aggregate of our loans to brokers, and there appears to us to have been no undue increase in security loans to others, with proper regard to the legitimate needs of our customers. Our officers believed that the extent of our borrowing at the Federal Reserve Bank had been entirely justified by the proper needs of the Company in the conduct of its business, but desiring to evidence their cooperation in the results sought as indicated in your letter of February 21st, decided to proceed within as short a time as practicable to effect a substantial reduction in its debt to the Federal Reserve Bank. While no progress in this respect appears from a comparison of our reports for February 6th and April 24th, the two dates referred to in the correspondence, there had actually been a considerable reduction from the maximum of our borrowings since the first of the year, and as a definite result of the process of adjustment we had undertaken, the report which I received in due course this morning shows that we were out of debt to the Federal Reserve Bank at the close of business yesterday, May 7th.

It seems hardly necessary for me to reply at greater length to your letter or to the communication from the Federal Reserve Board enclosed with it. I shall, however, be glad to supplement this letter to any extent that may be necessary or desirable for your purpose.

Very truly yours,

(Signed) Parker S. Williams,
President.

THE PENNSYLVANIA COMPANY

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Philadelphia, Pa., May 16th, 1929.

Mr. George W. Norris, Governor,
Federal Reserve Bank,
Philadelphia, Pa.

Dear Mr. Norris:-

In Mr. Packard's absence I am taking the liberty of replying to your letter under date of May 6th with further reference to previous correspondence in regard to the objections of the Federal Reserve Board to the member banks borrowing continuously from your bank, and wish to make the following statements:-

1. As soon as possible after the receipt of your letter this Company paid off its loans secured by Treasury Certificates, and also commercial paper rediscounted with your bank, both of which aggregated some $4,865,000. This liquidation was accomplished partly by the calling of loans and partly by the sale of our investments. Previous to this we sold some $6,000,000 United States 3 3/8's in order to satisfy the demands of the Federal Reserve Board.

2. For your information I would advise you that in order to cooperate and to attempt to comply with the requirements of the Federal Reserve Board this Company sold some 50,000 shares of treasury stock netting $5,000,000, and also sold 100,000 shares of Real Estate-Land Title & Trust Company stock held in its investments, netting the Company some $7,500,000.

This information is transmitted to you in order that you may realize that this Company has attempted to cooperate with the Federal Reserve Board's requirements in every way, and to that end has sold Real Estate-Land Title & Trust Company stock, a valuable investment.

You of course realize that owing to the rate of interest being at six per cent until the latter part of April, when the new Act was passed, the banks, in an effort to be helpful in the situation by taking care of their clients' requirements, were steadily losing deposits, which were withdrawn and taken to New York to be loaned at the call money rate there.

I feel that the Federal Reserve Board, with its ability to secure facts and figures not available to other agencies, must have realized the situation, and in my personal opinion it would have been more conducive to good feeling on the part of the member banks if the Federal Reserve Board had not criticized the Philadelphia institutions at this time.

Awaiting your further advice, I am,

Yours very truly,

C. S. Newhall,

Executive Vice President.

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FEDERAL RESERVE BANK OF SAN FRANCISCO.

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May 20, 1929.

Federal Reserve Board,
Washington,
D. C.

Dear Sirs:

Reference is made to my letter of May 10 in reply to yours of May 2. It was impossible to place ourselves in communication with the principals of the four banks mentioned in your letter and to prepare a complete report for submission to our Board of Directors on May 16. We have, however, interviewed three of the four gentlemen, have written to the fourth, and anticipate very shortly to be able to give you a full report in regard to these banks.

In the meantime, I wish to call your attention to the following:

(1) The Bank of Italy National Trust and Savings Association has not borrowed from this bank, except for one day, since May 13;

(2) The Crocker First National Bank has reduced slightly - $4,800,000 on May 15, $6,900,000 on May 20, $9,200,000 on March 1;

(3) The Wells Fargo Bank and Union Trust Company has reduced from $11,200,000 on May 2 to $7,500,000 on May 20.

We hope that, as a result of our interviews, we shall be able to report further reductions in the amounts borrowed by the Crocker First National and Wells Fargo. As for the American Trust Company, we have nothing favorable to report.

Yours very truly,

(S) Isaac B. Newton,

Chairman of the Board.

COPY---

May 20, 1929.

Questions for New York Federal Reserve Bank:

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1. Purpose of the 6% rate, -

(a) To correct relation of rates?

A 5½% rate would do this, except as to acceptances.

What rate on acceptances would you favor if the discount rate is 6%.

(b) To diminish the demand for speculative loans by brokers and customers?

This means to deflate credit on the New York Stock Exchange.

Federal Reserve Bank of Cleveland, - "control of present disturbed credit situation arising from condition of the speculative security market."

McGarrah's letter February 21.
Memorandum February 7th.

Governor Harrison's letter April 9th.

2. Has not the firming policy of the System under the 5% rate brought about a material liquidation in Federal Reserve credit?

Your bills and securities have declined 21% on the average, since January.

Has not this firming policy been, on the whole, successful?

3. Is the 6% rate designed to increase this rate of liquidation?

4. Were it not for the New York speculative situation, would not business be entitled today to a lower rate, e.g. a 4½% rate?

5. Is not the New York speculative fever thriving today chiefly on cash purchases or "loans for others?" and to an increasingly less degree on Federal Reserve credit?

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6. Why then do you wish to penalize business to correct a situation not caused by any business or agricultural speculation, and not now appreciably caused by abuses of Federal Reserve credit?

7. Apparent change in position as to increase of rates.

Governor Harrison, April 9th, favored an affirmative policy of rate increases.

Your letter May 10th:

"The increase to 6% might not immediately accomplish its purpose, but as a supplement to all the other efforts that have been made and will continue to be made, will expedite the accomplishment of that purpose."

8. If the 6% rate fails in its purpose, do you still favor an affirmative rate policy of 7, 8 or 9%?

9. What are the "other efforts" you say above you will make under the 6% rate?

10. Has the Federal Reserve Board any further duty to perform when it has established a rate which accommodates business and industry, and which is gradually preventing diversion of Federal Reserve credit into speculative channels?

11. Your letter of May 10th claims that the Board's letter of May 1 lays down a new and dangerous test of the abuse of Federal Reserve credit, - "considerable volume of security loans."

Are not security loans one factor in the abuse of Federal Reserve credit?

That is, when a bank is borrowing from the Federal Reserve bank too much or too frequently, are not its security loans as well as all its other loans a fair subject for "scrutiny and supervision," which in your letter of February 21st, and Governor Harrison's letter of April 29th, states the bank exercises when member banks are too frequent borrowers?

12. Were not the 14 New York banks referred to in the Board's letter of May 1st "too frequent borrowers?"

(a) Each bank borrowed from the Federal Reserve bank on more than a majority of Wednesdays for the year ending January 31, 1929. These borrowings varied from 52% to 98% of the time.

(b) Each bank borrowed from the Federal Reserve bank on more than a majority of the 14 Wednesdays from February 6th to May 8th.

1 bank borrowed 8 days out of the 14.
3 banks " 9 " " " " "
1 bank " 11 " " " " "
3 banks " 12 " " " " "
5 banks " 13 "" " " " "
1 bank borrowed every day of the 14.

(c) Their total borrowings increased between February 6th and May 8th from 92.3 millions to 158.5 millions, an increase of 66.2 millions or 71%.

(d) Their security loans during the same period increased 44.2 millions.

(e) Although they reduced their brokers' loans during this period about 100 millions, they were still loaning 397.4 millions on brokers loans.

13. Under existing abnormal conditions, is it a new and dangerous test of the abuse of Federal Reserve credit to scrutinize all of the loans, including security loans, of banks which are frequent borrowers, and whose borrowings from the Federal Reserve bank have increased 71% in three months?

14. As brokers' loans can be and are being turned into customers' security loans, are not these latter loans a vital element in considering the abuse of Federal Reserve credit?

15. The Board did not ask your bank to demand liquidation of these customers security loans, but merely requested you to ask them whether they could not liquidate some further of their borrowings from your bank, pointing out their considerable and increasing volume of security loans as one factor to be discussed with them in its bearing on the present volume of their borrowings.

16. You state in your letter of May 10th that your directors doubt as to their legal right to refuse accommodation to a bank wishing to restore its reserves, solely on the ground that the deficit in the reserve is caused by increasing deposits growing out of security loans.

17. The Board has not asked you to refuse discounts for the above, or for any other purpose.

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18. Do you doubt your legal authority to refuse discounts to replace reserves in cases of deposits arising from commodity speculative loans?

19. If you have the above power as to speculative commodity loans, can it be that you are powerless with regard to stock security loans?

20. Is it not your real position that banks, even in these abnormal times, have the right to borrow from you to make good their reserves against deposits arising from customers' security loans, to any amount they may desire , free from all control on the part of your bank except that afforded by increased discount rates?

21. If this is good law, or good banking practice, does it not throw into the discard all so-called "direct action" or pressure?

22. If your position is correct, what loans would remain on which your bank could exercise "scrutiny and supervision" which you state you always exercise where abank is borrowing too much or too frequently?

May 28, 1929.

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Memorandum.

1. The real problem is how to insure a reduction in the Federal Reserve rate from the present rate of 5% to 4½% before the expected agricultural and business demand arises.

2. There is no question but that speculative security loans have absorbed so much of Federal Reserve credit that business rates have been increased.

3. This diversion of Federal Reserve credit must be brought within bounds before any reduction can be made from existing Federal Reserve rates.

4. How shall we solve the problem?

New York said on February 14th, - by increasing the rates affirmatively from 6 to possibly 9%, and then reverse it.

The Federal Reserve Board said by using direct pressure under the 5% rate.

5. I believe that the New York plan, at that time, would necessarily consume more time in stopping the diversion of Federal Reserve credit than the plan adopted by the Board, and I believe that an increase at that time to 6% would be absolutely negligible in its result.

6. The Board has been so successful in the policy of direct pressure, however, that I believe a 6% rate today would be a very much more potent force than it would have been three months ago.

7. Because of the above, it seems to me the question whether a 6% rate added to direct pressure will more quickly solve the problem than by direct pressure alone, is a fair subject for study and investigation.

8. If we adopt a policy of easing bill rates, thus helping business materially, we would leave the 6% rate primarily operating upon diversion of Federal Reserve credit into security loans.

9. I have always taken the position that while adverse to penalizing business for the correction of security speculation, yet that a crisis might arise where such action would be justified, provided there is reasonable ground for belief that we should be able within a reasonable time, under such increased rates, to regulate the flow of credit and then to restore the lower rate to business.

10. The broad question now before us, is whether an increase in discount rates to 6%, coupled with a decided easing in the bill market, will not enable us to correct the diversion of credit into speculative loans, and then reduce the commercial paper rate.

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11. Under the new condition created by direct action, I am glad to examine into this whole question, with a view to discovering some common ground on which we can stand.

12. My opinion as to the conditions existing on February 14th is unchanged.

13. Whether the conditions existing on February 14th have not changed is a fair question for present consideration.

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FEDERAL RESERVE BANK OF ATLANTA

May 28, 1929.

The Federal Reserve Board,
Washington, D. C.

Dear Sirs:

Under date of May 7th, and 11th, I wrote you in reply to your letter of May 2nd, in which you reviewed banking developments (as disclosed in statements of condition of 592 reporting banks) on February 6th and April 24th.

Since I wrote you Governor Black has written a letter to each of the larger banks in this District which were rediscounting with the Federal Reserve Bank of Atlanta, asking for specific information regarding their loans on securities, and he has received thirty replies.

We are altogether pleased with the nature of the replies and we believe that the information contained in them bears us out in the statement that these banks are using Federal Reserve funds for commercial, industrial and agricultural purposes; and that they are in accord with the policy of the Federal Reserve Board and of this bank. We will be glad to furnish you copies of the letters from the banks if you desire them.

Very truly yours,

(S) Oscar Newton,

Chairman.

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FEDERAL RESERVE BANK OF NEW YORK

May 31, 1929.

Dear Governor Young:

It is the belief of the directors of this bank that the Federal Reserve Board policy of seeking the control of creditwithout an increase in the discount rate and otherwise as generally understood, has created much uncertainty throughout the country, and that the bringing of the Federal Reserve Board and this bank into harmony with respect to a program which will remove uncertainty is essential to the restoration of confidence and the development of a situation where a relaxation of credit in the interest of the country as a whole may be more quickly permitted. They believe that at the moment the agreement upon a mutually satisfactory program is far more important than the discount rate.

For months the directors of this bank have voted a rate which they have regarded as one that would be a more effective rate and that would more quickly make lower rates possible. Their action has been disapproved by the Federal Reserve Board. In view of recent changes in the business and credit situation, we believe that a rate change now without a mutually satisfactory progress might only aggravate existing tendencies.

With this in view, and in the interest of trade, industry, and agriculture, we believe that it may soon be necessary

(1) To establish a less restrictive discount policy in order that member banks may more freely borrow for the proper conduct of their business.
(2) To correct the widely understood intimation of the Federal Reserve Board, that collateral loans are not a proper function of legitimate banking.
(3) To be prepared to increase the Federal Reserve bank portfolios if and when any real need of doing so becomes apparent.

These steps may be necessary in order to restore business confidence, permit of the reopening of a bond market, and to make funds more freely available to finance our export trade, especially in agricultural products at the time of crop movement.

Whether all this can safely be done without a firm rate control policy we are prepared to discuss, but a longer discussion as to the discount rate without a real understanding regarding a future program we regard as futile. Our directors, therefore, refrain from rate action in the hope that a general policy in which both we and the Board can concur may be quickly determined.

Very truly yours,

(Signed) G. W. McGarrah,
Chairman.

Hon. R. A. Young, Governor,
Federal Reserve Board,
Washington, D. C.

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STATEMENT PREPARED AND SUBMITTED PERSONALLY BY MR. CHARLES E. MITCHELL DURING MEETING WITH THE FEDERAL RESERVE BOARD ON JUNE 5, 1929.

1. Facts clearly indicate the necessity for

(a) An increase in security borrowing between now and July 10.

(b) An increase in agricultural borrowing in the late summer.

(c) A readjustment of credits over July 1 by reason of dividend interest and currency requirements and by reason of the proverbial window dressing that will create a heavy strain especially in New York.

2. All this points to the definite necessity of increased rediscounting of member banks, and if such rediscounts become so excessively large as to unduly tighten the banking system, then such relief must come through some release of Federal Reserve credit, through the purchase of bills, or government securities, or both.

3. If such increase in rediscounts and Federal Reserve portfolios leads to an undue increase in loans either through giving an incentive to security speculation, land speculation, trade inventory speculation or agricultural product speculation, then a rate increase is justified, perhaps several increases with always a willingness to reduce rates as easier conditions justify.

4. This all involves a change of Reserve policy that should be publicly understood but it must be made clear to the country, not through an announcement indicating that the desired goal of the Reserve Board has now been reached and the deduction made by the public that "the lid is off", but an announcement that the Federal Reserve Board and the Banks are now in accord regarding facts and future program and indicating that the Reserve System will during coming months, express itself through the rediscount rate - always working toward the goal of sound business, sound banking and ultimate ease of credit.

- - - - - - - - -

(Presented to & Approved by
Board of Directors
June 6, 1929.

(S) S. G. Sargent,
Secretary pro tempore)

FEDERAL RESERVE BANK OF SAN FRANCISCO

June 6, 1929.

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Board of Directors,
Federal Reserve Bank of San Francisco.

Gentlemen:

At our adjourned meeting held on May 9, a letter from the Federal Reserve Board was presented, calling attention particularly to four banks that were and had been steady borrowers and requesting the action of this Board in cooperating with the Federal Reserve Board at Washington in whatever steps were necessary to readjust the position of these banks. After discussion, you will remember, it was thought best to refer the matter to the Governor of this bank and to the Chairman of this Board, and to have them report their actions at the next meeting on May 16. As there was only one week between the two meetings, little was accomplished during that time and further time was asked for. This being the next meeting of the Board of Directors, we present herewith the results of our conferences.

Before presenting to you the history of the conferences that have taken place since the 9th of May, we should like to call your attention to the letter written by the Federal Reserve Board under date of February 2, our answer thereto, and the action that was taken in regard to it. After receipt of the letter of February 2, your Governor and Chairman had conferences with the representatives of the following San Francisco banks:

> Mr. Bacigalupi of the Bank of Italy National Trust and Savings Association,
> Mr. Drum of the American Trust Company,
> Mr. Lipman of the Wells Fargo Bank and Union Trust Co.,
> Mr. Avenali of the Crocker First National Bank.

To these gentlemen was presented the proposition that they had been very steady borrowers for the past year, and statements were shown them as to what percentage of time their banks had been rediscounting and as to what extent their reserve had been used in this rediscounting.

Every one of these four gentlemen presented the following reasons for the steady rediscounting:

> In the first place, a very decided decrease in deposits which was unexpected and unseasonal.
>
> In the second place, a large portfolio of bonds which at that time and at the present time could not be sold without material loss.

Each of them offered to sell their bonds and take the loss if we, as officers of this bank, made such a request. That request your representatives declined to make, not wishing to take the responsibility of forcing the loss, but they were told that in institutions of their size they should be able within a reasonable time to make such readjustments as would permit them to cancel their indebtedness to this bank. It was the expectation that such reductions would gradually come about and, in the case of two banks, they did materialize although one of them came back for a short time for as large an amount as they had rediscounted before, but at the present time are not indebted to this bank. On February 9, the American Trust Company was owing us $9,000,000, the Wells Fargo Bank and Union Trust Company $7,700,000, the Bank of Italy National Trust and Savings Association $30,250,000, and the Crocker First National Bank $6,300,000.

At the time of receipt of the telegram from the Federal Reserve Board under date of March 19, the rediscounts of these various banks were as follows:

American Trust Company...............	$7,500,000
Wells Fargo Bank and Union Trust Company.........................	9,900,000
Bank of Italy National Trust and Savings Association.............	24,500,000
Crocker First National Bank..........	7,950,000

There had been little change in the rediscounts of these banks except that there was a gradual reduction on the part of the American Trust Company, and under date of April 5 their rediscounts had been reduced to $1,000,000. From that point, however, they steadily increased again until under date of May 17 when the amount was $11,000,000, but on June 5 they were not indebted to this bank.

From March 19, the rediscounts of the Bank of Italy National Trust and Savings Association increased to $35,750,000 on April 4, from which point there was a gradual reduction until May 13 at which time they paid in full. Since that date, they have rediscounted simply over night on four occasions and for small amounts until June 4 when they rediscounted to the extent of $11,250,000.

After our meeting of May 9, no conference was held with Mr. Bacigalupi as that bank had shown material reductions, their loans at that time being $8,000,000. Conferences were held with Mr. Avenali and Mr. Lipman separately, representing the Crocker First National Bank and the Wells Fargo Bank and Union Trust Company, and Mr. Avenali gave us reason to believe that their rediscounts would be materially reduced. At this time, they are $4,500,000. Mr. Lipman was impressed with the thought that on account of their seasonal requirements their rediscounts were more likely to be increased than reduced. However, they have been reduced from March 19 to the present time from $9,900,000 to $7,100,000. A letter was written to Mr. Drum, requesting that he make a statement regarding the position of the American Trust Company. This letter remained unanswered but Mr. Drum personally called and gave little assurance as to a reduction in their loans. Desiring a written answer from him, a second letter was sent and this was answered by Mr. McKee, Chairman of the Board, who said:

> "We beg to acknowledge receipt of your favor of the twentieth instant addressed to Mr. Drum, which refers to your letter to him of the thirteenth instant.

"Mr. Drum will be away from San Francisco for a short time, but the writer understands that Mr. Drum replied verbally to your former letter.

In this connection, we beg to say that it is our intention to liquidate completely our borrowings from the Federal Reserve Bank, and we expect that this will be accomplished in the very near future."

Since receiving the above letter from Mr. McKee, he has kept his promise and at this time the American Trust Company does not owe anything to this institution.

At our earliest conferences with the representatives of these banks, reference was made by each of them to their loss of deposits, and in referring to condition reports filed on December 31, 1928 and March 27, 1929, we find that reduction of deposits over that period of time had been about as follows:

American Trust Company..............	$18,000,000
Bank of Italy National Trust and Savings Association............	68,500,000
Crocker First National Bank.........	5,500,000
Wells Fargo Bank and Union Trust Company........................	9,500,000

or a total of $101,500,000 out of a total loss of deposits of member banks in the city of $110,000,000. (The amounts shown for the American Trust Company and the Bank of Italy National Trust and Savings Association are total losses of deposits in San Francisco and statewide branches, and should be shown as a whole for the reason that all their rediscounting is done at this office.) As far as we are able to ascertain, the deposits of these four member banks have changed very little since the report of March 27, and the anticipated increase in deposits has not materialized.

Summarizing the loans of these four institutions, we wish to call your attention to the fact that on March 6 they owed this bank $61,000,000, on April 6 $56,800,000, on May 6 $37,000,000, and today, June 6, $15,500,000.

There is a feature in connection with banking in San Francisco which differs, in our opinion, from any other section of the United States, and this is known as "deposit dumping" and is caused largely through difference of time between the East and the West, and aided through our free telegraphic transfer system. The wire transfer facilities of the Federal Reserve System have developed this new problem, or at least aggravated an old problem, of banking on the Pacific Coast which appears to be intimately related with the borrowing practices of member banks in the city of San Francisco. This problem has been briefly styled, as above, the problem of "Deposit dumping." Deposit dumping grows out of the differences in time between Atlantic Coast, Central, Mountain and Pacific Coast points and the easy method of utilizing that time difference which the Federal Reserve wire transfer system provides. Banks in that part of the United States lying east of the Rocky Mountains, finding themselves with a surplus of funds just before the close of business, can and do transfer those funds to banks on the Pacific Coast (particularly Los Angeles) for deposit, the transaction being completed well before the close of business on the Pacific Coast. The Pacific Coast banks are immediately faced with the task of finding profitable employment for these funds, a difficult task in most cases both because of the lateness of the hour at which they are received and because they may be withdrawn the following morning. In cities other than San Francisco, the problem is quite often solved by re-transferring the deposit to a bank in San Francisco, the financial center of the area. San Francisco is, at present, the end of the deposit dumping trail, and the San Francisco banks can turn to no one but the Federal Reserve Bank for relief. This they do, and this is responsible for part of the more or less continuous borrowing of certain member banks in the city of San Francisco. If a San Francisco bank is in debt at the Federal Reserve Bank when a late afternoon transfer of funds is received, it can immediately apply those funds to its debt at the Reserve Bank. If the San Francisco bank is not in debt at the Federal Reserve Bank when it receives such a transfer of funds, it may easily become the temporary holder of an unprofitable deposit. A constant debt at the Federal Reserve Bank of San Francisco provides the member banks of the city of San Francisco with a convenient means of combatting the problem of deposit dumping. Whether or not some other means of combatting this problem can or should be devised, is an open question which does not change the present facts.

The amount of deposit dumping, however, does not necessitate the continuous borrowing in the large amounts that these four mentioned banks have been in the habit of using, but a reasonable amount which can be utilized to overcome this terminal facility may not be considered out of place.

Respectfully submitted,

(S) Isaac B. Newton,
Chairman of the Board

(S) Wm. A. Day,
Deputy Governor.

e 7, 1929.

2nd draft.

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Memorandum.

By C.S.H.

1. The firming policy of the Federal Reserve System, which began late in the year 1927, and the further statement in the Federal Reserve Bulletin released February 7, 1929, on the subject of speculative loans, and the direct action taken thereunder, have been most successful. Federal Reserve credit outstanding, comparing the averages for the months of January and May, show a decline of 310 millions in May 1929 as against an increase of 84 millions in May 1928. All this was accomplished without changing the maximum Federal Reserve rate of 5%.

2. The Board feels that the success of this experiment has demonstrated, to use the words of the London Economist of May 11, 1929, pages 4 and 5:

> "The final lesson is perhaps the most important. It is that when stock prices are rapidly rising, high money rates are only an ineffective deterrent which penalizes the innocent without troubling the guilty. The only remedy against rampant speculation is to cut off funds altogether.
>
> "The events of the past year have seen the beginnings of a new technique which, if maintained and developed, may succeed in rationing the speculator without injuring the trader."

3. The almost spectacular decline in outstanding Federal Reserve credit has been accomplished by a decline in member bank reserves, and to a much greater extent by gold imports and withdrawals of money from circulation. The Federal Reserve policy has diverted these two latter forces from further expansion into a liquidation of Federal Reserve credit.

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4. At the time of the Board's circular of February 7, 1929, a majority of the Board felt that an increase in the discount rate to 6% would bear heavily upon commerce and business, without affording any certainty of relief from the increasing demands of speculative credit.

5. At the present time, however, conditions have so changed under the operation of Federal Reserve policies, that the time is nearly at hand when there can be a reasonable increase in Federal Reserve credit, and a majority of the Board feels that this will afford a conclusive test as to whether the existing 5% rate is a well-adjusted rate, or whether rate increases should be made.

6. To apply this test, reasonable increases in discounts should be permitted, and further easing of the market should be brought about by lower bill purchasing rates.

7. Should lowering of the bill rates result in increased holdings of bills by the Federal Reserve System, and should the proceeds of these bills be used merely to take down rediscounts, it would seem evident that the 5% rate is justified. Should, on the other hand, the proceeds of these bills be used as a basis of reserves against deposits arising out of increasing demand for loans, that in itself would seem to justify the easing policy as regards bills. Should, however, added thereto, there arise further demands for rediscounts as a basis of reserves against an increasing demand for loans which seems to be unreasonable and uncalled for, the Board will be ready to meet the situation either by a resumption of the policy of direct pressure upon member banks borrowing unreasonably, by an increase in discount rates, - whichever method will afford speedier relief to agriculture and business, - or by the use of both methods.

Revised Copy.

Miller
June 10. 29

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Points for consideration in connection with basis of Federal Reserve credit policy in the near future, and particularly in connection with the handling of crop-moving credit requirements in the autumn.

1. The firm money policy pursued by the Reserve System for more than a year has resulted in a substantial improvement in the general credit situation; the total volume of credit in use in the country has expanded at a rate of about 4 per cent as compared with the previous annual average rate of increase of about 7 per cent. This has been accomplished without undue strain on credit conditions affecting trade and industry.

2. Since early February the money policy of the Federal Reserve System has expressed itself primarily through what is called "direct pressure," exerted against member banks making misuse of Federal Reserve credit. This policy has been effective in reducing the volume of borrowings from Federal reserve banks by some member banks and in the case of others of checking their borrowings.

3. "Direct pressure," on the basis of recent experience may be concluded to be a practicable technique in Federal Reserve banking practice in dealing with certain types of misuse of Federal Reserve credit facilities by member banks. It has not, however, been fully effective in all cases, nor does it appear that it can be fully effective, in the case of member banks whose condition is, to speak practically, so unliquid as to make liquidation of the accommodation they have received from Federal reserve banks necessarily a slow process.

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4. This whole recent experience has demonstrated again that the liquidity of the Federal reserve banks is dependent to a large degree upon the liquidity of their member banks; when member banks use the resources of Federal reserve banks to expand their security loans on a considerable scale, they involve the liquidity of the Federal Reserve System and thereby weaken it, for such loans can not be liquidated on a large scale by banks and in a brief period of time without producing serious unsettlement.

unrecoverable

The distinction between so-called "proper" uses and so-called "improper" uses of Federal Reserve credit gets its meaning and its justification as a principle to be observed in Reserve banking from the fact that certain types of credit are liquid and certain other types are not liquid in the sense of genuine economic liquidity.

5. To safeguard permanently the operation of the Federal Reserve System it is necessary that no departure from the principles announced by the Board February last with regard to the use of Federal Reserve credit be unnecessarily taken. On the contrary, the method of "direct pressure," it appears, will be a necessary element in Federal Reserve practice in the future as regards certain types of misuse of credit.

Employed in the recent past as a method of correcting unsound banking conditions and practices, "direct pressure" will find its status in the future as a means of preventing the development of such conditions so far as the Federal Reserve is related to them. It will become a method of sanitation instead of deflation.

The position publicly taken by the Federal Reserve Board February last was taken deliberately. To this position it holds fast. It is satisfied at once of the reasonableness, in the interest of good Federal Reserve banking, of its position and of its necessity.

6. It may be that rigid application of the Board's policy will have to be suspended during the period of the autumn credit requirements, in order that the trade and industry of the country shall not suffer. To this end it may be necessary for Federal reserve banks to permit member banks that have not found it practicable to readjust their position in accordance with the Board's principle, to avail themselves of the rediscount facilities of the Federal reserve banks for such purposes and for such periods of time as the Federal reserve bank may deem to be essential.

7. Any general easing of credit conditions is likely to require an increase in the total volume of Federal Reserve credit in use. The best and safest method of accomplishing this during the late summer and autumn period will be by the purchase of bills. All things considered, the attitude of the Federal Reserve toward money conditions will best be expressed by the bill rate during coming months.

Skilful adaptation of a bill purchase policy to the trend of conditions will enable the Federal Reserve to bring ease to the credit situation where easing is necessary and with a minimum of

protection against unreasonable use of F.R. credit

interference with the Board's policy of (discrimination against uses of Federal Reserve credit for speculative loans.)

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8. The Federal Reserve System will probably be in the best position after the autumn crop movements are over to readjust its attitude toward the money market in accordance with conditions that are more nearly normal than any that have existed for the past two years.

Whatever change in discount rate seem warranted or justified by underlying economic and business conditions, if any, can then intelligently be made.

The whole matter of the credit rate structure will be one for primary consideration at the autumn Conference of Chairmen and Governors of the Reserve banks following the peak of crop-moving demands.

At the same time the whole question of Federal Reserve procedure with regard to credit technique and control should have its future status definitely determined by the Board.

A. C. Miller
June 10, 1929.

June 10, 1929.

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Memorandum.

By C.S.H.

1. I assume that in the near future there will be no great increase in gold imports, nor material withdrawals of money from circulation. (As to the latter the contrary seems to be indicated.)

2. I agree with Mr. Mitchell that Federal Reserve credit, - in the absence of factors indicated in #1 above, - in the near future very probably should be increased, such increase to take the form of bill purchases (rates being lowered for this purpose), rediscounts, and possibly purchases of Government securities, - the latter primarily to meet unforeseen emergencies.

3. While I have always been averse, on general principles, to attempting to curb speculative stock activity through increased discount rates imposed on agriculture and industry, I have never denied that, under exceptional conditions, such action may become necessary.

4. Under any future conditions which may arise, the question to my mind is as to which is the quickest way to relieve agriculture and business from the strain caused by absorption of credit into stock speculation. If we reach the conclusion that the quickest way would be through increase in discount rates, I should vote for such action. On the other hand, if I felt that the quickest method of affording relief to agriculture and business would be through direct action, I should not hesitate to use such method.

5. When the Board's statement of February 5th was issued, I believed that direct action would afford speedier relief, for I ~~knew~~ believed that an increase in the discount rate to 6% would certainly bear heavily upon agriculture and business, but would, in all probability, have little or no effect on security speculative loans. I still am of that opinion under the condition existing at that time.

6. I believe now, largely owing to the effect of this direct action, that conditions have radically changed, and that an increase to 6% at the present time would have very much greater effect on member banks' borrowings to support speculative loans than could possibly have been the case in February of this year.

7. Should speculative activity in the stock market again become rampant, I should examine into the matter with an open mind, free to choose what I

believe to be the speediest approach to the relief needed for agriculture and industry.

8. I believe that the policy of direct action may safely now be suspended, as it has, for the time being at least, achieved its purpose of reducing Federal Reserve credit, thus cutting off its use as basis for speculative loans.

9. On the other hand, I am not prepared to accept Mr. Mitchell's suggestion that the Board definitely agree to confine itself to the discount rate in controlling Federal Reserve credit during the coming months.

10. I appreciate, however, that the policy of direct action has so paved the way that if any emergency arises in the near future it may appear that an increase in discount rates may be the speediest method of obtaining relief, with the reasonable hope that lower rates may speedily be assured, to the advancement of agriculture and industry.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date June 11, 1929

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

EAG.

B9!

2—8495

I have read your memorandum of June tenth and find nothing in it that is not in agreement with the facts. It represents, of course, on many points, the taking of a position and the expression of a judgment and I did not understand that you wished me to discuss that phase of it. I think that your No. 8 may be misleading, because it appears to say that the object of direct action was to reduce the volume of Federal reserve credit. As I read the Board's announcement and its policy, the object of direct action was, in its narrowest terms, to reduce the amount of Federal reserve credit used in the support of security loans, and, in broader terms, to reduce the amount of bank credit used in security loans by means of controlling continuous borrowers.

FEDERAL RESERVE BANK
OF NEW YORK

CONFIDENTIAL. June 12, 1929.

Dear Governor Young:

Our directors have considered with interest the report of the discussion which some of them had with the Federal Reserve Board on June 5, relative to a possible program to handle present and prospective credit problems.

In the face of conditions as they now appear, it seems likely

(a) That there will be an increase in security borrowing throughout the country between now and the early part of July.

(b) That there will be a large readjustment of credit over July 1 by reason of interest, dividend and currency requirements and by reason of window dressing, that may create a heavy strain upon the banks in financial centers, especially in New York.

(c) That there will be an increase in agricultural borrowing as the summer advances.

With these facts in mind the directors, as they now view the situation, believe in a general way

(a) That there will be a necessity for an increase in the rediscounts by member banks in this district and that member banks must be permitted to borrow from the Federal Reserve Bank for the proper conduct of their business, regardless of the fact that they may have substantial amounts of collateral loans outstanding.

(b) That if rediscounts required by the conditions above referred to become so large as to cause an undue credit strain then the Federal Reserve Bank might well be prepared, if necessary, to give temporary relief through open market operations in bills, government securities, or both, as the occasion warrants.

(c) That if for any reason, whether through the release of additional Federal reserve credit through rediscounts, or through possible later open market operations, or for any other reason, there should be renewed evidence of an excessive demand for credit, due to speculation in securities or to speculation in land, building, trade inventories, or commodities, then the remedy of increased discount rates should be applied promptly and vigorously in the interest of sound banking and the ultimate ease of credit.

(d) That any such rate increase or increases, if required, should of course be made only with the expectation that rates will be reduced as promptly as conditions permit.

Our directors feel that it is difficult, if not impossible, definitely to lay out any very specific credit program much in advance inasmuch as such a program might necessarily have to be changed in accordance with conditions as they develop. They believe, however, that if the above steps, designed to take care of midyear and seasonal needs, are taken without the protection of a higher discount rate, such as they have felt would have been desirable in order more quickly and safely to permit of relaxation in credit conditions, the System must then be prepared to resort to immediate rate action in the event of the possibilities pointed out above.

This letter will in substance confirm what I told you on the telephone on June 10, 1929, concerning the views of our directors.

Yoursvery truly,

(Signed) Geo. L. Harrison,
Governor

Honorable Roy A. Young, Governor
Federal Reserve Board,
Washington, D. C.

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Ser Bd

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June 12, 1929.

Dear Mr. McGarrah:

The Federal Reserve Board has given further consideration to the question of future program. The Board thoroughly realizes that many factors now unforeseen may enter into the credit situation during the coming months. However, it believes that at the moment there is a possibility of carrying out a program for the future months without an immediate raise in the discount rate or, at this writing, easing the situation either by the purchase of bills or Government securities.

Therefore, in an effort to develop a mutually satisfactory program, the Board suggests the following for your consideration, with the hope that no unforeseen developments will occur which will prompt anyone to change his position:

Since February the policy of the Federal Reserve System has expressed itself primarily through what is called "direct action" and this position was taken deliberately by the Federal Reserve Board. To this position it holds fast. It is satisfied with the reasonableness of its policy and with its necessity, even though the methods and degree of application may be controversial.

The Board, after a careful review of the credit situation, finds that the increased demand for credit to meet mid-year requirements and also the credit demands for early autumn will probably require member banks to increase their rediscounts at the Federal reserve banks. This situation will be better served by a temporary suspension of a rigid policy of direct pressure, which, however, should not be abandoned, but rather tempered in order to permit member banks that have not found it practicable to readjust their position in accordance with the Board's principle, to avail themselves of the rediscount facilities of

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the Federal Reserve banks for the purpose of avoiding, as far as possible, any undue strain or any unnecessary increase in the cost of credit in meeting the seasonal needs of agriculture, industry and commerce.

If such rediscounts become excessively large so as to unduly tighten the credit situation to a point where it acts as a deterrent to business and there are no other unsatisfactory factors in the situation, relief should be given through some release of Federal Reserve credit, preferably through the purchase of bills, but if it should appear at the time that such relief is not adequate or practicable, then, the Federal Reserve Board would be glad to give consideration to supplementing the relief through the purchase of short-time Government securities.

In suggesting this program for the future months, the Board is not unmindful that a limited number of member banks may expand undesirable loans upon Federal Reserve credit to a point which would not be justified by conditions and circumstances surrounding those institutions, and in such cases the Board would expect the Federal Reserve banks to resort to the usual direct action.

Again, if such increase in rediscounts and Federal Reserve portfolios leads to an undue increase in loans having the earmarks of unsound banking practice in any great number of member banks where direct action can not be applied simultaneously and quickly enough to protect the general credit situation, the Board would be glad to consider other corrective measures.

The Board would be glad to hear the views of your directors after they have considered this outline.

Yours very truly,

R. A. Young,
Governor.

Mr. Gates W. McGarrah, Chairman,
Federal Reserve Bank,
New York City, N. Y.

Cunningham
June 12, '29

Since February the policy of the Federal Reserve System has expressed itself primarily through what is called "direct pressure", and this position was taken deliberately by the Federal Reserve Board. To this position it holds fast. It is satisfied by the reasonableness of its policy and of its necessity.

The Board, after a careful review of the credit situation, finds that the increased demand for credit to meet mid-year requirements and also the credit demands for the early autumn, in order to avoid undue strain upon the banks of the country, will probably require that member banks increase their rediscounts at the Federal reserve banks. The situation will be better served by a temporary suspension of the rigid policy of direct pressure which, however, should not be abandoned but rather should be tempered in order to permit member banks that have not found it practicable to readjust their position in accordance with the Board's principle to avail themselves of the rediscount facilities of the Federal reserve banks for the purpose of avoiding any undue strain, as well as giving ease in the cost of credit to meet the seasonal needs of agriculture, industry and commerce.

The discount rate of 5 per cent now in effect in the Federal reserve banks should be retained for the present. If, however, the rediscounts should become excessively large so as to unduly tighten the credit situation to a point where it acts as a deterrent to business, relief should be given through some release of Federal reserve credit,

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preferrably through the purchase of bills. If at any time it appears advisable to supplement the easing policy by the purchase of short-time government securities, this supplemented policy should be undertaken only after full consideration and approval of the Federal Reserve Board.

If the credit situation should continue satisfactory over the mid-year period, consideration should also then be given to a reduction in the discount rate in order to reduce the cost of credit over the period of heavy seasonal requirements when borrowing is unavoidable.

In adjusting this program for the future months the Board is not unmindful that certain member banks may insist upon Federal reserve credit to a point where it would not be justified by existing credit conditions. The Board would expect the individual member banks to bring direct pressure in order to correct such misuse in specific cases; and where, because of the easing policy of the Federal Reserve System, it was evident that the increase in loans by borrowing member banks carried the earmark of unsound banking practice or involved the use of Federal reserve credit not in harmony with the purposes of the Federal Reserve Act, the Board would give immediate consideration to such methods of control as would effectively correct the situation.

cunningham results

SUBJECT: Regulation to prevent improper
use of Federal Reserve Credit.

To All Federal Reserve Banks and Member Banks:

In official letters addressed to all Federal reserve banks and in official statements published in the Federal Reserve Bulletin, the Federal Reserve Board has heretofore called attention to the fact that the Federal Reserve Act does not contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit and that a member bank of the Federal Reserve System is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

In those letters and statements it was explained that the Federal Reserve Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve a Federal reserve bank, but that it has a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit.

The Federal Reserve Board does not question the right of member banks of the Federal Reserve System to employ surplus funds by lending them on call to brokers and dealers in stocks, bonds or other investment securities; but it is obvious that member banks should not have recourse to the credit facilities of the Federal Reserve System while they have surplus funds so employed. They should utilize their surplus funds or "secondary reserves" before utilizing Federal reserve credit, which constitutes the ultimate bank reserves of this country.

The Federal Reserve Act expressly forbids the rediscount of any paper, the proceeds of which have been used for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States. It appears, however, that the purpose of this provision of the Federal Reserve Act is being, and for some time has been, evaded through the discount of eligible paper for member banks, which at the same time have large amounts of call loans outstanding to brokers or dealers in stocks, bonds or other investment securities.

In the above-mentioned public announcements the Federal Reserve Board has heretofore requested the cooperation of the Federal reserve banks and member banks of the Federal Reserve System in the elimination of such abuse of Federal reserve credit.

While this request has met with a favorable response in some quarters and there has been some diminution in the abuse, yet in other quarters the abuse contines. In the judgment of the Federal Reserve Board, therefore, the time has now come when it must no longer rely upon the voluntary cooperation of the Federal reserve banks and member banks, but must exercise its lawful powers to compel compliance with the purposes of the Federal Reserve Act.

The Federal Reserve Board, therefore, has promulgated the enclosed regulation to take effect at the commencement of business on 1929, and is prepared to take such steps as may be necessary to compel strict adherence to the provisions of this regulation.

If this regulation is found to be inadequate to bring about a full correction of the abuse of Federal reserve credit, the Board is prepared to promulgate and enforce more rigid and drastic regulations.

By Order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

FEDERAL RESERVE BOARD

REGULATION M, SERIES OF 1929.

Loans, Discounts or other Credit Accommodations for Member Banks having Loans to Brokers or Dealers in Stocks, Bonds, or other Investment Securities.

Except with the permission of the Federal Reserve Board, no Federal Reserve Bank shall discount or rediscount any note, draft or bill of exchange for, or make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreement or otherwise) from, any member bank which at the time has outstanding loans to any person, firm, partnership, corporation, company, or association, whose principal business it is to negotiate purchases or sales of, or to purchase, sell, or otherwise deal in, stocks, bonds, or other investment securities (other than bonds and notes of the government of the United States) either for his or its own account or for the account of others.

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WHEREAS, one of the fundamental purposes of the Federal Reserve Act is to prevent the use of the ultimate bank reserves of the United States to finance dealings in stocks, bonds and other investment securities;

WHEREAS, the Federal Reserve Act expressly forbids any Federal Reserve bank to discount any paper, the proceeds of which have been used to carry or trade in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States;

WHEREAS, it appears that the purpose of this provision of the Federal Reserve Act is being evaded by the discount of eligible commercial paper for member banks which at the same time have large amounts loaned to brokers and dealers in stocks, bonds and other investment securities;

WHEREAS, the Federal Reserve Board has heretofore called this matter to the attention of the Federal reserve banks and member banks of the Federal Reserve System and has requested their voluntary cooperation in the elimination of such abuse of Federal reserve credit;

WHEREAS, some cooperation has been obtained but the abuse has not been completely eliminated;

WHEREAS, it now seems necessary for the Board to exercise its lawful powers to compel compliance with the purposes of the Federal Reserve Act;

NOW, THEREFORE, BE IT RESOLVED that the Federal Reserve Board hereby adopts and promulgates the following regulation, to take effect at the commencement of business on 1929;

FEDERAL RESERVE BOARD

REGULATION M, SERIES OF 1929.

Loans, Discounts or other Credit Accommodations for Member Banks having Loans to Brokers or Dealers in Stocks, Bonds, or other Investment Securities.

Except with the permission of the Federal Reserve Board, no Federal Reserve Bank shall discount or rediscount any note, draft or bill of exchange for, or make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State or municipal securities (under repurchase agreement or otherwise) from, any member bank which at the time has outstanding loans to any person, firm, partnership, corporation, company, or association, whose principal business it is to negotiate purchases or sales of, or to purchase, sell, or otherwise deal in, stocks, bonds, or other investment securities (other than bonds and notes of the government of the United States) either for his or its own account or for the account of others.

Sec Bk

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6370

September 4, 1929.

SUBJECT: Report of Committee on Redemption of Canadian Currency.

Dear Sir:

There is attached hereto report submitted by the committee appointed by the Federal Reserve Board to determine the most efficient and economical means of effecting the redemption of Canadian currency. Before taking action on this report the Board would like to be advised whether or not the program outlined therein will be satisfactory to your bank.

Yours very truly,

E. M. McClelland,
Assistant Secretary.

Enclosure.

TO GOVERNORS OF ALL F. R. BANKS.

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COPY

September 4, 1929.

REPORT OF COMMITTEE ON REDEMPTION OF CANADIAN CURRENCY

To the Federal Reserve Board,

Washington, D. C.

Dear Sirs:

The Committee appointed to determine the most efficient and economical means of effecting the redemption of Canadian currency begs to transmit herewith its recommendations:

(a) That all Federal Reserve Banks offer their facilities to member banks for the collection and conversion of Canadian currency into United States currency at the current rates of exchange,

(b) That the Federal Reserve Banks absorb the cost of shipping Canadian currency from the member banks to their respective Federal Reserve Banks but that they deduct an allowance to cover shipping charges, if any, from the Federal Reserve Banks to the points of conversion into United States currency,

(c) That all Federal Reserve Banks send a circular, similar to the attached draft, to their member banks stating the terms upon which Canadian currency will be received,

(d) That the Federal Reserve Board and each Federal Reserve Bank and Branch simultaneously give to the press copies of the attached circular announcing terms under which the Federal Reserve Banks and Branches will receive Canadian currency.

With respect to the procedure under which Federal Reserve Banks and their Branches will handle the collection and conversion of Canadian currency, the Committee suggests that the Federal Reserve Banks and Branches ship Canadian currency direct to the Detroit Branch of the Federal Reserve Bank of Chicago for conversion and credit, or make such other disposition thereof as conditions in their districts warrant. The Committee believes that it is important that each Federal Reserve Bank employ the most economical means of conversion. The Committee also suggests that Federal Reserve Banks permit member banks to include Canadian currency in their shipments of United States currency provided both kinds of currency are properly segregated within the package.

The Committee believes that the Federal Reserve Banks should not at this time offer their facilities to member banks for the collection and conversion of Canadian coin.

Your Committee has considered the desirability of a possible arrangement with the Canadian Government or the Canadian banks which would provide for the exchange of United States and Canadian currencies at par. While in theory much may be said in favor of such a plan, it appears to be inadvisable to endeavor to exchange Canadian and United States <u>currencies</u> at par without making similar arrangements to maintain <u>exchange</u> at parity between the two countries, a subject which your Committee does not have under consideration.

Respectfully submitted:

(S) E. L. Smead
Wm. R. Cation
J. E. Crane

COPY

SUBJECT: Canadian Currency.

To Member Bank Addressed:

Enclosed herewith is a statement which the Federal Reserve Board and the Federal Reserve banks and branches have given to the press, relating to the conversion into U. S. funds of Canadian currency spent in this country.

In accordance with this statement, you may include Canadian currency in your shipments of U. S. Currency provided both kinds of currency are properly segregated within the package.

Credit for such currency will be given for its face value and when the cost of conversion into U. S. funds is determined, which should generally average less than one per cent, such cost will be charged to your reserve account.

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PRESS NOTICE

SUBJECT: Canadian Currency

The Department of Commerce has called the attention of the Federal Reserve Board and the Federal Reserve Banks to the fact that Canadian tourists traveling in the United States have at times been charged excessive rates of discount on Canadian currency, such rates having ranged as high as 10 and even 20 per cent, at places remote from the border.

The Department stated that these excessive charges have resulted in a feeling of resentment on the part of Canadian tourists traveling in this country, especially as United States currency is generally accepted at par by merchants in Canada, and asked the Board whether something could not be done by the System to do away with excessive discount charges on Canadian currency spent in this country.

The Federal Reserve Board has taken the subject up with the Federal Reserve Banks and they have agreed to offer their facilities to member banks for the collection and conversion of Canadian currency into United States currency at the current rates of exchange. Furthermore, the Federal Reserve Banks will absorb the cost of shipping Canadian currency from the member banks to their respective Federal Reserve Banks but will deduct an allowance to cover shipping charges, if any, from the Federal Reserve Banks to the points of conversion into United States currency.

The Board feels that if member banks cooperate in this matter by extending a similar service to their customers, Canadian tourists traveling in this country will find American merchants willing to accept Canadian currency at or near par. During the past three years the cost of conversion of Canadian currency into United States funds, including both the exchange and the shipping charges, has averaged less than 1 per cent.

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Sec Bk

Memorandum from Mr. Parry to Mr. Platt.

Subject: Article in Boston Globe
Sept. 1, 1929, by Wm. T. Yetman

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This seems to me to be an interesting piece of statistical analysis. Granting the assumptions upon which the article proceeds, the reasoning seems to me to be sound enough.

Some of the assumptions, however, seem to me to be far from realistic and others are open to the criticism that they much overstate reasonable probabilities.

With special reference to the call money that is now on the street for account of lendings other than banks-- an amount close to \$4,700,000,000- assumption seems to be that the lenders of all of these funds regard them as deposits and would withdraw them only to increase deposits. As a matter of fact, we know very little about the source of these loans or the disposition which the lenders would make of the funds if they were not being lent on the street. If they are on the street pending disbursement, for payrolls, supplies, etc., their withdrawal would probably be accompanied by a growth in deposits, but to the extent that they are held on the street pending investment, this would clearly not be the case. Funds now lent by investment trusts, for example, fall in this latter category. Determination by the lenders of these funds to put them into securities would amount in effect to the use of the loan to purchase the collateral behind it, or perhaps 80 per cent of this collateral, with no increase in deposits at all.

How these funds are divided as between these two categories is, it seems to me, anybody's guess.

TO GENERAL FILES

Sw Dr

September 9, 1929

Federal Reserve Board

Mr. Smead

Member banks in debt to F. R. Bank 80 per cent or more of the time during the quarter ending June 1929

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Reports received from the Federal reserve banks for the second quarter of 1929, covering member banks borrowing from Federal reserve banks 80 per cent or more of the time during the quarter, show considerable increase both in number of banks and in average borrowings over figures reported for the first quarter. The liquidation by the Federal reserve banks of a substantial portion of their holdings of acceptances and U. S. securities may account in part for the failure of some of the continuous borrowing banks to liquidate their indebtedness during the first quarter.

Second quarter 1929. A total of 2,299 banks were reported as borrowing 80 per cent or more of the time during the second quarter as compared with 1,667 banks in the first quarter, the average borrowings of the 2,299 banks being $766,000,000 or 79 per cent of average borrowings of all member banks. The 2,299 banks that were borrowing 80 per cent or more of the time includes 1,528 that were borrowing continuously during the quarter. The average borrowings of these 1,528 continuous borrowers were $416,000,000 or 43 per cent of the total borrowings of all member banks.

Year ending June 30, 1929. A total of 1,114 banks were reported as borrowing 80 per cent or more of the time during the year ending June 30, 1929, as compared with 925 during the year ending March 31. The average borrowings of the 1,114 banks during the quarter ending June 1929 were $545,000,000, or 56 per cent of the total borrowings of all member banks. Of the 1,114 banks, 309 were borrowing continuously during the year ending June 1929, and the borrowings of these 309 banks aggregated $119,000,000 during the second quarter.

The detailed reports of each Federal reserve bank are attached hereto, and summary figures by districts for both the first and second quarters are shown in the attached table. Following is a summary for the system as a whole for the second quarter.

	Second quarter 1929				Year ended June 30,19			
	Number	Per cent of total	Borrowings	Per cent of total	Number	Per cent of total	Borrowings in Second Quarter	Pe cen of tot
All member banks	8,707	100	$972,000,000	100	8,707	100	$972,000,000	10
Banks borrowing continuously	1,528	18	416,000,000	43	309	4	119,000,000	1
Banks borrowing 80 per cent of time**	2,299	26	766,000,000	79	1,114	13	*545,000,000	5
Banks borrowing less than 80 per cent of time	6,408	74	206,000,000	21	7,593	87	427,000,000	4

*This figure is based on reports submitted for second quarter of 1929 and does not include borrowings of any member banks that were not in debt to Federal reserve banks 80 per cent of time during the quarter, even though they were in debt 80 per cent of the time during the year.

**Includes banks borrowing continuously.

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TO GENERAL FILES

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AVERAGE DAILY BORROWINGS OF MEMBER BANKS FROM THE FEDERAL RESERVE BANKS

(Amounts in millions of dollars)

Federal Reserve Bank	First and second quarters 1929												Years ending March 31 and June 30, 1929							
	All member banks				Banks borrowing continuously				Banks borrowing 80% of time*				Banks borrowing continuously				Banks borrowing 80% of time**			
	Number		Borrowings		Number		Borrowings		Number		Borrowings		Number year ended		Borrowings year ended		Number year ended		Borrowings year ended	
	Mar. 31	June 30	1st quarter	2nd quarter	1st quarter	2nd quarter	1st quarter	2nd quarter	1st quarter	2nd quarter	1st quarter	2nd quarter	Mar. 31	June 30	Mar. 31	June 30	Mar. 31	June 30	Mar. 31	June 30
Boston	407	408	60	91	72	113	30	50	115	157	42	81	9	14	3	4	64	76	33	40
New York	938	939	232	250	127	153	36	37	235	266	103	153	-	1	-	1	105	113	87	99
Philadelphia	778	776	87	94	193	249	47	48	298	377	75	84	23	33	6	8	179	217	63	68
Cleveland	811	807	80	94	104	146	39	55	154	218	62	77	18	24	12	20	80	102	47	59
Richmond	540	537	42	56	110	167	21	38	158	233	36	47	52	65	13	16	116	148	28	39
Atlanta	444	436	54	66	109	162	31	44	141	198	51	63	60	67	14	25	106	136	43	55
Chicago	1,239	1229	173	126	140	145	121	51	213	244	155	106	31	28	14	13	104	104	130	93
St. Louis	586	580	41	50	73	104	19	33	104	162	34	45	26	33	3	17	73	82	31	34
Minneapolis	712	700	13	17	47	65	2	5	64	85	8	16	23	23	1	1	44	43	7	10
Kansas City	919	912	24	43	70	102	8	26	101	155	17	37	12	13	2	3	25	43	7	19
Dallas	765	766	18	21	12	51	3	7	25	95	9	17	1	2	-	1	7	20	5	5
San Francisco	619	617	68	64	34	71	19	22	59	109	56	40	6	6	10	10	22	30	52	24
Total	8,758	8,707	892	972	1091	1,528	377	416	1,667	2,299	647	766	261	309	78	119	925	1,114	533	545
Percent of total	100	100	100	100	12.5	17.5	42.3	42.8	19.0	26.4	72.5	78.8	3.0	3.5	8.7	12.2	10.6	12.8	59.8	56.1

*Includes banks borrowing continuously.

**Figures based on reports submitted for first and second quarters of 1929 and do not include borrowings of any member banks not in debt to Federal reserve banks 80 per cent of time during quarter.

DIVISION OF BANK OPERATIONS
SEPTEMBER 7, 1929

See Bk

September 16, 1929

(In last two weeks, [illegible] decreased)

B149

To: Governor Young

From: Mr. Goldenweiser

SUBJECT: Effects of security purchases.

I transmit herewith a memorandum prepared by Mr. Riefler, in which he presents an analysis of the effects of large-scale security purchases by the reserve banks on the credit situation. It must be borne in mind that at no time was the situation entirely dominated by the system's open-market operations. There were always other factors either reinforcing or counteracting the effects of the purchases of securities. In the three periods described, security purchases have in each case been accompanied or followed by a decrease in money rates, a rise of security prices, and an expansion of bank credit. These developments, however, were much more accentuated in 1924 than in either 1922 or 1927. I believe that the principal reason for that is that member bank indebtedness was much larger in 1922 and in 1927 than in 1924, when discounts for the system were down to $200,000,000 and when New York City banks were entirely out of debt. It is when money placed in the market by the reserve banks through purchases is not used to pay up indebtedness but is incorporated in member bank reserve balances that purchases have the greatest effect. At the present time, with discounts around $1,000,000,000, security purchases, in order to have an important immediate influence on money rates, would have to be on an extremely large scale. On the other hand, as an indication of a reversal of Federal reserve policy of restraint the purchases might and probably would give a strong stimulus to speculation. It might also be noted that large-scale open-market operations on earlier occasions were always undertaken at a time when business was slackening or going through a pronounced recession, while at the present time business continues to be in record volume.

September 14, 1929

To: Mr. Goldenweiser

From: Mr. Riefler SUBJECT: Security purchases.

There have been three periods since 1920 in the history of the reserve system when it has embarked upon a program of security purchases amounting to $100,000,000 or more, namely, from January to June, 1922, from November, 1923 to November, 1924, and from May to December, 1927. The increase in security holdings in these three periods were $353,000,000, $505,000,000, and $315,000,000, respectively. All three periods were accompanied by developments which subsequently induced the reserve system to dispose of a large part or all of the securities which had previously been purchased. In all three periods, also, other influences were at work which either accentuated or offset the effect in part of these purchases. In the following analysis of these periods the net effect of changes in these other factors (gold stock, Treasury currency, changes in reserve bank acceptances, float, etc., money in circulation, nonmember clearing balances and unexpended capital) is measured.

January - June, 1922

From January to June, 1922 the reserve banks purchased United States securities to the amount of $353,000,000. At the same time since gold imports were arriving in volume and currency was returning from circulation, the effect of other factors was to accentuate these purchases by $285,000,000. Total accessions to themarket consequently amounted to $638,000,000. Of this amount $525,000,000 was absorbed by liquidation of discounts at the reserve banks and $113,000,000 went into increased reserve balances of member banks. The liquidation of discounts reduced member bank indebtedness from $962,000,000 in January to $437,000,000 in June.

Changes in money rates, etc., which accompanied this movement are shown on the following table. In the case of exports and imports, the table shows the change between the average monthly exports or imports during the period and the corresponding period of the preceding year. In the case of common stock prices, the table shows, in parenthesis, the percentage increase during the period as well as the number of points changed.

TABLE I.

January, 1922-June, 1922

	January 1922	June 1922	Change
	Per cent		
Money rates:			
Call loans, renewal	4.52	3.72	- .80
Time loans	4 3/4-5	4 1/4	- 1/2-3/4
Commercial paper	4 3/4	4 1/4	- 1/2
Customers (weighted average)	6.02	5.46	- .56
Bond prices (S.S. Co. 60 bonds)	89.3	92.4	+ 3.1
Stock prices (S.S. Co. 410 stocks)	58.7	68.0	+ 9.3 (+16%) 1/
Total loans and investments of all member banks 2/	$23,482	$24,182	+ $700
International trade: Change as compared with same months in preceding year in:			
Exports (monthly average)			- $119 3/
Imports (monthly average)			+ 17

1/ Percentage change
2/ Measured to the nearest call in millions of dollars
3/ In millions

As the table shows, money rates declined and bond prices rose in response to these accessions of funds to the market. Stock prices also advanced by 16 per cent and member bank loans and investments increased by $700,000,000. The response of foreign trade was less consistent, exports during this period averaging $119,000,000 less per month than in the corresponding month of 1921 and imports averaging $17,000,000 more. Both of these reflected business more strongly than credit developments - exports having been exceptionally large in the first half of 1921 and imports small.

1924

From November, 1923 to November, 1924 the reserve banks purchased $505,000,000 of United States securities, which together with $355,000,000 from various other sources (chiefly gold) placed $860,000,000 at the disposal of the money markets in all. Of this amount $571,000,000 was absorbed by a decrease in discounts and $289,000,000 was added to the reserve balances of member banks. In this case discounts for member banks decreased from $799,000,000 in November, 1923 to $228,000,000 in November, 1924. (Accompanying changes in credit conditions are shown in Table II.)

TABLE II

November, 1923 - November, 1924

	November 1923	November 1924	Change
Money rates:			
Call loans renewal	4.80	2.42	- 2.38
Time loans	5-5 1/8	3 1/4-3½	- 1¾-1 5/8
Commercial paper	5	3 1/4-3½	- 1½-1 3/4
Customers (weighted average)	5.60	4.78	- .82
Bond prices (60 bonds S.S. Co.)	91.4	94.8	+ 3.4
Stock prices (410 stocks S.S. Co.)	66.6	77.6	1/ +11.0(+16%)
Total loans and investments of all member banks 2/	$26,487	$28,746	+$2,259
International trade: (as compared with preceding year)			
Exports (monthly average)			3/ + 41
Imports (monthly average)			3/ - 19

1/ Percentage change
2/ Measured to the nearest call in millions of dollars
3/ In millions

In this case, also, money rates fell rapidly, bond prices rose, stock prices advanced and member bank credit underwent great expansion. The expansion of exports was partly attributable to foreign loans but also reflected a large American crop at a time when European crops were small, while the decrease in imports reflected business recession in this country.

May, 1927 - December, 1927

In June, 1927 the Federal reserve system again embarked on a policy of purchasing United States securities and by December had increased their holdings by $315,000,000. In this case, however, gold exports were large with the result that all counter factors together offset these purchases to the extent of $224,000,000. Net accessions to the market from security purchases, therefore, amounted to $91,000,000. In addition the market increased its borrowing by means of member bank discounts to the extent of $46,000,000 from $473,000,000 to $529,000,000, and funds from these two sources permitted member banks to expand their reserve balances by $137,000,000. The accompanying credit developments are shown on Table III.

TABLE III

May, 1927 - December, 1927

	May, 1927	December 1927	Change
Money rates:			
Call loans, renewal	4.26%	4.38%	+ .13
Time loans	4 3/8	4-4 1/4	-3/8 to 1/8
Commercial paper	4-4 1/4	4	- 0 to 1/4
Customers (weighted average)	5.02	4.91	- .11
Bond prices (60 bonds S.S. Co.)	99.1	100.0	+ .9
Stock prices (410 stocks S.S. Co.)	114.2	133.1	1/+ 18.9 (+17%)
Total loans and investments of all member banks 2/	$32,756	$34,247	+ $1,491
International trade:			
(As compared with preceding year)			
Exports (monthly average)			3/- 5
Imports (monthly average)			3/- 3

1/ Percentage change
2/ Measured to the nearest call in millions of dollars
3/ In millions

In this case money rates and bond prices showed relatively little change. Credit again expanded rapidly, however, and stock prices again advanced by about 17 per cent. Changes in imports and exports, as compared with the preceding year were both negligible.

Period from January, 1922 to June, 1928 as a whole

Certain relevant comparisons for the period as a whole are shown in Table IV. As the effect of an easing money policy on such things as stock prices, bond prices, credit expansion and foreign trade do not end automatically when the reserve banks cease purchasing securities, this table summarizes also developments during the six months following each of the above periods, namely, from June to December 1922, from November 1924 to May 1925, and from December 1927 to June 1928. The period covered therefore is the 78 months between January 1922 and June 1928. Of these 78 months, 26 were included in the three periods of large scale purchases of securities by the reserve banks, and 18 were included in the 6 months following each of these periods.

TABLE IV

	January 1922	January 1928	Net Changes: Total	During 3 periods covering open-market operations (26 mo.)	During 3 following periods of 6 months each (18 mo.)	During other 34 mo.
Member bank reserve bal. 1/	$ 1,707	$ 2,355	+ 648	+ 539	- 56	+ 165
Member bank credit: 1/						
Total loans and invest.	23,482	35,061	+11,579	+4,450	+2,883	+4,246
Average monthly increase			+ 148	+ 171	+ 160	+ 125
Bond prices (S. S. Co.)	89.3	98.5	+ 9.2	+ 7.4	+ .7	+ 1.1
Stock prices: (S. S. Co.)	58.7	145.3	+ 86.6			
Monthly average increase			+ 1.1	+ 1.5	+ 1.3	+ .7
Foreign trade: 1/						
Average monthly						
Exports			$379	$371	$382	$383
Imports			326	298	313	354

1/ Millions of dollars

The summaries on this table are rather interesting. Of the total net increase of $648,000,000 in member bank reserve balances during the 78 months, $539,000,000 occurred while the reserve banks were purchasing United States securities, and of the total increase of 9.2 points in bond prices, 7.4 points occurred at the same time. The average monthly increase in total loans and investments of all member banks was $148,000,000. During the three periods in which the reserve banks were purchasing United States securities heavily, however, it was $171,000,000, during the three periods of 6 months each following these purchases it was $160,000,000, while during the remainder of the 78 months it was $125,000,000. Similarly, the average monthly increase in stock prices for the period as a whole was 1.1 points, but during periods of security purchases it was 1.5 points, during periods following

B149

such purchases 1.3 points, while during the remaining months it was only .7 points.

Exports appear to have averaged about the same volume in all three periods, while imports were lighter when securities were being purchases and heavier when they were not. This does not mean that security purchased on the part of the reserve banks led to decreased imports but merely that these purchases took place during periods of sluggish business activity when American industry had less need for foreign raw materials.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

3151

See Bk

Date September 18, 1929.

To The Federal Reserve Board

Subject: Legislation re Chain Banking.

From Mr. Wyatt- General Counsel.

2—8495

There is respectfully submitted herewith for the Board's information a preliminary draft of a digest of State laws prohibiting or limiting the ownership of bank stock by holding companies or imposing upon the stockholders of such holding companies a stockholders' liability similar to that imposed by law upon the stockholders of banks whose stock is held by such holding companies.

This digest was prepared in this office upon the basis of information obtained from the Counsel of the various Federal reserve banks and I am sending a copy of it to each of them with a request that they give me the benefit of their suggestions, criticisms and suggestions. The attached copy, therefore, is only a preliminary copy and is subject to revision and correction.

Respectfully,

Walter Wyatt

Walter Wyatt
General Counsel

Papers attached.

WW OMC

VOLUME 195
PAGE 151

(PRELIMINARY DRAFT - SUBJECT TO

CORRECTION AND REVISION)

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DIGEST OF STATE LAWS
PROHIBITING OR LIMITING THE OWNERSHIP OF STOCK
IN BANKING INSTITUTIONS BY HOLDING CORPORATIONS OR IMPOSING UPON THE STOCKHOLDERS OF
SUCH HOLDING CORPORATIONS A STOCKHOLDERS'
LIABILITY SIMILAR TO THAT IMPOSED BY
LAW UPON THE STOCKHOLDERS OF BANKING
INSTITUTIONS.

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ALABAMA.

There are no laws in this State covering either of the points raised.

ARIZONA.

There are no laws in this State bearing directly upon either of the points raised.

(Note:- Section 20, Chapter 31 of the 1922 Session Laws of Arizona provides that a "bank, loan or trust company or association" may purchase and hold stock of "any other bank, loan or trust company or association or other corporation" if such purchase is authorized by the executive committee or approved by the board of directors and if bank stock is purchased the approval of the superintendent of banks must also be obtained.)

ARKANSAS.

There are no statutes in this State covering either of the points raised.

CALIFORNIA.

There are no laws in this State covering either of the points raised.

COLORADO.

There are no laws in this State covering either of the points raised.

CONNECTICUT.

There are no laws in this State covering either of the points raised.

DELAWARE.

There are no laws in this State covering either of the points raised.

DISTRICT OF COLUMBIA.

There are no laws in the District of Columbia covering either of the points raised.

FLORIDA.

There are no laws in this State covering either of the points raised.

GEORGIA.

There are no laws in this State covering either of the points raised.

IDAHO.

There are no laws in this State covering either of the points raised.

ILLINOIS.

There are no laws in this State specifically covering either of the points raised.

However, the Illinois General Corporation Law provides that corporations organized thereunder may "own, purchase or otherwise acquire * * * stocks * * * of any corporation, domestic and foreign", but it is doubtful whether this provision applies to bank stock. (See case of Central Life Securities Company v. Smith, 236 Fed. 170. See also Section 6 of the Illinois Banking Act which, by referring to stockholders of banks by the use of the pronouns "he" or "she" in imposing a liability upon them, creates the implication that it was intended that the stockholders in banks should be natural and not artificial persons.

INDIANA.

There are no laws in this State covering either of the points raised.

IOWA.

There are no laws in this State bearing directly upon either of the points raised.

(Note:- Section 7940 of the 1927 Iowa Code, which authorizes corporations to hold stock in Railway Corporations, and Section 8434 of the 1927 Iowa Code, which recognizes the right of holding corporations to own stock in a public utility, are the only sections of the Iowa Laws relating to the ownership by corporations of stock in other corporations. Section 9 of Article VIII of the Iowa Constitution fixes the liability of stockholders of banks and refers to such stockholders by using the pronouns "he or she", implying that stockholders in banks must be natural and not artificial persons. In view of these provisions it is doubtful whether holding corporations in this State may hold or purchase stock in banking corporations.)

KANSAS.

There are no laws in this State covering either of the points raised.

KENTUCKY.

There is no law in this State limiting the power of corporations to hold bank stock unless it be Section 567 of Carroll's Kentucky statutes, which reads as follows:

"Nor shall any corporation directly or indirectly, engage in or carry on in any way the business of banking, or insurance of any kind, unless it has become organized under the laws relating to banking and insurance * * * ".

(Kentucky continued.)

A double liability is imposed upon stockholders of banks for all contracts and liabilities of such banks by Section 595 of Carroll's Kentucky Statutes.

LOUISIANA.

There are no laws in this State bearing directly upon either of the points raised but it is doubtful whether holding companies may purchase or own stock in banking institutions.

(Note:- Although subdivision II(e) of Section 12, (P. 417), Act No. 250 of the 1928 Acts of the Louisiana Regular Session, permits corporations "to acquire * * * and to hold, * * * shares * * * of any other corporation, domestic or foreign, * * *" it is doubtful whether this subdivision is an authorization to holding corporations to acquire or hold shares of banking institutions in view of certain other subdivisions of Section 12, namely, I and II, and Sections 1 (P. 409) and 2 (P. 411) of the aforesaid 1928 Acts and Sections 1 (P. 1196) and 5 (P. 1203) of Volume 2 of the 1920 Constitution and Statutes of Louisiana.)

MAINE.

There are no laws in this State bearing upon either of the points raised.

MARYLAND.

There are no statutes in this State covering either of the points raised.

MASSACHUSETTS.

There are no laws in this State covering either of the points raised.

MICHIGAN.

There are no laws in this State covering specifically either of the points raised.

(Michigan continued.)

(Note:- The Session Laws of 1925 of Michigan, No. 363, p. 692, authorize corporations organized for pecuniary profit to purchase and hold shares of stock in other corporations organized for purposes similar to those of such corporations and this might be held to affect the right of holding corporations to own stock in banks, depending upon whether or not banks are organized for "similar purposes.")

MINNESOTA.

There are no laws in this State specifically covering either of the points raised.

(Note:- Under Section 3, Article 10 of the Minnesota Constitution each stockholders in any corporation organized under the laws of Minnesota, except those organized for the purpose of carrying on a manufacturing or mechanical business, is liable to the amount of the stock held or owned by him.)

MISSISSIPPI.

There are no laws in this State covering either of the points raised.

MISSOURI.

There are no laws in this State specifically covering either of the points raised.

(Note:- Trust companies may purchase or hold stock in other banks or trust companies. Paragraph 9, Section 11807 of the 1919 Revised Statutes of Missouri.)

MONTANA.

There are no laws in this State covering either of the points raised.

NEBRASKA.

There are no laws in this State covering either of the points raised.

NEVADA.

There are no laws in this State covering either of the points raised.

NEW HAMPSHIRE.

There are no laws in this State covering either of the points raised.

NEW JERSEY.

While there does not appear to be any statute in this State prohibiting absolutely the ownership of bank stock by holding corporations, there is a statute known as Chapter 273, 1928 Laws of New Jersey, Section 3 of which prohibits corporations that own more than ten per cent of the stock of any bank or trust company in the State of New Jersey from purchasing after the date the statute became effective more than ten per cent of the stock of any other bank or trust company doing business in the State of New Jersey. This statute does not require corporations to dispose of any bank stock that they may have owned before the law became effective and certain institutions (emmerated in Section 14 of the laws above referred to) are specifically exempted by Section 3 from its provisions. Section 3 reads as follows:

"3. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns more than ten per centum of the number of shares of the capital stock now or hereafter at any time issued and outstanding of any bank or trust company or national bank, now or hereafter doing business in this State, shall not purchase more than ten per centum of the number of shares of capital stock at any time issued and outstanding of any other bank or trust company or national bank, now or hereafter doing business in this State."

(<u>New Jersey</u> continued.)

Section 14, which enumerates the specifically exempted institutions referred to in Section 3, reads as follows:

> "14. The provisions of this Act and the penalties thereof shall not apply to the following corporations, viz.: Banks and trust companies organized under the laws of this State and national banks doing business in this State, nor to such banks, trust companies and national banks while acting in a fiduciary capacity representing any individual or individuals or the estate of any individual; nor to any other corporation the entire capital stock of which is owned by or held in trust for the shareholders of any bank or trust company organized under the laws of this State or any national bank doing business in this State, in the same relative proportion as the stock held in said bank, trust company or national bank."

(<u>Note</u>:- On March 11, 1929, a bill was introduced in the New Jersey Legislature to repeal Sections 4, 5 and 6 of the laws above referred to. These sections require banks and trust companies whose stock is owned by corporations to obtain statements from such corporations as to their bank stock holdings as a condition precedent to the voting or transfer of and the payment of dividends on, their holdings of bank stock. It is interesting to note that the repeal of these sections was sought by the banks and trust companies themselves because it was felt that the requirements contained therein were cumbersome, interfered with the free sale of their stock and imposed an unnecessary burden upon them, but the bill failed of enactment.)

There does not appear to be any legislation in this State imposing upon the stockholders of holding corporations a stockholders' liability similar to that imposed upon holders of bank stock.

<u>NEW MEXICO</u>.

There are no laws in this State specifically covering either of the points raised but there are certain sections of the laws of New Mexico which might be held to authorize corporations to purchase or hold stock in banking institutions.

(Note:- Section 1019 of the 1915 Annotated Statutes of New Mexico authorize corporations unrestrictedly to "purchase, hold, * * * the capital stock of, * * * any other corporation or corporations, of this or any other territory or state, * * *" and no limitation is placed upon the amount of such stock that may be so purchased or held.

Section 395 of the Statutes above referred to prohibits banks from purchasing or holding the capital stock of "any other incorporated company" unless the acquisition of such stock is necessary to prevent loss upon a debt previously contracted and stock so acquired must be disposed of within six months if possible.

In view of the fact that the only specific prohibition in the New Mexico laws against the purchasing or holding of stock in other corporations is that as contained in Section 395, which restricts Banks only, and that corporations unrestrictedly are given the broad power, under Section 1019, to purchase and hold stock of "any other corporation or corporations", it might be held that banks are included within the phrase "any other corporation or corporations" and that, therefore, corporations may purchase stock in banking institutions.)

NEW YORK.

There are no laws in this State covering either of the points raised.

NORTH CAROLINA.

There are no laws in this State covering either of the points raised.

NORTH DAKOTA.

There are no laws in this State covering either of the points raised.

OHIO.

There are no laws in this State specifically covering either of the points raised. Stockholders in banking corporations are subjected to double liability for debts of the bank (General Code of Ohio, Section 710-75).

OKLAHOMA.

There are no laws in this State bearing directly upon either of the points raised but it is possible that it might be held that corporations may purchase and hold stock in banking institutions.

(Note:- Section 5301 of the 1921 Compiled Statutes of Oklahoma provides that "All corporations organized for any of the purposes authorized by this section shall have the power to own and hold stock of other corporations, except as prohibited by the Constitution of this State".

Section 41, Article 9 of the Constitution of Oklahoma, forbids corporations to own or hold stock in other competitive corporations engaged in the same kind of business and banks or trust companies to own or hold stock in other banks or trust companies, except in those cases where such corporations or banks or trust companies have acquired such stock to secure or satisfy a bona fide indebtedness, and in such cases the stock must be disposed of within twelve months.

Section 11029 of the 1921 Compiled Statutes makes it unlawful for corporations to combine to place the control of these corporations in the hands of a trustee or a holding corporation if the intent and purpose of such combination is to restrict or restrain trade.

In view of the fact that the provisions of Section 5301 of the 1921 Compiled Statutes granting to corporations the power to hold or own stock in other corporations seem rather broad, and that neither the prohibitions of the Constitution referred to therein and upon which such power is dependent, nor the provisions of Section 11029 of the 1921 Compiled Statutes appear to be specifically applicable, in that Article 9 of the Constitution prohibits only banks or trust companies from owning or holding stock in other banks or trust companies and does not purport to prohibit corporations from owning or holding stock in other corporations if the latter are not engaged in the same kind of business as, and do not compete with, the purchasing corporations, and Section 11029 of the Compiled Statutes only affects combinations in restraint of trade, it is possible that it might be held that corporations may purchase and hold stock in banking institutions.

OREGON.

In this State corporations may purchase and hold stock of banks, corporations or associations but when they do so they are required to comply with certain conditions and restrictions. (Page 671, Chapter 444 of the 1929 General Laws of Oregon). However, no limitation as to the amount of stock which may be owned or held by such holding corporations is imposed nor is any stockholders liability imposed upon the individual stockholders of such holding corporations.

PENNSYLVANIA.

There are no statutes in this State that expressly forbid corporations to purchase or hold stock in banking institutions but in view of the fact that this right is not included in the exhaustive list of purposes for which corporations may be formed (Section 5598 of the Pennsylvania Statutes), none of which are general in terms, it is doubtful whether a corporation may be formed for the purpose of holding stock in banking institutions.

Section 1184 of the Pennsylvania Statutes imposes a double liability upon stockholders of banking institutions.

RHODE ISLAND.

There are no laws in this State covering either of the points raised.

SOUTH CAROLINA.

There are no laws in this State covering either of the points raised.

SOUTH DAKOTA.

There are no laws in this State covering either of the points raised.

TENNESSEE.

There are no laws in this State covering either of the points raised.

TEXAS.

There are no statutes in this State bearing directly upon either of the points raised but it is questionable whether holding companies may purchase and hold stock in banking institutions.

(Note:- Article 513 of the 1925 Revised Statutes forbids banks or trust companies "to own more than ten per cent of the capital stock of any other banking corporation, * * * " unless the ownership of such excess stock "shall be necessary to prevent loss upon a debt previously contracted in good faith; * * * ", and in such cases the stock must not be owned for a longer period than six months.

Article 1302 of the 1925 Revised Statutes permits private corporations to "purchase, * * * hold, own, * * * shares of capital stock, * * * of foreign or domestic corporations not competing with each other in the same line of business; provided the powers and authority * * * conferred shall in no way affect any provision of the anti-trust laws of this State."

Article 7426 of the 1925 Revised Statutes defines a trust to be "a combination of capital, * * * by two or more persons, firms, corporations, * * *: (1) To create, or which may tend to create, or carry out restrictions in trade or commerce * * * or to create or carry out restrictions in the free pursuit of any business authorized or permitted by laws of this State" or "(3) to prevent or lessen competition in aids to commerce, * * *."

(Texas continued.)

Article 7427 of the 1925 Revised Statutes states that a monopoly exists when two or more corporations combine or consolidate to bring the "direction of the affairs" of such corporations "under the same management or control for the purpose of producing, or where such common management or control tends to create a trust", or where "any corporation acquires the shares * * * of stock * * * of any other corporation or corporations, for the purpose of preventing or lessening, or where the effect of such acquisition tends to affect or lessen competition, whether such "acquisition is accomplished directly or through the instrumentality of trustees or otherwise."

In view of the foregoing it is questionable whether holding corporations may purchase or hold stock in banking institutions.

UTAH.

There are no laws in this State covering either of the points raised.

VERMONT

There are no laws in this State expressly prohibiting the ownership by holding companies of the stock of banks but there is a provision prohibiting holding companies from holding or acquiring stock in other corporations. Section 4925 of the 1917 General Laws of Vermont contains this prohibition and reads as follows:

"The corporation shall not be permitted to acquire or hold stock in other corporations to such an extent that its primary business is the holding of such stock. A violation of this provision shall be cause for the dissolution of the corporation under the provisions of Section 4944."

(Note:- The above provision applies to the stock of "corporations" generally but it would seem that it is broad enough in its terms to prohibit also the ownership of bank stock by holding companies).

(Vermont continued.)

There are no laws in this State imposing upon stockholders of holding companies a stockholder's liability similar to that imposed upon holders of bank stock.

VIRGINIA.

There are no laws in this State covering either of the points raised.

WASHINGTON.

There are no laws in this State covering either of the points raised.

> (Note:- During the 1929 Regular Session of the Legislature of this State a bill known as "Substitute House Bill No. 72" was introduced to restrict the ownership of bank or trust company stock by corporations, to 20% of the capital stock of such bank or trust company, but this bill did not pass.)

WEST VIRGINIA.

There are no laws in this State expressly limiting the power of corporations to hold stock in banks and such practice might be permissible under Section 2, Chapter 54 of the West Virginia Statutes, which, after enumerating certain purposes for which corporations may be formed, reads as follows:

> "For any other purpose or business useful to the public for which a firm or co-partnership may be lawfully formed in this State".

Section 78 A, Chapter 54 of the West Virginia Statutes imposes a double liability upon stockholders of banking institutions.

WISCONSIN.

A statute was recently enacted in Wisconsin providing that no corporation may acquire more than 10% of the capital stock of any

(Wisconsin continued.)

State bank or trust company unless 75% of the capital stock of both corporations shall vote in favor of it. No foreign corporations under the new law, may purchase stock in a State bank or trust company unless it shall have obtained authority to do business in Wisconsin. (This information was obtained from the American Banker for Sept. 10, 1929, p. 1. The text of the Statute is not available.)

WYOMING.

There are no laws in this State covering either of the points raised.

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