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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 5, 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 213 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 213

Page 15 - Memo to Mr. Hamlin from Mr. Vest re Separate Savings Departments of National Banks.
Page 20 - Changes in Loan Account of Weekly Reporting Member Banks in New York City. (Typed table)
Page 24 - Changes in U.S. Security Holdings of the Federal Reserve Banks and in Monetary Gold Stock by Months from August to December 1927.
Page 26 - Memo to Mr. Hamlin from Mr. Smead re brokers' loans.
Page 28 - Memo to Mr. Hamlin from Mr. Goldenweiser re Importance of customers' security loans.
Page 30 - Memo to Mr. Hamlin from Mr. Smead re Loans of New York City member banks, October 1929 and October 1928.
Page 31 - Memo to Mr. Hamlin from Mr. Smead re agricultural and non-agricultural exports during last half of 1927.
Page 32 - Memo to Mr. Hamlin from Mr. Smead re F.R. Bank credit.
Page 34 - Federal Reserve Bank Credit Outstanding and Related Items. (Typed table)
Page 36 - Money Rates 1927 to 1930.
Page 39 - Memo to Mr. Hamlin from Mr. Wyatt re Recommendations, Regulations, and Administrative Policies re Branch, Chain and Group Banking.
Page 40 - Memo to Mr. Hamlin from Mr. Goldenweiser re frozen assets of the F.R. Banks.
Page 45 - Memo to Mr. Hamlin from Mr. McClelland re classification of deposits of member banks in San Francisco and Los Angeles for reserve purposes.
Page 49 - Data re F.R.Bk. of St. Louis' rediscounting of eligible paper.
Page 51 - Reasons for increase of discount rates by Federal Reserve System (quotations from Governor Harrison's letter to Board)
Page 53 - Data re Board amendment - 3% reserve for State banks. (Notes on action at Board meeting)
Page 63 - Memo to Mr. Hamlin from Mr. Smead re free gold.
Page 67 - Data re Gov. securities held by F.R. System.
Page 69 - Memo to Mr. Hamlin from Mr. Smead re Security Loans of New York City Banks.
Page 75 - Mr. Hamlin's notes re New York Discount Rate Controversy.
Page 90 - Holding by State Member Banks of Stock in Other Banks. (Memo of Mr. Hamlin)
Page 114 - Earnings & Expenses of F.R. Banks, March 1931.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bk

Date February 5, 1931.

To Mr. Hamlin.

From Mr. Vest.

Subject: Separate Savings Departments of National Banks.

2—8495

In accordance with your request, I submit herewith a brief memorandum on the subject of the desirability of separate savings departments of national banks. The memorandum which I have prepared follows substantially a discussion of this subject which was contained in a memorandum prepared by Mr. Wyatt in 1925 commenting upon one of the earlier drafts of the McFadden bill.

Respectfully,

George B. Vest

George B. Vest
Assistant Counsel

Papers attached

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PAGE 15

SEPARATE SAVINGS DEPARTMENTS OF NATIONAL BANKS

It is believed to be desirable that the National Bank Act should be amended in such a way as to require national banks which receive savings deposits to establish separate savings departments, the assets of which would be segregated and kept entirely separate and distinct from the assets of their commercial and trust departments. Under the present law, national banks may receive savings deposits, but such deposits are mingled with the general assets of the bank, and upon the failure of a bank the savings depositors have to share as general creditors along with the commercial depositors. Furthermore, savings depositors operate under a contract with the bank whereby the bank may require thirty days' notice before permitting the withdrawal of savings deposits, whereas commercial depositors are not bound by any such restrictions. The result is that in the event of a run upon a bank it may exercise the right to require this thirty days' notice, thus preventing the savings depositor from withdrawing his funds but permitting the commercial depositor to withdraw all of his funds. This leaves the sawings depositor to share only in such assets as remain after the collapse of the bank, which assets frequently are almost worthless and of a non-liquid character. This is a great injustice to savings depositors, who should be given special protection. It could be avoided if the assets of the savings department were segregated from the other assets of the bank and the savings depositor were given a prior lien thereon.

Furthermore, the segregation of savings deposits would be of great advantage to national banks in States like California which have fully developed departmental banking, and would enable them to compete with State banks on much more equal terms. Under the present law, national banks in California are at a disadvantage in competing with State savings banks for savings business.

If separate savings departments were established under proper safeguards, national banks could also be permitted to use the funds of such departments in making real estate loans to a greater extent than can be permitted under the existing law, since safety rather than liquidity is the most important requisite for the investment of savings deposits. Real estate loans usually are safer and the only objection to them is that they are non-liquid and, therefore, not a desirable investment for commercial deposits.

If it is not considered desirable to compel all national banks which receive savings deposits to establish separate savings departments, a compromise might be effected either by making the establishment of such departments optional with the bank or by requiring them to establish such departments only in those States in which State banks are required to do so. If the establishment of such departments is made optional, any increased power to make real estate loans should be conditioned on the establishment of such separate savings departments.

A provision for the organization of separate savings departments was contained in the original Federal Reserve Act in the form in which it passed the House, but it was stricken out by the Senate. Subsequently, in 1921, a bill for this purpose was introduced in the Senate by Senator Calder. This bill was worked out in great detail and was designed to authorize national banks to establish separate savings departments at their option, and upon the establishment of such separate savings departments to make real estate loans to a greater extent than permitted under the existing law.

There is attached hereto a copy of the Federal Reserve Bulletin for

June, 1926, on page 416 of which there is published a compilation of State laws with regard to the segregation of assets of savings departments of banks and trust companies.

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See B11

CHANGES IN LOAN ACCOUNT OF WEEKLY REPORTING MEMBER BANKS IN NEW YORK CITY

(In millions of dollars)

Dates	Total	Loans on securities				All other loans	Loans to brokers and dealers			
		Total	To brokers and dealers in New York	To brokers and dealers outside N.Y.	To others		Total	For own account	For out-of-town banks	For "others"
1928 - Jan. 4	5,404	2,915	1,511*	(Not	1,404	2,489	3,810	1,511	1,371	928
1929 - Jan. 2	5,838	3,259	1,516	available)	1,743	2,579	5,330	1,516	1,648	2,166
Change	+ 434	+ 344	+ 5*		+ 339	+ 90	+1,520	+ 5	+ 277	+1,238
1928 - Feb. 8	4,985	2,537	1,171*	(Not available)	1,366	2,448	3,835	1,171	1,554	1,110
1929 - Feb. 6	5,321	2,857	1,078	38	1,741	2,464	5,669	1,116 ✓	1,931	2,621
Change	+ 336	+ 320	- 55*		+ 375	+ 16	+1,834	- 55	+ 377	+1,511
1929 - Feb. 6	5,321	2,857	1,078	38	1,741	2,464	5,669	1,116	1,931	2,621
June 5	5,409	2,678	797	40	1,841	2,731	5,284	837	1,513	2,934
Change	+ 88	- 179	- 281	+ 2	+ 100	+ 267	- 385	- 279	- 418	+ 313
1929 - June 5	5,409	2,678	797	40	1,841	2,731	5,284	837	1,513	2,934
Aug. 7	5,775	2,961	1,045	43	1,873	2,813	6,020	1,089	1,789	3,143
Change	+ 366	+ 283	+ 248	+ 3	+ 32	+ 82	+ 736	+ 252	+ 276	+ 209
1929 - Aug. 7	5,775	2,961	1,045	43	1,873	2,813	6,020	1,089	1,789	3,143
Oct. 9	5,756	2,836	930	43	1,863	2,921	6,713	973	1,799	3,941
Change	- 19	- 125	- 115	-	- 10	+ 108	+ 693	- 116	+ 10	+ 798

* Includes loans on securities to brokers and dealers outside New York City.

FEDERAL RESERVE BOARD
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SEPTEMBER 26, 1930

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1926 - Jan. 6 4,613 ✓ 2,412 ✓ 1,338* ✓ (Not available) 1,074 ✓ 2,201 ✓ 3,141 ✓ 1,338 ✓ 1,239 ✓ 564 ✓

Sec Bul

CHANGES IN UNITED STATES SECURITY HOLDINGS OF THE FEDERAL RESERVE BANKS AND IN MONETARY GOLD STOCK BY MONTHS FROM AUGUST TO DECEMBER 1927

Holdings of U. S. Securities

			Total since August 1
August	Increased	$81,000,000	
September	"	33,000,000	+ $114,000,000
October	"	16,000,000	+ 130,000,000
November	"	26,000,000	+ 156,000,000
December	"	69,000,000	+ 225,000,000*

Monetary Gold Stock

August	Increased	$9,000,000	
September	Decreased	18,000,000	- $9,000,000
October	"	30,000,000	- 39,000,000
November	"	90,000,000	- 129,000,000
December	"	72,000,000	- 201,000,000

*On December 31 the Federal reserve banks held $57,000,000 of U. S. securities under repurchase agreement as compared with $7,000,000 on August 1.

DIVISION OF BANK OPERATIONS
JANUARY 28, 1931

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 30, 1931

Sec Bul

To Mr. Hamlin

Subject:

From Mr. Smead

GPO 2—8495

In compliance with your telephone request, I am showing below the brokers' loans made by New York City weekly reporting member banks for their own account on the first Wednesdays in January and June from 1926 to 1930, inclusive. Such loans reached their peak of $2,069,000,000 on October 30, 1929 and on the latest report date, January 28, they stood at $1,089,000,000.

1926 -	Jan. 6	$1,338,000,000	1929 -	Jan. 2	$1,516,000,000
	June 2	960,000,000		June 5	837,000,000
1927 -	Jan. 5	1,037,000,000	1930 -	Jan. 8	886,000,000
	June 1	1,076,000,000		June 4	1,911,000,000
1928 -	Jan. 4	1,511,000,000			
	June 6	1,167,000,000			

In Governor Young's Old Point Comfort speech of May 7, 1930, he stated on page 2 that "Brokers' loans and total security loans of New York City banks in the middle of last October were actually smaller than a year earlier." This, as you stated, was an error as on October 16, 1929 brokers' loans made by New York City banks for own account stood at $1,095,000,000 as compared with $890,000,000 on October 17, 1928, while their total security loans stood at $2,964,000,000 compared with $2,551,000,000 a year earlier.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 30, 1931

To Mr. Hamlin

Subject: Importance of customers' security loans

From Mr. Goldenweiser

2—8495

The customers' security loans of all member banks on December 31, 1930 (preliminary figures) represented 33.4 per cent of their total loans. The table shows the Distribution of Member Bank Loans on December 31, 1930; the figures are preliminary and have not yet been published.

Class of loan	Amount (In millions of dollars)	Percentage distribution
Loans--total	23,795	100.0
Loans to banks--total	627	2.6
Loans to customers (exclusive of banks)--total	20,937	88.0
Secured by stocks and bonds	7,939	33.4
Otherwise secured and unsecured	12,998	54.6
Open-market loans--total	2,231	9.4
Acceptances purchased	370	1.6
Commercial paper purchased	364	1.5
Street loans	1,497	6.3

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 5, 1931

See RH

To Mr. Hamlin

From Mr. Smead

Subject: Loans of New York City member banks, October 1929 and October 1928.

2-8495

In response to your telephone request of yesterday, there are shown below figures of total security loans, security loans to brokers, other security loans and "all other" loans of weekly reporting member banks in New York City on each report date in October 1929 and 1928.

(In millions of dollars)

Total Security Loans

1929 - Oct. 2	2,947	1928 - Oct. 3	2,572
9	2,836	10	2,501
16	2,964	17	2,551
23	3,005	24	2,567
30	4,205	31	2,606

Loans on securities to brokers and dealers for own account

1929 - Oct. 2	1,071	1928 - Oct. 3	930
9	973	10	867
16	1,095	17	890
23	1,077	24	957
30	2,069	31	1,021

Other Security Loans

1929 - Oct. 2	1,876	1928 - Oct. 3	1,642
9	1,863	10	1,634
16	1,870	17	1,661
23	1,928	24	1,610
30	2,136	31	1,585

"All other" Loans

1929 - Oct. 2	2,929	1928 - Oct. 3	2,686
9	2,921	10	2,697
16	2,853	17	2,635
23	2,894	24	2,618
30	2,986	31	2,614

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 12, 1931

To Mr. Hamlin

Subject:

From Mr. Smead

2—8495

During the course of our conversation the other afternoon, you stated that the easy-money policy adopted by the System in the fall of 1927 was in part to facilitate the exports of both agricultural and non-agricutural commodities and asked for figures showing the amount of agricultural and non-agricultural exports. I am, therefore, giving below the agricultural and non-agricultural exports by months during the last half of 1927 and by six-month periods since that date.

	Total	*Agricultural	Non-Agricultural
1927			
July	$333,000,000	$91,300,000	$241,700,000
August	367,600,000	118,800,000	248,800,000
September	416,500,000	191,700,000	224,800,000
October	480,500,000	249,800,000	230,700,000
November	452,800,000	216,700,000	236,100,000
December	398,400,000	162,300,000	236,100,000
Total, July to December	2,448,800,000	1,030,600,000	1,418,200,000
1928, January - June	2,324,700,000	749,900,000	1,574,800,000
July - December	2,705,500,000	1,085,100,000	1,620,400,000
1929, January - June	2,578,600,000	735,800,000	1,842,800,000
July - December	2,578,600,000	933,700,000	1,644,900,000
1930, January - June	2,040,100,000	543,800,000	1,496,300,000
July - December	1,742,500,000	639,300,000	1,103,200,000

*Agricultural includes crude foodstuffs, manufactured foodstuffs, cotton and tobacco.

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 16, 1931

To Mr. Hamlin

Subject:

From Mr. Smead

2—8495

In compliance with your telephone request of this morning, I am showing below average daily figures for the weeks ending June 8 and October 26, 1929 of Federal reserve bank credit, money in circulation, gold stock and member bank reserve balances.

	Week ending June 8, 1929	Week ending Oct. 26, 1929	
	(In millions	of dollars)	
Reserve Bank Credit			
Bills discounted	1,000	843	- 157
Bills bought	112	355	+ 243
U. S. Securities	153	140	- 13
Other reserve bank credit	54	71	+ 17
Total reserve bank credit	1,319	1,409	+ 90
Money in circulation	4,704	4,791	+ 87
Monetary gold stock	4,303	4,386	+ 83
Member bank reserve balances	2,298	2,378	+ 80

You will note from the above table that total reserve bank credit increased $90,000,900 during the four and one half month period and that money in circulation increased about an equal amount, $87,000,000. You will also note that the increase of $83,000,000 in our monetary gold stock was accompanied by an increase of $80,000,000 in member bank reserve balances. During this period, there was a decline of $157,000,000 in discounts for member banks and an increase of $243,000,000 in bills bought in open market. This change is due largely to the Federal Reserve System's rate policies. For several months prior to August 9 the acceptance rate had been above the discount rate with the result that the Federal reserve banks held a relatively small amount of acceptances. Beginning with August 9, however, the discount rate was materially above the acceptance rate and this brought about a prompt change in the composition of the Federal reserve banks' portfolios. Member banks not only liquidated their discounts by selling acceptances to the Federal reserve banks but used acceptances to obtain all the additional reserve bank credit needed to take care of seasonal requirements.

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FEDERAL RESERVE BANK CREDIT OUTSTANDING AND RELATED ITEMS

	Averages in millions of dollars for week ending		
	Aug. 6, 1927	Dec. 31, 1927	Change
Bills discounted	440	599	+ 159
Bills bought	170	386	+ 216
United States securities	404	605	+ 201
Other reserve bank credit	87	57	- 30
Total reserve bank credit	1,101	1,647	+ 546
Monetary gold stock	4,579	4,391	- 188
Treasury currency adjusted	1,775	1,783	+ 8
Money in circulation	4,838	5,075	+ 237
Member bank reserve balances	2,291	2,415	+ 124
Unexpended capital funds, non-member deposits, etc.	326	331	+ 5

	Week ending		
	Dec. 31, 1927	July 14, 1928	Change
Bills discounted	599	1,103	+ 504
Bills bought	386	190	- 196
United States securities	605	216	- 389
Other reserve bank credit	57	49	- 8
Total reserve bank credit	1,647	1,558	- 89
Monetary gold stock	4,391	4,115	- 276
Treasury currency adjusted	1,783	1,790	+ 7
Money in circulation	5,075	4,769	- 306
Member bank reserve balances	2,415	2,337	- 78
Unexpended capital funds, non-member deposits, etc.	331	357	+ 26

DIVISION OF BANK OPERATIONS
JANUARY 28, 1931

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MONEY RATES 1927 TO 1930

Date	Discount rate of Federal Reserve Bank of New York	Commercial paper rate in New York City	spread over FR rate	Rates charged customers by New York City banks on prime commercial paper	spread over FR rate
1927					
March	4	4-4¼	+ 1/4	4½	+ 1/2
June	4	4¼	+ 1/4	4½	+ 1/2
September	3½	4	+ 1/2	4¼-4½	+ 1/2
December	3½	4	+ 1/2	4¼-4½	+ 1/2
1928					
March	4	4-4¼	+ 1/4	4¼-4½	+ 1/4 to 1/2
June	4½	4¾-5	+ 1/4 - 1/2	4¾-5	+ 1/4 to 1/2
September	5	5½-5¾	+ 1/2 - 3/4	5½	+ 1/2
December	5	5¼-5½	+ 1/4 - 1/2	5½	+ 1/2
1929					
March	5	5¾-6	+ 3/4 - 1	5½-5¾	+ 1/2 to 3/4
June	5	6	+ 1	5¾-6	+ 3/4 to 1
September	6	6¼	+ 1/4	6	—
December	4½	5	+ 1/2	5½	+ 1
1930					
March	4-3½	3¾-4¾	- 1/4 to + 1 1/4	4¾-5	+ 3/4 to 1 1/2
June	3-2½	3¼-3¾	+ 1/4 - 1 1/4	4 -4½	+ 1 to 2
September	2½	3	+ 1/2	4	+ 1 1/2
December	2½-2	2¾-3	+ 1/4 - 1	3½-4	+ 1 to 2

DIVISION OF BANK OPERATIONS
JANUARY 28, 1931

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Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Sec [illegible]

Date March 5, 1930.

To Mr. Hamlin

From Mr. Wyatt, General Counsel.

Subject: Recommendations, Regulations, and Administrative Policies re Branch, Chain and Group Banking.

GPO 2—8495

I am handing you herewith for your information a copy of a memorandum prepared in this office on the above subject.

Respectfully,

Walter Wyatt

Walter Wyatt,
General Counsel.

Memorandum
attached.

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COPY

March 1, 1930.

To The Federal Reserve Board SUBJECT: Recommendations, Regulations and Administrative Policies re Branch, Chain and Group Banking.

From Mr. Wyatt, General Counsel.

In accordance with the Board's request, I submit below a summary of the recommendations of the Federal Reserve Board, the Federal Advisory Council, and the Conferences of Governors and Federal Reserve Agents, and of the regulations and administrative policies of the Federal Reserve Board, with regard to branch, group and chain banking.

This may not be satisfactory, because I have only a general idea of what the Board desires and it has been prepared very hurriedly. I shall be glad to supplement or revise it in any way the Board may desire.

Because of their interrelation, the recommendations of the Federal Advisory Council and the Conferences of Governors and Federal Reserve Agents have been discussed together with the Board's recommendations, regulations, and administrative policies. The subjects of domestic branches, chain banking and foreign branches, however, have been discussed separately.

DOMESTIC BRANCHES

1. Annual Report for 1915. - In its annual report for the year 1915, p. 22, the Federal Reserve Board recommended to Congress that national banks be permitted to establish branch offices within the city, or within the county in which they were located. The Federal Advisory Council, under dates of September 21 and November 16, 1915, had recommended that the national bank act be amended so as to permit

national banks to establish branches under certain conditions.

2. Recommendations during 1916. - Consistently with this recommendation, the Board in 1916 prepared and transmitted to Congress the draft of an amendment to the Federal reserve act. In the terms of this amendment national banks located in cities of 100,000 and over having a capital and surplus of $1,000,000 or more would have been permitted to establish branches within the corporate limits of the cities in which they were located, and any national banks located in other places would with approval of the Federal Reserve Board and under such regulations as the board might prescribe have been permitted to establish branches within the limits of the county in which they were located or within a radius of 25 miles, irrespective of county lines, but not in any case outside the State or Federal reserve district of the parent bank. (Federal Reserve Bulletin, pp. 323, 327; 1916 Annual Report, pp. 29, 145.)

Under date of November 20, 1916, the Federal Advisory Council renewed its recommendation regarding the establishment of branches by national banks but added that the privilege of establishing branches should apply to all banks in the national banking system and not only to such national banks as were located in States which permitted State institutions to establish branch banks. (See pages 28 and 34 of 1916 Recommendations.)

An amendment drawn in compliance with the recommendations of the Board was adopted by the Senate, during 1916, and together with other amendments was referred to a conference committee of the House and Senate. In conference it developed that the amendment was not acceptable to the House conferees and the Senate on recommendation of its conferees receded from its proposal. (1916 Annual Report, p. 135).

3. Annual Report for 1917. - In its 1917 Annual Report to Congress, page 33, the Board recommended an amendment to the Federal Reserve Act to provide that any national bank located in a city or incorporated town of more than 100,000 inhabitants, and possessing a capital and surplus of $1,000,000 or more, may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches, not to exceed 10 in number, within the corporate limits of the city or town in which it is located, provided that no such branch shall be established in any State in which neither State banks nor trust companies may lawfully establish branches. The Board stated that "State banks which become members of the Federal reserve system are allowed by law to retain any branches which may already be in existence and, with the approval of the Board, to establish new branches. National banks which have taken over State banks having branches are permitted to continue the operations of these branches. There seems to be no reason for such discrimination between members of the Federal reserve system, and with the view of placing them more nearly upon terms of equality, besides affording in many cases better service to the public, it is recommended that provision be made for the establishment of branches by national banks, under proper limitations."

4. Annual Report for 1918. - In its 1918 report to Congress,

r, 83, the Board renewed its recommendation, expressing the opinion that national banks were "at a serious disadvantage in meeting the competition of State banks with branches," and that "the proper development of the Federal reserve system makes it necessary to coordinate as far as possible the powers of all member banks." This coordination of powers could not be effected without amendment of existing laws under which "some member banks, both National and State, are given advantage over other member banks." The Board renewed its recommendation of previous years, being confident that the proposed amendment would "prove beneficial to the Federal reserve system, as well as to the communities concerned." The Federal Advisory Council also renewed its recommendation that an amendment of this character should be enacted. (p. 6, 1918 Recommendations of Federal Advisory Council.)

5. Developments during 1919. - In 1919, a bill was passed by the Senate which proposed to authorize national banks in cities of 500,000 or more population, having a capital and surplus of $1,000,000 or more, to establish not exceeding 10 branches within the corporate limits of the cities in which they were located, provided State law extended a similar privilege to State banking institutions. Under date of September 16, 1919 the Federal Advisory Council urged the Federal Reserve Board to use every effort to secure the passage of this bill in the interest of sound banking and the granting of equal banking facilities to all people in the same business. (p. 19 of 1919 Recommendations of Federal Advisory Council).

6. Annual Report for 1919. - The Board in its Annual Report for the year 1919, p. 64, made substantially the same recommendation regarding the branch banking amendment as it had made in its Annual Report for the

year 1918, and commented upon the bill above referred to as follows:

> "Under the present law national banks can not afford the same facilities to the public as are given by State banks having branches, except in cases where State banks and trust companies operating branches have merged with national banks, when existing branches may be continued by the national banks. * * * While the board would prefer to have this privilege (of establishing branches) extended to national banks in cities of not less than 100,000 inhabitants, or, failing that, have the population limit raised to 200,000, it wishes to point out that the limit fixed in the Senate bill does not affect the principle involved, and it therefore respectfully recommends once more that national banks be permitted to establish branches in the cities in which they are located under such limitations as in the wisdom of Congress may be deemed desirable."

7. Recommendation of Agents' Conference in 1921. - The Conference of Federal Reserve Agents held in October, 1921, adopted a resolution favoring the establishment of branches in the same city in which a national bank is located, provided State banks are permitted that privilege under State law. (Pp. 111-115 of proceedings of October, 1921, Conference of Federal Reserve Agents.)

8. Annual Report for 1922. - Again in its report for 1922, pages 5-6, the board commented briefly upon branch banking developments, noting that the establishment of branches by the larger State banks "had gone so far in a few States, notably California, and in a few large cities, including New York, Cleveland, and Detroit, as to reduce greatly the number of national banks." The Board expressed the opinion that the action of the Comptroller of the Currency in permitting national banks to open "additional offices" within the corporate limits of the cities in which they were located in States which permitted branch banking "does not meet the situation in California and does not fully meet it in the cities mentioned,"

and that "an amendment to the national banking act allowing national banks the same privilege given to State banks in States where branch banking is permitted is much to be desired."

In this connection the board noted a suggestion made by the Joint Commission of Agricultural Inquiry in its report to Congress dealing with the problem of rural credit, to the effect that "a system of limited branch banking might furnish a possible solution of this problem." Upon this suggestion the board commented as follows:

> "Such systems are in fact already established in some sections of our country, notably in California, and appear to have gone far toward solving the problem. Branch banking has lowered the rate of interest in some of the leading agricultural sections of California, and at the same time has provided added security for the deposits of farmers. There are interesting neighborhood branch banking groups in other States, which appear to be serving their communities well."

9. Annual Report for 1923. - Finally, in its 1923 report, page 48, the board notes the difficulties which originate in the differences of State laws and the competitive disadvantages under which national banks operate in States which permit branch banking, and expresses the hope "that it can by administrative measures find some reasonable method of harmonizing existing differences of interest of State and national banks in the matter of branch banking, and thus lay the basis for a policy which will result in shaping the development and practice of branch banking in the United States along useful and serviceable lines."

10. Administrative Policy of the Board prior to November, 1923. - In acting upon applications of State member banks for permission to establish additional branches within the system the board had prior to November, 1923, considered each case upon its own merits, giving consideration to public

convenience and to the parent bank's capacity for properly organizing the branch and assimilating the business taken over. As a matter of general policy rather than specifically of branch banking policy, the board in individual cases withheld its approval until satisfied that establishment of the additional branch or branches in question would not impair the solvency or liquidity of the parent bank. It gave consideration to the rate of expansion of the given branch system; co-ordination of branches already acquired; head-office control, supervision, and personnel; affiliation with outside corporations; relation of capital and surplus to deposit liabilities, especially in rapidly expanding branch systems; methods of acquiring branches; and generally to local conditions and needs in so far as these could be clearly defined. The Board distinguished branches from paying and receiving stations not vested with discretionary power to make loans, except for inconsiderable sums and while reserving the right to reconsider in case such offices in any instance developed into full-fledged branches, it made approval of such outside offices more or less a matter of form, except where it appeared that the expense of maintaining them might impair the capital of the bank.

Although the board had not formulated any arbitrary rule requiring simultaneous examinations of head offices and branches, it had nevertheless regarded any evidence of inability on the part of State authorities to conduct proper examinations of banks maintaining extensive branch systems as being in itself adequate justification for limiting further expansion of such systems. Responsibility for the conduct of adequate examinations, it has been felt, must in the case of member as of nonmember banks be assumed primarily by State authorities rather than in the case of member banks by the Federal reserve bank of the given district.

In general, it may be observed that prior to November, 1923, the board permitted expansion of member bank branch systems under State supervision and control, in so far as such expansion was consistent with sound banking principles of efficient administration, adequate State supervision, and complete solvency.

11. Resolution of November 7, 1923. - On November 7, 1923, the Federal Reserve Board adopted a resolution (X-3881) formulating certain general principles for guidance of the Board in acting upon individual cases presented to it in applications for admission to membership of State banks operating branches outside the city or town or contiguous territory in which the parent bank was located and in applications of State member banks for permission to establish such branches.

This resolution reads as follows:

"Resolved, That the Board continue hereafter as heretofore to require State banks applying for admission to the Federal reserve system to agree as a condition of membership that they will establish no branches except with the permission of the Federal Reserve Board; be it further

"Resolved, That, as a general principle, State banks with branches or additional offices outside of the corporate limits of the city or town in which the parent banks are located or territory contiguous thereto ought not be admitted to the Federal Reserve System except upon condition that they relinquish such branches or additional offices; be it further

"Resolved, That, as a general principle, State banks which are members of the Federal Reserve System, ought not be permitted to establish or maintain branches or additional offices outside the corporate limits of the city or town in which the parent bank is located or territory contiguous thereto; be it further

"Resolved, That in acting upon individual applications of State banks for admission to the Federal Reserve System and in acting upon individual applications of State banks which are members of the Federal Reserve System for permission to establish branches or additional offices, the Board, on and after February 1, 1924, will be guided generally by the above principles; be it further

"Resolved, That the term 'territory contiguous thereto' as used above shall mean the territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located; be it further

"Resolved, That this resolution is not intended to affect the status of any branches or additional offices established prior to February 1, 1924, either those of banks at the present time members of the Federal Reserve System or those of banks subsequently applying for membership in said system."

The Federal Advisory Council, however, was not inclined to favor this resolution. Under date of November 19, 1923, it stated with reference to the resolution that "it believes that the resolution, if carried into effect, will give a position of monopoly to those State banks that have established State-wide systems of branches, while those State banks that have refrained from branch banking will be placed in a position of great disadvantage" (p. 11 of 1923 Recommendations of Federal Advisory Council.)

12. Recommendations re McFadden Bill. - On February 11, 1924, the so-called McFadden bill was introduced in Congress giving to national banks the right to establish branches and imposing some restrictions upon the establishment of branches by State member banks of the Federal reserve system. As has been shown above, the Board had repeatedly recommended the enactment of legislation authorizing the establishment of domestic branches by national banks and a number of bills designed to accomplish this general purpose were introduced from time to time. These bills were

in various forms and contained various limitations and restrictions, but none of them was ever passed by Congress.

On May 26, 1924, and April 23, 1926, in letters addressed to Congressman McFadden and Senator McLean, respectively, the Board expressed its general approval of the McFadden bill. The Federal Advisory Council in 1924, 1925 and 1926 also recommended enactment of the bill, and on February 25, 1927, it was finally enacted into law.

13. Administrative Policy during 1924. - At its meeting on January 7, 1924, the Board gave consideration to the applications of three banks for permission to establish branches from time to time over a period of several months in accordance with contemplated programs of development, and adopted a resolution to the following effect: That no blanket authority to establish branches would be granted; that each application must be presented separately in regular form and manner, subject to approval of the State banking authorities and a recommendation of the Federal reserve bank of the district; that applications to establish branches in non-contiguous territory, filed before February 1 (under the board's resolution of November 7) might be considered by the board after that date; and that the board reserved right to pass on each application on its merits. (See X-3937).

14. Regulations of 1924. - On March 27 the board issued a revised and further elaboration of its regulations formulated under that general provision of the Federal reserve act which authorizes it to prescribe conditions of membership for State banking institutions applying for admission to the system. In these regulations, as amended a month later, on April 7, the board took occasion to give more formal statement than it had

previously given to principles which would govern it in approving the establishment of branches.

By Section IV of its Regulation H, as amended April 7, 1924, the Board stated that it would prescribe the following conditions of membership for every State bank thereafter admitted to the Federal Reserve System:

> "(4) Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency, or additional office.
>
> "(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

These conditions were prescribed for all State banks and trust companies which were admitted to membership between April 7, 1924, and February 25, 1927, and were conditionally prescribed for all institutions admitted between February 26, 1927, and January 3, 1928. Prior to April 7, 1924, these conditions, or conditions substantially similar thereto, were prescribed for special reasons for a number of State banks and trust companies admitted to the System.

In Section VI of the same Regulation, the Board stated the administrative policy which it would pursue in acting upon applications for permission to establish branches under these conditions of membership as follows:

"SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES

"In passing upon applications by State banks and trust companies for permission to establish branches, agencies or additional offices, under condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal Reserve System, the Federal Reserve Board will observe the following principles--

"(1) The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies or additional offices by such banks or trust companies to the city of location of the parent bank and the territorial area within the State contiguous thereto, as said territory has been defined in the board's resolution of November 7, 1923, excepting in instances where the State banking authorities have certified and the board finds that public necessity and advantage render a departure from the principle necessary or desirable.

"(2) The Federal Reserve Board as a general principle will not consider an application by such bank or trust company for a permit to establish a branch, agency or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies or additional offices of such bank, nor unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable the Federal Reserve Board fully to protect the interests of the public.

"(3) The Federal Reserve Board as a general principle will require each bank or trust company which establishes or maintains branches, agencies or additional offices to maintain for itself and such branches, agencies or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal reserve banks.

"(4) The Federal Reserve Board will not consider any application to establish a branch, agency or additional office until the State banking authorities have approved the establishment of such branch, agency or additional office, and the directors or executive committee and the Federal reserve agent of the Federal reserve bank of the district in which such bank or trust company is located have made a report upon the financial condition of the applying bank or trust company, the general character of its management, what effect the establishment of such branch, agency or additional office would have upon other banks or branches in the locality in which it is to be established, and whether, in their opinion, it would be in the interest of the public in such locality, together with their recommendation as to whether or not the application should be granted.

"(5) When permission is granted for the establishment of such branch, agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency or additional office is not established within such time the permit shall become void, unless the time is extended by the board for good cause.

"(6) The Federal Reserve Board reserves the right to cancel any permit which it may grant hereafter to establish any branch, agency or additional office whenever it shall appear, after hearing, that such branch, agency or additional office is being operated in a manner contrary to the interest of the public in the locality in which it is established."

15. After the McFadden Act. - As a result of the amendments to the Federal Reserve Act contained in the McFadden Act, the Board issued a new set of regulations applicable to member banks which became effective on January 3, 1928. Before these new regulations became effective and after the passage of the McFadden Act, a number of State banks and trust companies were admitted to membership in the System. These banks and trust companies were admitted subject to certain conditions of membership, which usually included the conditions in the 1924 Regulations regarding the establishment of branches, and such conditions were subject to any changes which the Board found to be necessary on account of the amendments to the Federal Reserve Act contained in the McFadden Act. After the Board's 1928 Regulations became effective, (January 3, 1928), these banks were advised of the new conditions of membership to which they were subject. As the McFadden Act prescribed the conditions under which branches might be established by

State member banks, the Board did not include a condition in these new regulations in that connection. In Section V of Regulation H, however, it stated its interpretation of the provisions of the McFadden Act regarding branches of State member banks as follows:

"1. Any State member bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal reserve system, regardless of the location of such branch or branches.

"2. Any nonmember State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with State law may, if otherwise eligible, become a member of the Federal reserve system and retain and operate such branches, regardless of their location.

"3. In order to remain a member of the Federal reserve system, every State member bank must relinquish any branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated.

"4. Any State member bank which establishes any branch or branches after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated must either (a) relinquish such branch or branches or (b) forfeit all rights and privileges of membership and surrender its stock in the Federal reserve bank.

"5. No State bank which has established any branches subsequent to February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated may become a member of the Federal reserve system except upon relinquishment of every such branch.

"6. State member banks may establish branches within the corporate limits of the city, town, or village in which the parent bank is situated without obtaining permission of the Federal Reserve Board."

CHAIN BANKING

1. Conditions of Membership. - Prior to the enactment of the McFadden

Act, the Board prescribed conditions of membership under which State banks could be admitted to the Federal reserve system in order to effect some degree of control over chain banking. One of the conditions with which State banks entering the Federal reserve system were required to comply, reads as follows:

> "(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 percent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

This condition of membership was incorporated in the Board's Regulations of 1924 and was prescribed for every State bank admitted to membership between April 7, 1924 and January 3, 1928. As a result of an amendment to Section 9 contained in the McFadden Act (February 25, 1927) there is some doubt whether the Board now has authority to prescribe this broad condition and, therefore it has been unable to exercise the same degree of control over chain banking. It has, however, prescribed the following condition of membership for every State bank or trust company admitted to membership since January 3, 1928.

> "(3) Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust company shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company."

2. Recommendations for Legislation. - As early as January 8, 1926, the Board addressed a letter to Congressman McFadden (X-4500) recommending that there be incorporated in the pending McFadden bill certain provisions

designed to secure adequate information regarding national and State member banks which are closely related in management, operation or interests to other banking institutions and, in particular, to afford some check upon the abuses frequently occurring from chain banking. These suggestions were not adopted by Congress.

3. Correspondence with Hon. Louis T. McFadden re Administrative Control.- Under date of May 2, 1927, Congressman McFadden addressed a letter to the Comptroller of the Currency, suggesting that he adopt administrative measures calculated to control or prevent the growth of chain banking among national banks and sent a copy of his letter to the Federal Reserve Board with the suggestion that the Board should adopt similar administrative measures with reference to State member banks of the Federal reserve system. The Board, under date of May 18, 1927 (X-4854), replied that it was powerless under the law to take any such action. The Board called attention to the fact that it had suggested legislation along this line, but that Congress had not adopted its suggestions, and also called attention to the fact that Congress in the McFadden Act had amended the law so as apparently to take away the Board's power to control this practice through conditions of membership. the Board's letter concluded with the statement that the remedy lies with Congress.

4. Annual Reports for 1927 and 1928. - In addition to the correspondence with Congressman McFadden above referred to, the Board has in its annual reports for the years 1927 and 1928 brought to the attention of Congress the fact that the expanding operations of financial companies specializing in the purchase of bank stock have presented special problems to Federal and State officials charged with the responsibilities of bank supervision. It was pointed out that such companies have been organized in increasing

numbers and that since they are not directly engaged in the business of banking as defined in Federal and State statutes, they have not been subject to supervision or regular examination by banking authorities. (See pages 31-32 of 1927 Annual Report). The difference between branch and chain banking was explained and it was pointed out that the more considerable developments in chain banking have been generally in States which prohibit the establishment of branch offices by banks. The chain banking situation in the United States was also summarized for the information of Congress. (See pages 30-31 of 1928 Annual Report.)

5. Conferences of Federal Reserve Agents and Governors of Federal Reserve Banks in 1927 and 1928. - The 1927 fall conferences of Federal reserve bank Governors and Federal reserve agents considered the development of investment companies for the purchase of bank stock, and the Federal reserve agents were of the opinion that a dangerous situation is developing which should be brought to the attention of the Federal Reserve Board and the banking authorities with the view that some legislation should be obtained placing such companies under the jurisdiction of the banking departments. The Federal reserve bank Governors felt that the possible dangers incident to a widespread development of such companies make it a matter for the consideration of the Federal reserve system. The Governors discussed this question further at their April, 1928, Conference and while nothing definite was recommended, it was stated that the question is a matter that deserves thoughtful consideration.

6. Committee to Study Chain Banking. - The question of branch, chain and group banking development in the United States with particular reference to the effects of bank stock ownership by investment trusts and holding

corporations, was considered by the Federal Advisory Council in 1929, and, on November 19, 1929, it recommended that, "The Federal Reserve Board appoint a committee to study the merits of the branch banking system as practiced in this and other countries, (conditions in Canada being apparently more comparable with our own), the group or chain banking system as developed in this country and elsewhere, and the unit banking system of this and other countries; and further, the effect of ownership of bank stocks by investment trusts and holding corporations, in order that the Federal Reserve Board may be in possession of accurate and authoritative information on this important subject."

The December, 1929, Conference of Federal reserve bank Governors and Federal reserve agents voted to concur in and endorse the recommendation of the Federal Advisory Council that a committee be appointed to study the subject of branch, chain and group banking.

Accordingly, on February 27, 1930, the Board appointed a committee for this purpose, naming as members thereof, Messrs. Goldenweiser and Smead of the Board's staff, and Messrs. Rounds, Fleming and Clerk, Deputy Governors of the Federal reserve banks of New York, Cleveland and San Francisco, respectively. On the same date a letter (X-6520) was addressed to the Governors and Federal reserve agents advising them of the appointment of the above named committee.

FOREIGN BRANCHES

1. National banks. - National banks under Section 25 of the original Federal Reserve Act (Act of December 23, 1913) were given the right to establish branches in foreign countries or dependencies of the United States and under the provisions of the Act of September 7, 1916, amending Section

25, such banks were given the power to establish branches in insular posessions of the United States. At the present time national banks may establish foreign branches pursuant to the provisions of Section 25 of the Federal Reserve Act.

2. State Member Banks. - Prior to the passage of the so-called McFadden Act, State banks which were members of the Federal Reserve System could establish branches in foreign countries; but since that Act they may not do so. This Act amended Section 9 of the Federal Reserve Act and provides that no State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated. A branch of a State bank established in a foreign country is one established beyond the limits of the city, town or village in which the parent bank is located and thus comes within the class of branches which are prohibited by the McFadden Act. This Act expressly excepts the establishment of foreign branches by national banks from its provisions; but no such exception is made in favor of branches of State member banks.

3. Annual Reports for 1927 and 1928. - In its Annual Report for the year 1927, p. 46, the Board recommended that Section 9 of the Federal Reserve Act be amended so as to permit State member banks to establish foreign branches. The Board explained the situation as set forth above and pointed out that "it is obvious that Congress intended to deal with domestic branches", when it amended Section 9, and stated "there is no justification for a discrimination against State member banks in this respect; and the Board is of the opinion that the law should be amended as soon as

possible so as to remove the possibility of its being construed so as to result in such discrimination." The Board renewed this recommendation in its Annual Report for the year 1928, p. 41.

4. Active Steps to Obtain Legislation.- Under date of April 25, 1929, Vice Governor Platt addressed letters to the Chairmen of the Senate and House Banking and Currency Committees, reviewing the State member bank foreign branch situation. Drafts of amendments conforming to the Board's views were enclosed with these letters and it was stated that "the Board will appreciate favorable action on this proposed amendment at an early date."

On May 10, 1929, Senator Norbeck introduced a bill (S. 1070) to amend Section 9 of the Federal Reserve Act to permit State member banks to establish and operate branches in foreign countries.

Under date of June 10, 1929, the Board addressed a letter to Senator Norbeck, in which it was stated that upon further consideration of the matter of amending the law so as to permit State member banks to establish foreign branches, the Board had reached the conclusion that the establishment of such branches should be permitted only on terms and conditions similar to those prescribed for national banks by the provisions of Section 25 of the Federal Reserve Act. A revised draft of the amendment was submitted with this letter and it was suggested that it be introduced in lieu of S. 1070. This revised draft would require State banks desiring to establish foreign branches to have a capital and surplus of $1,000,000 or more, to obtain the permission of the Federal Reserve Board, and to comply with such conditions and regulations as might be prescribed by the Federal Reserve Board. A similar letter was sent to Mr. McFadden on the same day and in both of these letters the Board requested that favorable action be taken on the amendment.

Under date of September 10, 1929, letters were again addressed to the Chairmen of the Senate and House Banking and Currency Committees, calling their attention to the previous recommendations of the Board and renewing the recommendation that bills conforming to the Board's suggestions be introduced and passed by Congress.

On December 11, 1929, Senator Norbeck introduced a bill (S-2605) in the Senate in the form in which it was recommended by the Board and this bill was reported out without amendment on December 18 by the Senate Banking and Currency Committee.

On February 6, 1930, the Board voted again to recommend the enactment of this amendment in its Annual Report for the year 1929. It was also voted to send a letter to Mr. McFadden asking him to introduce the amendment in the House. This letter has been prepared but has not yet been mailed.

ARTICLES IN THE BULLETIN.

In the Federal Reserve Bulletin for December, 1924 (pages 925-940) there is an excellent article on the modern development of branch banking in the United States, which contains a review of the Board's recommendations, regulations, and administrative policies on that subject and much valuable statistical material. This is supplemented by articles appearing in the following numbers of the Federal Reserve Bulletin at the places indicated.

June, 1926, pages 401-408
May, 1927, pages 315-318
December, 1929, pages 762-770

The last of these articles contains valuable statistics regarding chain banking.

Respectfully,

Walter Wyatt,
General Counsel.

WW:vdb

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 16, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

2—8495

Your inquiry of yesterday came to the office during my absence, and Mr. Parry has prepared the attached memorandum on frozen assets of the Federal reserve banks. I concur in his conclusions. The implication of Willis' editorial is that any lending that the member banks would have to do in order to meet the requirements of reviving business would have to come 100 per cent from the reserve banks, and perhaps even constitute an equivalent drain on their gold reserves. This, of course, is erroneous. The reserve banks supply on the average only about $75,000,000 of credit for every $1,000,000,000 issued by member banks, and against these $75,000,000 they would only need about $30,000,000 of reserves. The total unused lending power of the Federal reserve banks amounts to more than $1,700,000,000, which could be the basis of about $4,300,000,000 of reserve bank credit, and of about $60,000,000,000 of member bank credit, as compared with total loans and investments of member banks at the present time of about $35,000,000,000. In other words, bank credit could be tripled on the basis of existing reserves. I should think that in view of that fact there is nothing in what Mr. Willis says.

Frozen credits

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 15, 1931

To Mr. Hamlin

Subject: "Frozen assets" of Federal reserve banks

From Mr. Parry

2—8495

Referring to your query of January 15, citing an editorial in the Journal of Commerce, I should say that no appreciable part of the earning assets of the reserve banks at present can properly be said to be frozen.

On January 14, 1931, the earning assets of the reserve banks amounted to $1,089,000,000, of which acceptances having as long as 90 days to run were less than $1,000,000, those having more than 60 days to run were $31,-000,000, and those having more than 30 days to run were $56,000,000. Total holdings of acceptances were $196,000,000, or $168,000,000 less than on December 31. The latest date for which figures are available for holdings of acceptances "based on goods stored in or shipped between foreign countries"--an item to which the editorial refers--is December 31, when such bills amounted to $131,500,000. The maturities of these bills are not reported separately, but it is fairly evident that most of them were short bills as the system's holdings on that date of all acceptances having over 30 days to run was only $77,000,000; this is the figure which amounted two weeks later to $56,000,000.

There is always a certain amount of slow paper among the bills discounted for member banks, for which data become available at quarterly intervals. The latest figures now available are for the quarter ending September 30, 1930. These figures show that in comparison with the corresponding quarter of 1929 the number of member banks that had not been altogether out of debt at the reserve banks for a full year decreased from 317 to 291 and that the amount of borrowings by such banks decreased from $115,000,000 to $26,000,000.

CH

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec BK

Date February 7, 1931.

To Mr. Hamlin

Subject: cent - res. 1930

From Mr. McClelland

2—8495

In accordance with instructions given at the meeting of the Board this morning, there is attached hereto copy of a letter dated January 29th from the Federal Reserve Agent at San Francisco, transmitting report of the survey made by direction of the Board of the classification of deposits of member banks in San Francisco and Los Angeles for reserve purposes, and the differences in the reserves carried by the member banks from the amounts required under a classification of their deposits according to the regulations of the Board.

The detailed reports accompanying this letter have been referred to Counsel, from whom they may be obtained by any member of the Board desiring to study them.

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(COPY)

FEDERAL RESERVE BANK OF SAN FRANCISCO

January 29, 1931

Dear Sirs:

Complying with the request contained in the Board's letter of August 6, 1930, we have completed reserve surveys of the San Francisco and Los Angeles member banks, and copies of the reports giving full details are being forwarded under separate cover.

Our examiners, in making their classifications of deposits, have followed the strict interpretation of the Federal Reserve Board 's Rules and Regulations defining "demand deposits" and "time and savings deposits" and the opinion of the Board's Counsel regarding the status of the so-called "special savings accounts" in the State of California. It will be remembered that Mr. Agnew, counsel for this bank, rendered opinions under date of January 13, 1923 and February 1, 1923 in which he disagreed with the opinion of the Board's counsel as to the proper classification of "special savings accounts." We are therefore summarizing below reserve calculations showing excess or shortage of legal requirements based upon three different deposit classifications, namely: (1) the banks own classifications, (2) our examiners' classifications based on the Board's Regulations, and (3) classifications in accordance with our counsel's opinion, treating the so-called "special savings accounts" as time deposits requiring only a 3 per cent reserve.

LOS ANGELES MEMBER BANKS

Name of Bank	Banks' Own Classifications	According to Board's Regulations	According to Our Counsel's Opinion
Security-First National Bank	$185,661-	$6,708,208-	$1,603,427-
Citizens Nat'l Trust & Savings Bank	189,992+	1,061,302-	144,427-
Union Bank and Trust Company	60,630+	317,556-	37,221-
National Bank of Commerce	8,391+	80,703-	30,425-
Seaboard National Bank	1,651-	139,463-	46,355-
Central National Bank	4,442+	8,791-	2,342-
United States National Bank	384+	333,979-	55,598-
First National Bank of Venice	5,552-	6,865-	6,865-
Hollywood National Bank	2,215-	15,944-	7,275-
Wilshire National Bank	2,451+	16,205-	4,548-
	266,290+		
	195,079-	8,689,016-	1,938,483-
	71,211+		
Farmers & Merchants National Bank	83,292+	260,948+	800,948+
Net Excess Reserves (Banks' Calcu'ns)	$154,503+		
Net Shortage Reserves (Our Calculations - Bd's Regu'ns)		$8,428,068-	
Net Shortage Reserves (Counsel's Opinion re Special Svgs. Deposits)			$1,137,535-

SAN FRANCISCO MEMBER BANKS

	Banks' Own Classifications	According to Board's Regulations	According to Our Counsel's Opinion
Bank of America Nat'l T. & Svgs. Assn.	$1,673,962-	$12,226,902-	$9,938,952-
Anglo & London Paris National Bank	829,636-	847,370-	847,370-
American Trust Company	454,110-	1,245,961-	1,245,961-
Bank of California, N. A.	337,000-	336,162-	336,162-
Wells Fargo Bank & Union Trust Company	212,929-	210,929-	210,929-
Pacific National Bank	38,060-	41,271-	41,271-
City National Bank	5,426-	41,121-	41,121-
Anglo California Trust Company	45,033+	36,139+	36,139+
Bank of Montreal	36,700+	18,000+	18,000+
	3,551,123-	14,949,716-	12,661,766-
	81,733+	54,139+	54,139+
Net Shortage (Banks' Calculations)	$3,469,390-		
Net Shortage (Examiners' Calculations - Bd's. Regulations)		$14,895,577-	
Net Shortage (Counsel's Opinion re Special Savings Accounts)			$12,607,627-

SUMMARY - LOS ANGELES & SAN FRANCISCO MEMBER BANKS

Net Shortage in Legal Reserves based on Banks' Calculations	$ 3,314,787
Net Shortage in Legal Reserves based on Board's Regulations	23,323,645
Net Shortage in Legal Reserves based on Counsel's Opinion	13,745,162

It is of interest to note that of the 20 banks covered in the surveys, only 9 (2 in San Francisco and 7 in Los Angeles) were apparently maintaining their legal reserve requirements based on their own deposit classifications, and only 3 (2 in San Francisco and 1 in Los Angeles) had required reserves based on classifications according to requirements of the Federal Reserve Act and Regulations of the Federal Reserve Board. As a matter of fact, however, these shortages are more apparent than real. Survey on a given day does not show complete pictures inasmuch as the banks adjust balances toward the end of reporting periods to average reserve positions. Then, too, the actual reserve balance with the Federal Reserve Bank in nearly every instance is larger than the amount shown on the bank's own books. For example, the books of the City National Bank of San Francisco for date of survey showed a reserve balance of $69,661, while the books of the Federal Reserve Bank showed a balance of $74,027. Inasmuch as the legal reserve is based on the balance as shown by the books of the Federal Reserve Bank, the bank's reserve on date of survey was only $1,058 short of legal requirements, while its own books showed a shortage of $5,426. Further proof that shortages in reserves, as indicated above, are more apparent than real is the fact that very few of these banks have been penalized for deficient reserves, and then at infrequent intervals and for very small amounts. The weekly reserve reports of these banks covering the dates of the respective surveys were checked and found to agree in every instance.

Below is a list of the Los Angeles and San Francisco banks penalized during the year 1930 for reserve deficiencies together with amount assessed.

American Trust Company	San Francisco	7	times,	total	charge	$137.37
Anglo & London Paris National Bank	" "	2	"	"	"	31.92
Bank of America Nat'l T. & S. Assn.	" "	1	"	"	"	1.27
Bank of California, N. A.	" "	1	"	"	"	26.94
Bank of Montreal	" "	2	"	"	"	3.04
Crocker First National Bank	" "	14	"	"	"	124.72
Pacific National Bank	" "	10	"	"	"	61.08
Union Bank & Trust Co.	Los Angeles	5	"	"	"	65.10
Western National Bank	" "	8	"	"	"	15.35
Central National Bank	" "	5	"	"	"	63.56
Citizens National Trust & S. Bank	" "	1	"	"	"	24.70
National Bank of Commerce	" "	2	"	"	"	3.18
Seaboard National Bank	" "	3	"	"	"	13.67

It will be noted from the summaries above that classifying the so-called "special savings" accounts as "time deposits" carrying only a 3 per cent reserve makes a difference of $9,578,463 in reserve requirements, affecting only the Los Angeles banks and the Los Angeles branches of the Bank of America National Trust and Savings Association. Most of the remaining difference between banks' own figures and those of our Examiners is in the classification of Public Funds.

Our Examiners, in their reports, have tried to cover all the points raised in the Board's letter, but if there are any phases which have been overlooked or are not made clear, please advise us and we shall endeavor to furnish additional information.

Yours very truly

(Signed) Isaac B. Newton,
Federal Reserve Agent.

Federal Reserve Board,
Washington, D. C.

Sec BH

The Federal Reserve Bank of St. Louis.

On February 20, 1931, the Board asked Chairman Wood the following questions:

1. Whether his Bank declined to rediscount eligible paper, but required member bank collateral notes.

2. Whether marginal collateral on advances made on such notes has been required without regard to the condition of the borrowing bank, the character of the paper offered, the total amount borrowed by the bank, or other similar facts and circumstances.

3. Whether the St. Louis Bank requires a minimum percentage of marginal collateral from all borrowing banks outside of Federal reserve cities, without applying the same requirements to banks located in Federal reserve cities.

The letter contained the expression of opinion that the above action, if correct, would appear to be out of harmony with the spirit of the Federal Reserve Act.

4. The percentages of marginal collateral required of Federal reserve city banks, both under the revised policy lately adopted by your Bank and during the three months preceding the adoption of such policy.

Chairman Wood replied on March 2, 1931:

The only definite policy adopted by our board is expressed in the resolution passed by the Executive Committee February 9, 1931:

States that in a spirit of cooperation with member banks and in order that each borrowing may be reviewed at regular short intervals, it would be desirable to get a 15-day collateral note in every instance * * * If any bank, however, prefers rediscounting, it is to be allowed to rediscount.

B49

Whenever a bank has been a continuous borrower, is borrowing excessively, is in an unsatisfactory condition, or whenever for any reason additional collateral is requested, a 15-day collateral note will be required.

Additional collateral will only be asked where justified by existing conditions surrounding the borrowing.

The above resolution was approved by the Board of Directors February 18, 1931.

Chairman Wood, among other things, stated in said letter, as follows:

~~Will~~ We use both rediscounting and bills payable. 54 banks are rediscounting and 90 use bills payable. For past few years the bills payable basis has increased. In a number of cases the member banks preferred bills payable.

Chairman Wood asks Board whether it regards member bank collateral notes as less desirable than rediscounting.

States that if the amendment approved by the Board in its 14th Annual Report, page 49, extending the maturity of bills payable secured by eligible paper to 90 days, should be adopted, he believes most member banks would use bills payable when borrowing.

Additional Margin of Collateral.

Each case acted on as a separate case by the Discount Committee.

Margins are not required in all cases, either in rediscounting or borrowing on bills payable.

Depends on general condition of the bank, the character of its management, and the type of paper offered.

The banks in St. Louis and in other cities where borrowing is in the form of bills payable, are not required to pledge any margin of collateral, assuming that the paper offered is accompanied by evidence of eligibility, soundness, and proper liquidity, and where the banks are in satisfactory condition and satisfactorily managed.

A few banks in those cities, however, are in such condition as to require marginal collateral.

The same applies to country banks.

In the past 9 months, the quality of the loans in many country banks has greatly deteriorated, and it has become increasingly difficult for them to furnish offerings up to the old standard of eligibility and acceptability.

In a number of cases, it has been necessary to construe rather liberally both eligibility and acceptability and to support the existent doubt by a margin of non-eligible collateral.

In addition to the banks designated by asterisks on list enclosed, there are at least 38 other banks whose condition renders it advisable to request additional collateral.

The average of the banks now borrowing is lower in merit than the average of the non-borrowing banks.

It has been for several years a policy of this bank to require marginal collateral from all member banks whose borrowings have exceeded their capital and surplus, exclusive of loans secured by Government obligations.

All three of the Branch Managers expressed the opinion that no restriction of credit has resulted from the practices, but all three report some objections.

States some objections made to the Credit Department of the parent bank in St. Louis.

C #9

See Bk

Maximum Gov man discount rates

~~Proposed New Legislation.~~

Federal Reserve System

Quotations from Governor Harrison's letter to the Board dated April 9, 1929:

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 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, etc.

The one thing which has prevented, and now prevents, the restoration of more normal money conditions, is the 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.

While the continuance of the policies of restrictive 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 the Federal reserve policy more promptly effective.

We believe an increase in our discount rate by 1% will be a helpful step in this direction because

* * * * *

A rate increase will have a direct effect upon the possible use of

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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 * * *

As far as the immediate effects on business of a rate change are concerned, business borrowers are already paying 5¾% to 6%, or, in acceptance credits, over 6½% for their money in the principal centers, and higher, of course, elsewhere, -in many cases close to the legal maximum, so that an increase in the discount rate to 6% 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 loans.

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

Letter, Board to McGarrah, May 1, 1929.

Reply of McGarrah to Board, May 10, 1929:

The Federal Reserve Board's letter of May 1st, 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 21st, 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 the test of "abuse" of Federal reserve credit is to be the amount of the member banks' loans on securities.

Every bank in the country doing a general banking business must necessarily make loans on securities * * *

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 to determine, 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.

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 can not 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 business.

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 21st, believing that to adopt any different procedure might precipitate serious consequences.

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See Bk

Bond amdt. 3% res. for st. bks. when segregated.
Apr 21, 1921
119-63

Savings accounts, Special

1923, Jan 3, [illegible] are demand deposits

Jan 6. [illegible] NO

Board voted that California special savings accounts require reserves as demand deposits, and not 3% as savings accounts.

Perrin strongly favored 3% reserves, as these deposits were segregated and right to require notice of withdrawal was reserved.

C.S.H. said that deposits on which the bank reserved the right to require 30 days notice, could not be called demand deposits, even tho checking and withdrawal without presenting pass book, out of courtesy, was allowed.

Miller moved that the regulations making such deposits demand deposits be not changed.

C.S.H. and Mitchell voted to change regulations to admit of 3% reserve; Miller, Platt and Crissinger voted No.

Perrin tells Platt that Sartori's bank and other large banks may withdraw because of this ruling.

Platt reserves right to move reconsideration.
Oct. 10, 1922. 199.

Board voted that these accounts of state banks must carry same reserves as against demand deposits.

Board had already voted this last October (1922) but Platt reserved right to move to reconsider. 17.

The Board voted to reconsider but then reaffirmed original vote.

C.S.H. and Mitchell voted against this, i.e. in favor of lower reserves. Dec. 6, 1922. 18.

C.S.H. feels that this ruling gives equity to claim of state member banks that Federal reserve authorities should assist in examinations of state member banks.
Dec. 12, 1922. 22.

At Governors Conference, the Governors voted against permitting a 3% reserve against these savings accounts.

In favor of 3%:
Calkins, Norris, McDougal, Young, Harding.

Savings accounts, Special (Cont'd.)

Gov. Seay agreed in the Conference to vote for 3%, but finally voted against it.

The question put to the Governors: - assuming that the Board has power to permit 3%, ought it to do it.
March 27, 1923. 76.

Dr. Willis tells C.S.H.:
Savings accounts in Sec. 19 had reference only to national banks originally; that the national banks thought the required reserves, - 18%, 13% and 10% were too high; they told Congress they had large dormant accounts which were in essence savings accounts; that finally Congress gave them 5%, which later was lowered to 3%; that finally Congress provided for separate savings departments for national banks, with provision for segregated assets, prior lien, etc., which passed the House, but was stricken out by the Senate; that he saw no reason why there should not be different regulations for state banks than for national banks; that in case of national banks, where checking is permitting, the same reserve should be required as for demand deposits, as all deposits, whether savings or not, went into a common fund to be loaned commercially; that in California state banks, however,all savings deposits are segregated and limited as to investment; that this was the essence of savings accounts; that he saw no reason why the Board could not permit state banks, if it thought 3% adequate, to maintain such a reserve, where the bank had the right to require notice and presentation of the passport, even tho in practice it waived this right and permitted the use of checks stamped so as to be subject to this right.
April 20, 1923. 93, 94, 95.

Gov. Crissinger brings up question of California special savings deposits.

He pointed out that the matter was settled on Oct. 10, 1922, no notice of which was sent to Perrin, Federal Reserve Agent, and again on Dec. 6, 1922, of which Perrin was notified.

The banks asked Board to hold up its decision and give them a hearing.

At the meeting of the Governors briefs were filed and arguments made.

Savings accounts, Special (Cont'd.)

C.S.H. moved to reconsider which failed by a tie vote:

Aye: C.S.H. and Miller
No: Gov. C. and Platt.

Dr. Miller said he approved the decision of Dec. 6, 1922, and voted to reconsider merely to give Platt opportunity to offer a motion as to the form of notice to send Perrin.

Gov. C. and C.S.H. explained to Miller that no reconsideration was necessary for this purpose, but Miller would not change his vote.

Platt moved that Perrin be informed that time deposits were not savings accounts under Sec.19, Federal Reserve Act.

C.S.H. said this was in proper form.

Gov. C. favored merely saying Board declined to reverse its decision of Dec. 6, 1922.

Platt's motion failed 3 to 1, C.S.H. voting against it on the merits.

C.S.H. felt Gov. C's motion was simpler, and that the vote of Dec. 6, 1922, might be construed as an exercise of judgment and not as a ruling of law.

May 3, 1923. 104, 105.

State Superintendent of Banks in California says above decision will cause great hardship on certain banks.

June 1, 1923. 146.

P53

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 17, 1931

Mr gold

To Mr. Hamlin

Subject:

From Mr. Smead

2—8495

In response to your memorandum of January 14, I beg to advise as follows:

The free gold held by the Federal reserve banks amounted to $882,768,000 on August 5, 1927 and to $697,805,000 on January 14, 1931. The difference between these figures is due largely to the fact that the Federal reserve banks now hold more Federal reserve notes in their vault cash, which have to be covered by gold deposited with the Federal reserve agents, than they did on August 5, 1927. If we reduce the Federal reserve banks' holdings of Federal reserve notes to an operating minimum of $150,000,000 the free gold figures are increased to $1,101,606,000 on August 5, 1927 and to $1,063,838,000 on January 14, 1931.

Excess reserves on these dates were, of course, much larger, amounting to $1,631,174,000 on August 5, 1927 and to $1,727,916,000 on January 14, 1931.

The amount of gold that we could freely export without inconvenience depends entirely on whether the gold is released by the Federal reserve banks in exchange for eligible paper (discounted bills and acceptances bought in open market) or in payment for United States securities purchased. If the gold for export is to be obtained through the purchase of U. S. securities by the reserve banks, the amount would be limited to about $500,000,000. If, however, the gold is released by the Federal reserve banks in exchange for eligible paper, we could export approximately $1,200,000,000 and still have a reserve ratio of 50 per cent. Inasmuch as there is about $1,500,000,000 of gold and gold certificates in circulation, it would, of course, be possible for the reserve banks to acquire gold from this source by restricting or stopping the paying out of gold and gold certificates. Sixty per cent of any gold thus acquired by the reserve banks could be released for export in exchange for eligible paper, forty per cent therof being needed as the legal reserve against the Federal reserve notes which would replace the gold in the circulation.

With reference to question 4, taking the period from 1922 to date, I think it can be said that the United States has not sterilized gold imports. In June 1922 our monetary gold stock amounted to $3,776,000,000 and at that time the loans and investments of all banks in the United States amounted to $39,956,000,000 the ratio of monetary gold stock to loans and investments of all banks being 9.5 per cent. In September 1930, the monetary gold stock was $4,503,000,000 and loans and investments of all banks $57,590,000,000 and the ratio of monetary gold stock to total

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loans and investments 7.8 per cent. This shows that our gold stock is now being used to support a relatively larger volume of credit than was the case in 1922. The increase of $727,000,000 in our gold stock during the period was used to the extent of $575,000,000 to build up reserve balances of member banks with the Federal reserve banks, and the remainder to reduce Federal reserve bank credit outstanding.

Liquidation since the stock market crash of 1929 may be considered from the standpoint both of the Federal reserve banks and of member and nonmember banks.

From the week ending October 26, 1929 to the week ending October 25, 1930, reserve bank credit declined from an average of $1,409,000,000 to $1,007,000,000. This reduction was due to an increase of $136,000,000 in monetary gold stock and a decrease of $309,000,000 in money in circulation. Member bank reserve balances which reflect changes in the volume of member bank credit show an increase of $36,000,000. During this twelve month period the Federal reserve banks increased their holdings of Government securities by $462,000,000, but this increase was more than offset by a decline of $648,000,000 in discounts and $177,000,000 in acceptances.

The seasonal demand for currency makes it difficult to extend the comparison to the present time. However, since October 1930 there has been an increase of $167,000,000 in money in circulation and of $50,000,000 in member bank reserve balances. These increases were provided for, to the extent of $103,000,000 by an increase in our monetary gold stock, and to the extent of $104,000,000 by an increase in reserve bank credit. These increases in money in circulation and in reserve bank credit will undoubtedly both be eliminated by the end of this month.

From the standpoint of member and nonmember banks, there has also been some liquidation of bank credit since October 1929. The latest date for which figures are available is September 24, 1930, on which date loans and investments of all banks (member and nonmember) aggregated $57,590,000,000 as compared with $58,835,000,000 on October 4, 1929, representing a reduction of $1,245,000,000 or 2.1 per cent. This decrease in bank credit does not, of course, include the reduction in brokers' loans made other than by banks. It is estimated that the reduction in brokers loans by "others" was approximately $4,600,000,000 during the same period.

If we take member banks alone, we find a decline of $442,000,000 in total loans and investments between October 4, 1929 and September 24, 1930, or 1.2 per cent of the amount, $35,914,000,000, reported on the earlier date. It is of interest to note, however, that although there has been a net reduction of only $442,000,000 in total member bank credit, customers' loans of these banks declined much more -- $2,414,000,000, this larger reduction being partly offset by an increase of $1,971,000,000 in holdings of open-market* loans and investments.

* acceptances
Com. paper [illegible]
Street loans
Securities

Sec Bd

FEDERAL RESERVE SYSTEM

1926.	Discounts	Bills	Government Securities	Total Earning Assets
Jan. 6	593.5	344.8	369.4	1318.4
Feb. 3	487.8	302.3	349.8	1149.4
Mar. 3	583.2	286.6	325.8	1207.4
Apr. 7	578.6	229.8	342	1164.3
May 5	547.2	213.4	395.3	1168
June 2	525	244.1	404.2	1186
July 7	612.6	237.6	375.3	1233.6
Aug. 4	547.6	228.5	370.2	1149.5
Sept. 1	626.3	253.5	319	1202.5
Oct. 6	623.6	273.3	306.3	1206.9
Nov. 3	675.9	332.1	302.3	1312.8
Dec. 1	645.5	368.2	305.9	1322.1

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FEDERAL RESERVE SYSTEM

1927.	Discounts	Bills	Government Securities	Total Earning Assets
Jan. 5	633.5	388.8	313.9	1339.8
Feb. 2	393.3	329.1	303.9	1028.7
Mar. 2	434.6	289.	311	1036.6
Apr. 6	401.9	239.2	341.9	985.6
May 4	507.6	244.2	316.3	1069.9
June 1	496.5	229	362.5	1089.8
July 6	506.8	199	374.5	1081.6
Aug. 5	445.4	177.9	407.3	1031.8
Sept. 7	449.5	197.3	499.5	1146.6
Oct. 5	462.5	262.2	504.9	1230.3
Nov. 2	379.2	334.6	526.4	1240.8
Dec. 7	443.9	380	604.2	1429.

FEDERAL RESERVE SYSTEM

1928.	Discounts	Bills	Government securities	Total Earning Assets
Jan. 4	520.9	387.1	627.4	1536.3
Feb. 1	423.4	377.4	433.7	1235
Mar. 7	482.1	338.5	402.9	1224.3
Apr. 4	601.5	343.6	383.2	1329.5
May 2	757.1	363.1	292.3	1413.4
June 6	982	266.4	210	1459.5
July 3	1191	209.7	219.6	1620.7
Aug. 1	1085.8	165.9	211.7	1463.8
Sept. 3	1080.1	186.8	206.4	1474.3
Oct. 3	1025.9	310	230.6	1571.1
Nov. 7	957.4	448.6	222.7	1632.4
Dec. 5	1012.2	477.8	226.8	1721.1

FEDERAL RESERVE SYSTEM

1929.	Discounts	Bills	Government securities	Total Earning Assets
Jan. 2	1151.5	484.4	244	1889.7
Feb. 6	851.6	410.7	200.1	1471.5
Mar. 6	989.2	304.6	163.	1467.
Apr. 3	1029.9	174.7	169.1	1380.5
May 1	985.8	170.4	150.7	1329.2
June 5	977.4	112.7	147.3	1247.4
July 3	1125.1	73.9	141.4	1350.9
Aug. 7	1064.1	79.2	157.6	1311.4
Sept. 4	1046.	182.9	149	1394
Oct. 2	930.6	322.8	145.8	1414.2
Nov. 6	990.9	330.4	292.7	1637.6
Dec. 4	872.3	256.5	355.1	1502.7

FEDERAL RESERVE SYSTEM

1930.	Discounts	Bills	Government securities	Total Earning Assets
Jan. 8	567.6	319.2	484.8	1384.3
Feb. 5	381.4	295.8	477.8	1167.2
Mar. 5	308.6	271.2	486.1	1078.2
April 2	241.1	301.3	530.4	1081.6
May 1	237.4	175.2	527.8	951.1
June 4	239.7	189.2	543.8	978.7
July 2	260.4	157.5	596	1021.2
Aug. 6	205.9	133.6	576.2	923.
Sept.3	231.3	170.4	602.	1012.3
Oct. 1	185.9	193.1	601.2	987
Nov. 5	212.5	185.6	601.5	1006.2
Dec. 3	250.9	218.9	602.2	1078.4

FEDERAL RESERVE SYSTEM

1931.	Discounts	Bills	Government Securities	Total Earning Assets
Jan. 7	292.4	265.5	658.9	1223.3
14	243.3	196.2	644.3	1089.4

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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 9, 1931

Se BH

To Mr. Hamlin

Subject: Security Loans of New York City Banks

From Mr. Smead

2—8495

The figures shown in your memorandum, returned herewith, regarding Governor Harrison's testimony before the Glass Sub-Committee, have been checked and found to be correct.

In drawing conclusions from condition figures it is always well to bear in mind the trend as well as the figures for particular dates. As you will note from the figures shown at the bottom of your memorandum, if you had compared February 6, 1929, instead of January 2, 1929, with June 6, 1928, brokers' loans made by New York City banks for their own account would have shown a decline of $51,000,000 instead of an increase of $349,000,000, security loans to customers would have shown about the same increase as given in your statement, and "all other" loans would have shown a decline of about $158,000,000 instead of $43,000,000.

If you will refer to page 14 of your book of charts you will note that brokers loans made by New York City banks for their own account fluctuated around $1,000,000,000 from the beginning of 1926 until the drastic liquidation in security prices took place around the end of 1929. You will also note from page 15 that the trend of total security loans made by New York City banks was upward from the spring of 1927 until the fall of 1929, the increase for the period being about $1,000,000,000 or 50 per cent.

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Governor Harrison's Testimony Before the Glass Sub-Committee.

Governor Harrison, in his testimony, among other things, stated that he had never warned the New York City banks to reduce their borrowings during the period of direct pressure, for the reason that they had not increased their security loans over the amounts loaned by them when the speculative movement began.

This is not correct.

Between June 6, 1928 and January 2, 1929, the loans of reporting member banks of New York City to brokers and dealers on their own account increased 349 million dollars, while the customers security loans (exclusive of brokers loans) increased 203 millions, making a total increase of security loans of 552 millions. Their commercial loans (all other loans) however, decreased 43 millions.

During the period of direct pressure, - February 6 to June 5, 1929, - their loans to security customers increased one hundred million, although their loans to brokers and dealers for their own account decreased 279 millions. Commercial loans (all other loans) increased during this period 267 millions. This is shown by the following table:

Date	Loans on securities: To brokers and dealers: For own account	Loans on securities: To brokers and dealers: For account of other banks	Loans on securities: To customers	"All other" loans	Loans to brokers and dealers for account of "others"
1928, June 6	1,167	1,642	1,540	2,622	1,755
1929, Jan. 2	1,516	1,648	1,743	2,579	2,166
Change	+349	+6	+203	-43	+411
1929, Feb. 6	1,116	1,931	1,741	2,464	2,621
June 5	837	1,513	1,841	2,731	2,934
Change	-279	-418	+100	+267	+313

C69

Chas. S. Hamlin

see ...

1

NEW YORK DISCOUNT RATE CONTROVERSY.

(Notes - C.S.H.)

abstract used in testimony Jan 23.31

-I- Glass Sub Comm

Am speaking for self and not for Board.

Have great respect for officers and directors of New York Bank.

May point out certain errors in procedure, but not with view to criticise the New York Bank.

Shall merely state facts, and for purpose of this argument, am ready to share responsibility.

-I-A-

A review. Not a controversy.

February 14 - June 12, 1929.
    Not until August 9, 1929.

Governor Harrison and McGarrah
    May 22. Interview
    May 31. McGarrah letter.

    Banks afraid to borrow.

    More credit needed.

    Board should adopt a more liberal discount policy.

June 12.
    Board suspended.

    Lawrence, David.
        June 5.

-I-B-

Expansion, 1922 - 1927.

1A

1.

EXPANSION

1922 - 1927.

Rediscounted, all com

1. Security loans.

	1922	1927	Increase	Percent
Security loans	3.6 billions	7.5 billions	3.9	100% +
Commercial loans	7.4 "	8.7 "	1.3	18%
	11.0	16.2		

Percent Total Loans and Investments.

	1922	1927.
Security loans	25%	34%
Commercial loans	51%	39%

C.S.H. speech, Poland Spring

2. July 1922 - July 1927.

Gold stock	+782
Member bank reserves	+477
Balance = Money in circulation	305
Member banks expanded	12 to 1
All banks	16 to 1

175 - 12
177 - 51
194 - 95.

3. 1922 - 1928. Annual averages.

Federal reserve credit	-79
Member bank reserves	+497
Gold stock	+748

Expansion caused by gold imports

Except

1. February - June, 1922.
   Member bank reserves +132. Government securities +237

2. April - December 1924.
   Member bank reserves +176. " " +286

-II-

1927. Aug 5. 3 1/2%. Bus. depression. Money easy.

1928 firming policy.

Sold 400 millions Government securities through June.

Increased discount rates three times.

Last increase July 13, 1928 - 5%.

* 6% might have been better.
Federal Advisory Council contra.

August 16:

New York asked and was given authority to purchase acceptances to meet any seasonal strain that might develop.

Under this authority bought about 286 millions acceptances.

Their holdings were 2/3 of all acceptances outstanding.

The banks paid off 193 millions in discounts.

This turned the firming policy of the Board into an easing policy.

Result:

Federal reserve credit	+ 122
Member bank reserves	+ 28
Security loans, reporting member banks	+ 127

Stock prices increased from 150.5 to 192.1.

Stock sales increased from 11.6 to 23.3 millions.

Brokers loans increased 381 millions.

Loans "for others" increased 488 millions.

Burgess, December 11, 1928:

In public address admits that the excess bought over seasonal demands was at least 100 millions. Page 13.

C.S.H. article page 11.

-III-

Direct pressure. Cooperation

January 1, 1929. Federal reserve credit was 226 millions more than January 1, 1928.

Year ending June 30, 1929, 1114 banks were borrowing 80% or more of the time. page 14.

Feb. 2, 1929.
Board letter to banks.

Asks what they are doing to prevent speculative use of Federal reserve credit and how successful they have been.

February 7, 1929.
Board publishes warning - direct pressure.

At this time discount rates and acceptance purchasing rates were the same -5%.

Board believed business and agriculture was entitled to a lower rate than 5%.

Board determined not to increase discount rate of 5%.

3. 1927. Last quarter.

Federal reserve credit	+424
Member bank reserves	+190
Gold exports	+192
Currency demand	+ 55
Government securities	+111
Discounts	+145
Acceptances	+142

Last quarter 1927.

Federal Reserve Credit.

<u>Composition.</u>

Discounts	+145
Acceptances	+142
Government securities	+111
Other F.R. credit	+ 26
Total F.R. credit...	+424

<u>Factors</u>

For increase

Gold stock	-192	Treasury credit	+ 13
Money in circulation	+ 55	Other items	- 4
Member bank reserves	+194		
	441		17 = 424

<u>To Put it in Another Way:</u>

Gold	+192	Offset	Government securities	111
Money in circulation	+55	By	Discounts	145
	247			256
Member bank reserves	+194	"	Acceptances	142
			Treasury credit	13
			Other F.R. credit	26
				181

January 1922 - January 1929. January Bulletin, 7, 23.

Federal Reserve Credit.

Composition.

Acceptances	+365	Discounts - 58	385
U.S. Governments	+ 5		58
Other reserve credit	+ 15		327
	385		

385 - 58 = 327 = increase in F.R. credit

Factors

For Increase

Member bank reserves	+688
Money in circulation	+267
Unexpended capital funds	+ 67
	+1022

For decrease.

Gold stock	+463
Treas. credit	+232
	695

1022 - 695 = 327 increase in F.R. credit.

Put in Another Form:

Member bank reserves +688

Gold	463	267
Money in circulation	267	67
	730	232
		566

Member bank reserves	+688
Gold stock	463
	225
Money in circulation	267

Board believed the speculative craze was beyond control through discount rates.

Board by its warning did not desire radical deflation of credits.

Board wished cessation of increase of speculative loans, and this would of itself bring about a slow liquidation.

Quote from Board warning:

"Which, in the immediate situation, means to restrain the use, directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit."

Page 30.

-IV-

Federal Advisory Council.

November 22, 1928:

Recommended cooperation between member banks and Federal reserve banks, - in effect, direct pressure, except as to customers loans. Page 4.

February 15, 1929:

1. Council strongly supported the warning of the Board of February 7.

2. Council said the Board did not go far enough, and should also apply the warning to customers loans.

   (C.S.H. had assumed it did apply to customers loans).

3. Council gave Board a memorandum advising against the increase of discount rates until the efforts of direct pressure had been exhausted.

   15 Diary, 173 to 176 (51).

   (C.S.H. article page 6).

-V-

Effect of direct pressure.

February 9 to June 8, 1929:

Security loans decreased	361	millions
Investments decreased	262	"
Acceptances decreased	295	"
Purchase of Government securities decreased	37	"

On the other hand:

Money in circulation increased	8	"
Discounts increased	114	"
Gold stock increased	170	"
Treasury currency increased	6	"
Unexpended capital funds increased	9	"

Federal reserve credit decreased	218	"
the difference between the increase in discounts	114	"
and the decrease in acceptances	295	"
plus the decrease in Government securities	37	"

114 from 332 leaves 218, which was the decrease in Federal reserve credit.

Smead, January 14, 1931.

Mbr N.Y.

Federal reserve figures are weekly averages. Member bank figures are for weekly statement dates.

(In millions of dollars)

F.R. Bank Credit	Bills discounted	Acceptances	U. S. securities	Member bank reserve balances	Reporting member banks in New York City		
					Security loans	Commercial loans	Investments
Period 2. February 11, 1928 to February 9, 1929.							
+39	+78	+10	-51	+2	+320	+16	+21
Period 3. Direct Action, February 9, 1929 to June 8, 1929.							
-78	+1	-89	+2	-7	-179 cust men loans +100	+267	-78
Period 4. June 8, 1929 to August 10, 1929.							
+198	+168	+19	+12	-9	+283	+ 82	-90

If successful why did Board suspend it in June?

Because New York reported that under direct pressure the banks were afraid to borrow even to meet commercial demands and Board merely evidenced willingness to permit banks to borrow freely for this purpose.

At no time did Board prevent borrowing for purely commercial purposes.

Even after suspension of direct pressure, up to the stock crash, Federal reserve credit increased comparatively little, practically only by amount of increased currency demand, and from August to October, 1929, security loans actually decreased 28 millions.

The real cause of the expansion was loans for others.

-V-

New York reports as to direct pressure.

Letter February 21, 1929.

McGarrah to Board.

Special reports as to banks borrowing for profit, or too much, or too continuously, in relation to other comparable banks.

Banks which have a voluntary investment policy rather than which loan in response to demands of their customers.

We try to make above adjust their position.

The above has little effect as to controlling the total amount of credit outstanding.

New York City banks have usually adjusted their position when advised that they are <u>out of line</u>, or acting contrary to our general policy.

<u>Above not very effective in controlling total amount of credit.</u>

Not practicable to determine the use of rediscounts, or to reduce discounts because of their use.

Would make us an arbiter of the conduct or propriety of purpose of <u>customers</u> of member banks.

Increase in discount rates is the most effective way of controlling the total amount of credit.

Will use whatever direct influence is proper and within our power to bring about a conservative use of Federal reserve credit.

195 - 63.

May 1, 1929.

Board to McGarrah.

Sends list of banks borrowing continuously or frequently which are carrying a considerable volume of security loans.

Requests McGarrah to ask these banks to adjust their position or give reason why such adjustment is not desirable in the public interest.

May 10, 1929.

McGarrh to Board.

Replies to letter of May 1. Says that Board is laying down a new procedure, - carrying a considerable volume of security loans.

A new test of abuse of Federal reserve credit.

Says Board implies that the right of a bank to borrow on eligible paper is prejudiced by fact that bank is loaning on securities.

Says banks have right to loan on securities.

Not possible to determine whether security loans are or are not speculative, even by the member banks, much less so by the Federal reserve banks.

To undertake what Board suggests as to individual banks would be to close our loan window with a view to rationing credit.

This would produce a condition we can not afford to risk.

Most effective way, apart from increase in discount rates, is to follow the procedure I have outlined in my letter of February 21st.

Any different procedure might precipitate serious consequences.

195 - 63.

(Yet McGarrah, in his letter of February 21st, points out that the methods indicated by him have not proved very effective in controlling the total amount of credit.)

-VII-

Applications of Federal Reserve Bank of New York for increase in discount rates.

Bank made no application between July 13, 1928 and February 14, 1929.

The First application, February 14, 1929:

No official reasons given.

Made over the telephone.

October 5, 1928:

Board requested banks to give reasons when asking changes.

October 26:

New York said could give statistics but impossible to give reasons.

Board felt increase at New York would necessitate increase at other Federal reserve banks, and would injure agriculture and commerce.

Board voted to take application under review.

Governor Harrison then gave full vote of his directors, - that action be taken by Board immediately.

Board voted unanimously to disapprove.

Other applications:

There were 10 in all, beginning February 14th and ending May 23rd.

On April 9, 1929, Governor Harrison wrote Board stating reasons for increase:

Speculation has injured business.

High interest rates prevent flotation of foreign securities in the United States.

Purchasing power of Europe lower.

Call loan rates drawing gold from abroad.

<u>Different Reasons given by New York</u>

Original large discounts.

Danger of runaway market.

Proper relation of rates.

Federal reserve rate higher than customers rates.

Total Disc + Secs, NY
1929 — Res ratio
Jan 2, 709.8 — 70.4%
June 5 - 252.6 — 79.1%

Reason for lower disc rate

Last application, May 23, 1929:

Admits reduction of Federal reserve credit.

Says probably 100 millions more of Federal reserve credit will soon be needed.

Board declined application, but discussed possibility of reducing acceptance rates.

Member banks ~~were~~ should be free to borrow. - according to NY bank

May 31, 1929:

McGarrah to the Board.

Direct pressure without increasing rates has created uncertainty.

Member banks may soon have to borrow freely for proper conduct of their business.

Federal reserve bank should be prepared to increase its portfolio.

195 - 65, 81.

June 3, 1929:

C. E. Mitchell favors more liberal discount policy.

Market should be eased by buying bills or Governments.

Discount rates should remain at 5%.

July 16, 1929:

Mitchell to same effect.

August 2, 1929:

Governor Harrison before Board.

Favors easing policy through bills or Government securities.

Asked for 6% discount rate, but merely as a barrage to make the acceptance rate - then 5¼% - relatively lower, and induce member banks to take down part of their discounts.

August 7, 1929:

Governors Conference approves, and gives promise to keep the 5% rate at other Federal reserve banks.

August 8, 1929:

Board approved. Also approved lowering acceptance rate to 5-1/8%.

-VIII-

Approval of Position of New York.

The Federal Advisory Council reversed its earlier position and favored increase to 6%.

On April 19 and again on May 21.

This latter was just 10 days before McGarrah said an easier money policy was necessary.

The Federal Reserve Bank of Cleveland approved 6% on May 17th.

-IX-

Real issue.

5% rate plus direct pressure
6% and repeated increases
To "correct situation."

Governor Harrison
April 9, 1929.

"Public notice to country that Federal Reserve System 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."

Board told that if 6% did not correct situation, would be other increases.

Governor Harrison
Feb. 5, 1929. 15 Diary 149 to 151 (45)
May 22, 1929 16 " 74, 75 (68)

McGarrah
April 24, 1929. 16 - 37 (62)
May 23, 1929. 16 - 74, 75 (68)

No one indicated 6% would suffice!

-X-

deflate

New York wanted to break the stock market as the quickest way to give business and agriculture lower rates.

-XI-

Manchester Guardian, March 4, 1929.

"There appeared to be some slender hope that the Federal Reserve authorities were meditating action drastic enough to <u>precipitate the crisis</u> in Wall Street, which, in the opinion of most monetary students, must come sooner or later."

Board did not want to precipitate a crisis.

It wanted to take Federal reserve credit gradually out of the market and produce cessation of further increase of speculative loans, and a slow moderate liquidation.

Had Board yielded to New York and put successive drastic increases on commercial paper, business would suffer at first through the increased rates and finally the crash of October would have been precipitated by a crash in May or June caused deliberately by Board policy.

The Board feared a crash but hoped to <u>avert</u> it.

The New York bank feared a crash but favored action which in my opinion would have <u>precipitated</u> the crash.

May 1. Comm on recent economic changes

-XII-

When once a speculative mania is underway, it can not be controlled by increase of discount rates unless so severe as to produce a crash.

To the speculators 6% meant easy money, i.e. an opportunity to borrow all he wanted if he would pay the discount rate and furnish good collateral.

Alexander, Sept. 28, 1928. Favored 4 1/2% rate

Prof. Hawtry, Jan. 22, 1929.

Harry A. Wheeler, 1929.

London Statist, Mar. 23, 1929.

Rates should be lowered to cause reflex in international movement of short term funds and to encourage lending abroad on the largest scale.

U. S. Chamber of Commerce, May 3, 1929.

London Economist, May 11, 1929.

When stock prices are rapidly rising, high money rates are only an inefficient deterrent which penalizes the innocent without troubling the guilty. The only remedy against rampant speculation is to cut off funds altogether.

193 - 79 (3) (221)

New York Journal of Commerce, May 14, 1929.

System has no right to try to curb speculation through drastic increases of discount rates.

All that has been required of it any time has been that it should keep its own funds, the reserves of the deposit banks, out of the speculative market.

191 - 113.

Manchester Guardian.

May 23, 1929. 192 - 147 (2).

Statist, May 25, 1929.

The banking authorities in United States apparently want a business panic to curb speculation.

-XIII-

Direct pressure succeeded.

London Economist, May 11, 1929.

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.

193- 77.

Principal success was brokers loans.

February 6 - June 5. Security loans

To brokers and dealers

	In New York City	Outside N.Y. City	To Customers
Feb. 6	1771	816	4971
June 5	1122	808	5267
	-649	- 8	+296

Customers loans increased.

Question of

-XIV-

~~Increase in~~ customers loans raised another issue between Board and New York Bank.

Board on May 1 asked New York to ask certain banks borrowing heavily and having large amount of ~~customers~~ security loans to adjust their position.

McGarrah answered saying that to inquire into loan practices of borrowing banks was a new test of Federal reserve credit abuse, - that it would be credit rationing and would bring about conditions the New York Bank could not afford to risk.

195 - 63.

Governor Harrison on February 6, 1929, took same position.

15 - 158 (115)

Federal reserve banks have a right to look into loan practices of member banks growing out of right to refuse discounts in their discretion.

Customers loans were ~~the foundation~~ in part the cause of the crash of 1929.

Board's position was sustained by Federal Advisory Council and such action urged by it on February 15, 1929.

March 2, 1929. Reynolds to McDougal.

The people have lost their heads over stock gambling.

The public has not profited by advice of Federal Reserve Board.

Gov Harrison said if refused discounts Banks could still use their balances by buying Treasury. Inflation would be [illegible]

Reynolds to McDougal (Cont'd.)

We have now reached the point where it is a matter for each individual bank to get into the game vigorously and do whatever is necessary to at least force a reduction in the amount of money that is borrowed against stock exchange collateral.

Our Counsel and Newton D. Baker, Special Counsel, have advised Board of its right to refuse discounts.

Out of this right grows the power to examine into loan practices of member banks.

New York squarely took issue with Board, claiming Federal reserve bank had no right to consider amount of customers security loans in passing upon applications for rediscounts.

Governor Harrison and McGarrah both took this position.

Governor Harrison,	Feb. 5, 1929.	15 - 154 (114)
	May 29, 1929.	16 - 76 (53)
McGarrah	Feb. 21, 1929.	195- 67
	May 29, 1929	16 - 76 (53)

Many bankers take position that a good customer furnishing good collateral is entitled to borrow all he wants if willing to pay the discount rate.
If refuse him will lose his account.

Such is not the English practice.

Gov. Young, Old Point Comfort, May 7, 1930:

"We bankers have a responsibility beyond our own balance sheets for the general course of events.

"We must look beyond the safety of the collateral offered us for a loan to the safety of the aggregate volume of collateral that we know is being offered for loans at all the banks.

"When we see an unhealthy development getting under way we must not only protect our own immediate institution, but must take a broader view with reference to the interests of the entire community.

Gov. Young, Old Point Comfort (Cont'd.)

"In other countries, where banking development has been longer, and banking concentration has proceeded farther, certain methods of control have been developed.

"A customer in England is not granted unlimited credit on the basis of security offered as collateral; he is granted a line of credit in accordance with his credit standing and the requirements of his business, and he can not easily exceed that line no matter how much collateral he may be able to offer."

"I am not prepared to recommend to you this or any other specific course of action, but I do feel justified in calling your attention to our joint responsibilities and to suggest that what we need is cooperative action in the development of sound banking traditions, which alone will give assurance to the country of a lasting stability of its financial organization.

"To such cooperation I pledge my wholehearted support."

New York thinks this is "credit rationing" which would bring about appalling results.

The appalling consequences of <u>not</u> doing it justify conclusion that it would have been for best interest of greatest number of our people.

Insert A

-XV-

Use of direct pressure does not mean abandonment of discount rate increases.

Board has frequently increased discount rates to curb speculation e.g.

1. Early part of 1923.
   Also sold 300 millions of Government securities.

2. Nov. 1924 - February 1925.
   After Coolidge election.
   Also sold 250 millions of Government securities.

3. Autumn of 1925.

4. 1926. Summer and autumn
   Also sold some Government securities.

5. 1928.
   3 increases.
   Also sold 400 millions Government securities.

Insert A 7

In these cases, Board held business could stand the increase and that it might check speculative activity

In 1929, however, the speculative craze had got beyond control thru discount rates.

XVI

Criticism of Board.

1. Timid.
2. Delayed renewal of policy until Aug 9. 29. Too late.
3. Allowed divergence of opinion to develop. Not unanimous.

Answer.

1. + 2. Are as to soundness of direct action.

3. Really assumes that some should be dominant in Board.
Why then have a Board.
Story of Indian judge.
Should 3 yield to 5 or 5 to 3?

XVII

No plan for future crises.
Banks will cooperate with FR banks
will curb speculative loans.
will curb security loans - brokers and customers.

duty of M bank to keep in touch with loan practices of its M banks, whether borrowing or not.

XVIII

Board has done its best to protect agriculture and business.

I believe it succeeded while direct pressure was in force.

This is for congress to determine.

G 16

pc 11

April 6, 1931.

Holding by State Member Banks of Stock in Other Banks.

(Memorandum by C.S.H.)

1. The Federal Reserve Board has provided, by condition, that a bank admitted to the System should agree not to change its assets in any injurious way, and not to buy stock in other banks without the consent of the Board.

I believe this condition is a valid one, but that it would be invalid if the Board determined to reject every application for purchase of stock in another bank, as there is nothing in the Federal Reserve Act forbidding such purchase, and the Attorney General has advised us that apart from regulations of the Board, the Act does not forbid such purchase.

The question arises as to the scope of the above regulation, and I believe that where an application is made to purchase stock in another bank, the only question lawfully before the Board is whether such purchase will injure the financial condition of the bank.

2. If possible the Board should fix some percentage within which the bank could proceed to buy without securing the consent of the Board.

3. Where the bank purchases stock without the consent of the Board, deliberately violating the above condition, the question of penalty is for the Board to determine. In other words, we might conceivably expel the bank for having purchased stock which, upon application, the Board might find did not injuriously affect the condition of the bank.

4. Our Counsel has for some-time-been considering this question, and I would suggest reference to him to prepare a statement as to Board policy along the above lines, if he agrees with them.

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SuBk

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, MARCH 1931

Federal Reserve Bank	Month of March 1931: Earnings from: Discounted bills	Earnings from: Purchased bills	Earnings from: U. S. securities	Earnings from: Other sources	Earnings from: Total	Current expenses: Exclusive of cost of F.R. Currency	Current expenses: Total	Current net earnings: Amount	Current net earnings: Ratio to paid-in capital	January - March 1931: Current net earnings: Amount	Current net earnings: Ratio to paid-in capital	Available for reserves surplus and franchise tax*
									Per cent		Per cent	
Boston	$21,047	$14,327	$78,131	$3,945	$117,450	$148,898	$170,744	-$53,294	-	-$110,394	-	-$291,829
New York	65,765	52,501	320,626	8,039	446,931	510,811	561,383	-114,452	-	- 98,986	-	- 565,561
Philadelphia	61,770	2,712	91,141	1,213	156,836	148,320	166,907	- 10,071	-	19,647	.5	- 193,801
Cleveland	42,626	17,433	110,274	14,466	184,799	201,389	219,708	- 34,909	-	- 20,790	-	- 290,399
Richmond	47,328	2,041	28,791	3,959	82,119	112,009	120,614	- 38,495	-	- 124,632	-	- 213,847
Atlanta	35,847	9,943	20,786	5,157	71,733	101,853	110,658	- 38,925	-	- 67,612	-	- 148,292
Chicago	39,191	23,709	171,343	34,155	268,398	278,487	298,836	- 30,438	-	- 3,602	-	- 307,055
St. Louis	20,929	8,879	51,357	10,245	91,410	113,067	113,557	- 22,147	-	- 51,852	-	- 81,219
Minneapolis	10,810	5,482	55,417	438	72,147	70,394	73,745	- 1,598	-	- 926	-	- 48,123
Kansas City	31,517	8,429	57,354	23,504	120,804	137,401	141,386	- 20,582	-	- 35,827	-	- 101,380
Dallas	21,627	4,954	62,185	1,153	89,919	100,640	105,909	- 15,990	-	- 49,607	-	- 115,890
San Francisco	38,537	21,657	77,512	5,407	143,113	177,108	178,720	- 35,607	-	- 122,604	-	- 296,783
TOTAL												
March 1931	436,994	172,067	1,124,917	111,681	1,845,659	2,100,377	2,262,167	-416,508	-			
February 1931	493,707	144,806	1,116,938	106,926	1,862,377	2,132,254	2,263,718	-401,341	-			
March 1930	1,004,564	775,057	1,610,765	178,739	3,569,125	2,173,063	2,484,475	1,084,650	7.4			
Jan.-Mar. 1931	1,597,860	654,300	3,597,554	340,559	6,190,273	6,420,329	6,857,458	-667,185	-	- 667,185	-	-2,654,179
1930	4,375,119	2,773,510	4,441,149	542,827	12,132,605	6,607,201	7,252,551	4,880,054	11.5	4,880,054	11.5	2,399,442

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
APRIL 11, 1931.

*After making allowance for accrued dividends and current debits and credits to profit and loss account but not for profit or loss on sales of U. S. securities held in special investment account.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 11, 1931

To Mr. Hamlin

Subject:

From Mr. Goldenweiser

2-8495

Sec. Bk

In reply to your question, discounts of the Federal reserve banks increased from $796,000,000 to $991,000,000, that is, by $195,000,000 during the week between October 23 and October 30, 1929. This increase was largely for the purpose of providing the reserves necessitated by the transfer of loans from corporations and others to member banks at the time of the stock market crash. During the same period the reserve banks' holdings of Government securities increased by $157,000,000.

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Se Br

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 18, 1931.

To Mr. Hamlin,

Subject: Condition of Membership re Branches.

From Mr. Vest, Assistant Counsel.

2—8495

You have requested me to ascertain when the Federal Reserve Board first prescribed conditions of membership on State member banks regarding the establishment of branches.

It appears that the earliest cases in which banks were admitted subject to a condition of this kind occurred in July, 1915. In that month, two banks were admitted subject to a condition of membership providing in effect that branches might be established only with the consent of the Federal Reserve Board. In August, 1915, the Board adopted a standard condition of membership on this subject to be prescribed where the charter of the applying bank or the laws of the State authorized the establishment of branches. Conditions of membership were not incorporated into the Board's Regulation H until 1924, and at that time among the conditions so incorporated was one with regard to the establishment of branches without the approval of the Federal Reserve Board.

Respectfully,

George B. Vest

George B. Vest,
Assistant Counsel.

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Seen ...

COPY

FEDERAL ADVISORY COUNCIL

Office of the Secretary

PERSONAL.

Chicago, April 6, 1931.

Dear Governor Meyer:

I am writing to you in advance of the usual formal letter asking whether the Board has any topics to submit to the Council for its meeting in May. Please regard this letter simply as personal and in a sense all I am doing is thinking aloud.

Mr. McKinney is evidently desirous of making the functions of the Counciâ more important than they have been and his views is shared especially by some of the newer members of the Council like Mr. Treman. The history of the Council is somewhat as follows and I am giving you this picture because in one way or another I have had intimate contact with the Council in the last years of Mr. Forgan's occupancy of the presidency and then again since 1926 at which time I became Secretary.

After the Federal Reserve System really became established and the questions connected with its organization were settled, the Board seemed to regard the Council, frankly, as somewhat unnecessary, and the topics submitted were of a most academic type. I remember Mr. Forgan showing me one list which made me think very vividly of an examination paper in anaelementary course in economics in some first-class institution. I suppose what happened very often was that the Board, receiving the usual letter stating that the Council would have its meeting, suddenly realized that they would have to find something for these men to pass the time, and so in a hurry questions were formulated, not of great practical importance. This was entirely natural, for, after all, the Council meets only four times a year and most of the members when they leave Washington after the meeting probably do not think seriously again of the Council until just before the next meeting. The Board can hardly be expected to submit questions of routine administration since the members of the Council would not be at all familiar with any of the atmosphere surrounding the problems and could hardly give the time to acquaint themselves sufficiently with all the aspects involved. They also lack the daily contact with the Federal Reserve banks themselves.

To be sure, during Mr. Wetmore's administration, owing to the Chicago rate question and subsequent development of the speculative wave, the Council temporarily did acquire somewhat greater importance and was really consulted by the Federal Reserve Board. I do not find, however, that the advice of the Council affected the actions of the Board to any marked extent. Mr. Wetmore's attitude was, frankly, that he preferred short meetings dealing with one or two really practical questions rather

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than spend much time in formal session discussing questions of a somewhat academic nature. He believed that it would be better for the members of the Council to meet together in the morning of the day preceding the regular meeting and then, unless there was really something important to discuss, spend the afternoon seeing some members of the Board and other officials in Washington and have private conferences with them.

Now, however, we have a new administration and as the hired man of the Council, it does not behoove me to express an opinion as to whether Mr. Wetmore's view was a proper one or that which Mr. McKinney seems to hold. Mr. McKinney apparently believes that as the members of the Council come to Washington on Monday and remain until Tuesday noon, it would be well if they remained in session and discussed problems of one kind or another. I am certain that he also does not desire merely academic problems to be presented, though I must confess that one or two of those that have been before the Council recently, as a result of suggestions made by members of the Council, seem to me to be more nearly of the type of those discussed during Mr. Forgan's administration than the ones which were common during Mr. Wetmore's regime.

However that may be, one of the members of the Council recently wrote me that he felt every attempt ought to be made to make the Council more important and if such an attempt proved in vain, then at least the Council would know that it really had no important function. How all this can be brought about, I do not know, but I am certain that it will be your desire also to try and meet the wishes of the members of the Council if this is at all possible. After all, the Board itself is hardly an administrative body and from some points of view its functions are really similar to these of the Council in that it is largely an advisory body which acts as a harmonizer and regulator of the individual Federal Reserve banks. The Board, however, has the great advantage over the Council in that it is on the job all the year around. If I may be allowed to express an opinion, it gets back to what I indicated above, namely, that it is rather difficult to see how an advisory body meeting only four times a year can be expected to exercise very great influence in questions of daily routine, and most of the questions that come before the Board must be of just that type. In other words, the problems which you discuss are generally of a routine nature and are not as a rule problems involving great fundamental theories. In fact, it would be unfortunate if the Federal Reserve System were subject to continual agitation. It might be said of the System, after all, "Happy is the country without a history."

Let me repeat that all I am trying to do by means of this letter is to acquaint you with the feeling that does exist among the members of the Council, which I might summarize as follows:

1. A feeling that the Council should not be expected to come to Washington just for the purpose of having a group of more or less important men more or less waste their time.

2. That the Council might be made of some real service, and in that event the members will be glad to give all necessary time to the work of the Council and be very happy indeed to be members.

Naturally, another difficulty in the whole situation is that, generally speaking, members of the Council retain office for only a relatively short time, so that the complexion of the Council is continually changing and if one group has been trained to be of assistance, the work has to be done all over again at the beginning of each year.

I trust you will pardon me for this lengthy effort, which when all is said and done is not very constructive or helpful; I realize this just as well as undoubtedly you will.

With kindest personal regards,

Sincerely yours,

(Signed) Walter Lichtenstain.

Governor Eugene Meyer,
Federal Reserve Board,
Washington, D. C.

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Confidential

FEDERAL RESERVE BOARD

WASHINGTON

Hamlin Charles.

Wednesday morning

July 19th, 1916.

My dear Miller:-

On June 15th, or thereabouts, Mr. Harding and I having previously written The President as per copy of letter attached, called at the White House and had a talk with him. The talk wasn't very satisfactory - that is, it wasn't responsive; but he listened to what we had to say, and expressed some surprise and said he would take the matter under consideration.

The newspapers now report that Governor Hamlin will be reappointed, but that the matter of the designation of Governor will rest with The President. I believe this is more than simply a newspaper story. In fact, I have heard that Governor Hamlin has reported to mutual friends that The President has promised to reappoint him.

In our talk with The President, we said nothing <u>against</u> Mr. Hamlin and said we would not object at all to his reappointment, but that we would strenuously object to his redésignation as Governor. We also told Governor Hamlin and the Secretary of the Treasury what we had done; but Mr. Harding is reasonably convinced that the Secretary of the Treasury intends to pay no heed to our protest and that after Mr. Hamlin has been confirmed by the Senate, he will be redesignated as Governor. If we find that this is the position he intends to take, I think it is likely that we shall notify The President that if his name is sent to the Senate without any assurance to us as to how the matter of the designation of the Governorship is to be handled, we shall be compelled to state to the Senate Committee our objections to the nomination without a designation, giving the reasons therefor.

This is a disagreeable thing to do, but I feel that we shall have to do it, and I should like to have you wire me on receipt of this letter, how you feel about it and to what extent we may quote you as agreeing with us. There is no telling just what angle this thing may take, and we have asked Mr. Warburg, who went to Loon Lake about ten days ago, to come back the middle of next week.

I hope you will get this in time to wire us Tuesday or Wednesday.

Enclosed is an article which came from the Journal of Commerce which gives an entirely new story, and although there may be no truth whatever to it, I think it may have the effect of arousing considerable interest at the Capitol.

I trust you understand that my attitude in this matter is not because I am particularly in favor of Warburg as Governor. My thought is that unless we can adopt some proper routine for rotation in the selection of Governor, the power to designate a Governor for a long or a short period will be made use of by future secretaries of the Treasury or Presidents, just as Secretary McAdoo has threatened to make use of it in this case.

Yours very truly,

Honorable A. C. Miller.

C. S. Hamlin

My hearty regards to Mrs Miller.

C O P Y

June thirteenth,
Nineteen sixteen.

My dear Mr. President:-

In preparing our last Annual Report, the members of our Board very generally felt that Congress and the country were entitled to have explained as fully as possible the result of the first year and a half of study and experience under the new law, with suggestions as to desirable amendments. However, when it came to discussing amendments, in view of the conditions in Congress and the impending Presidential election, there seemed to be strong reasons for making as few amendments as possible; and for that reason chiefly, a number of matters which were considered important were not even mentioned in the Report. Among these - and not the least - was the subject of the position of Governor.

From the best informatio n now at hand, we understand that the framers of the Act had under consideration three alternatives in creating the position:

(1) That the position should be exalted above that of the other members of the Board, and designated in the appointment, as is done in the case of the Supreme Court; or,

(2) That each of the five appointive members of the Board were to be co-equal in authority and a Governor selected by vote of the Board. Presumably this method would have led to rotation in office, as in the case of the Interstate Commerce Commission; or

(3) The method finally adopted by Congress, under which the duty rests upon The President to name five members of the Board, and after their confirmation by the Senate, to designate one of these to be Governor, the designation being for no stated period, and apparently revocable at will.

I have felt, and I know I can speak for a number of my colleagues, that the last method, and that adopted by the law, unless protected in some way, might in time be open to some very serious objections - objections indeed so great that they should either be effectively disposed of by an amendment to the Act, or else so dealt with by The President as to establish a precedent not easily overridden.

I hesitate very much to approach you on this subject at this time, and yet I feel that your intimate and close connection with the framing of this legislation, as well as your deep interest in its success, justifies me in doing so. My own strong convictions on this subject (which I may say are shared by at least three of my colleagues) lead me to request the privilege of a brief talk with you upon it, preferably with Mr. Harding, at such time as you may designate. It may be that some means other than I have considered may occur to you by which this matter can be dealt with satisfactorily. At any rate, I believe the subject is worthy of your consideration, and I therefore hope you can give us an appointment.

Respectfully yours,
(Signed) F. A. Delano

The President,
White House.

Journal of Com — July 1 1916

GOV. HAMLIN'S TERM EXPIRES NEXT MONTH

PLACE ON RESERVE BOARD MAY BE LEFT VACANT UNTIL NOV.

Report That Secretary McAdoo May Be Successor If Republican Candidate Is Elected—Appointment Is for Ten Years—Bankers Hope Mr. Hamlin Will Be Continued in Office

The two-year term of Charles S. Hamlin, of Massachusetts, first governor of the Federal Reserve Board, will expire early next month, and bankers in this and other cities are very much interested as to how President Wilson will dispose of the vacancy. In some quarters it is believed that the President will reappoint Mr. Hamlin for a term of ten years, while another prediction is to the effect that the place will not be filled until after the November election, the idea being that in the event of a Republican victory at the polls William G. McAdoo, Secretary of the Treasury, and Mr. Wilson's son-in-law, will resign from the Cabinet and receive the ten-year appointment. Should, however, the Democratic candidate for President be elected it is assumed that Mr. McAdoo will retain his Cabinet portfolio and Mr. Wilson will reappoint Mr. Hamlin.

Members of the Federal Reserve Board receive a salary of $12,000 a year. The law provides that in making the first appointment of the board the President should designate one member to serve two years, one for four years, one for six, one for eight and one for ten, the statute providing that hereafter the term of office shall be ten years. The board was sworn in on August 10, 1914, Mr. Hamlin receiving the two-year appointment; Paul M. Warburg, of New York, being named for four years; Frederick A. Delano, of Illinois, for six years, and W. P. G. Harding, of Alabama, receiving the eight years appointment. Adolph C. Miller, of California, was named for the full term of ten years.

In addition to the five members of the board who are appointed by the President, with the advice and consent of the Senate, the Secretary of the Treasury and the Comptroller of the Currency are ex-officio members and have a vote. The Secretary is chairman of the board.

When President Wilson first named the board there was considerable discussion regarding the probable dominance of the board by Mr. McAdoo. It was asserted that he was likely to have the support of Comptroller Williams, Mr. Hamlin, who had served as Assistant Secretary of the Treasury, and Mr. Miller, who had likewise held office under the Wilson Administration. In this way it was figured that McAdoo "would control the board" by having four votes to the three votes of Mr. Delano, the deputy governor; Mr. Warburg and Mr. Harding, the so-called independent and non-political members of the board.

ALIGNMENT OF THE BOARD.

A real test of the alignment of the board [illegible] given last fall when the board discussed the matter of Government deposits. Secretary McAdoo was desirous of depositing large sums of money with the Southern banks, but several of his associates objected to the plan, particularly to his doing so without the consent of the Federal Reserve Board. A vote was taken on the question, and much to the surprise of Mr. McAdoo it was found that Mr. Miller voted with Messrs. Delano, Warburg and Harding and that the Secretary of the Treasury merely had the support of Comptroller Williams and Governor Hamlin. Mr. McAdoo had to give in to the wishes of the majority of the board, especially inasmuch as the board threatened to recommend to Congress legislation designed to amend the Federal Reserve Act by removing from the Secretary his discretionary power over the deposit of Government funds.

It will be recalled that the original Glass bill provided that Government funds be deposited with the reserve banks and that Mr. McAdoo was instrumental in having the provision changed in the Senate so that the law as finally enacted vested the Secretary of the Treasury with discretionary powers in regard to the deposit of Government funds.

The controversy of last fall which furnished proof of the fact that Mr. McAdoo could not always figure on the support of Messrs. Williams, Hamlin and Miller—thus giving him four votes in the board—was finally adjusted by the Secretary making a deposit of $15,000,000 in the Federal Reserve banks in the South and not in the national banks of that section. In years past it has been customary for the head of the Treasury Department to show political preferences and to pay political debts by the designation of Federal depositaries. This was particularly an important matter at the time when banks holding Government funds were not required to pay interest on the deposits.

BANKERS WOULD RATHER HAVE HAMLIN THAN M'ADOO.

Wall Street bankers are much concerned with the composition of the Federal Reserve Board, and it is their hope that President Wilson will not keep Mr. Hamlin's place open pending the election, but that he will reappoint the present incumbent. Bankers are favorably disposed toward Mr. Hamlin, but they are desirous that Mr. McAdoo, who is not especially liked, should not be appointed for a ten-year period.

Dispatches from Washington yesterday stated that it had been officially denied that Mr. McAdoo had decided to resign from the Cabinet so that he might be named as Mr. Hamlin's successor upon the expiration of the latter's term of office. Whether or not Mr. Wilson will reappoint [illegible] Hamlin at once or keep the place open [illegible]ains to be seen.

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were strong hopes of one being granted.

HAMLIN TO BE RENOMINATED.

Secretary McAdoo Not to Replace Him on Reserve Board.

Charles S. Hamlin, governor of the federal reserve board, will be renominated as a member of the board when his term expires next month. Administration officials allowed this to become known today by way of denial of reports that Secretary McAdoo would quit the cabinet to take Gov. Hamlin's place.

Mr. Hamlin will be renominated for a ten-year term. Whether he will be redesignated as chairman lies with President Wilson.

[redacted]. 131

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Office Correspondence

FEDERAL RESERVE BOARD

Date April 10, 1931

To Mr. Hamlin

Subject:

From Mr. Smead

2—8495

In reply to your memorandum of April 8, I am giving below figures of borrowings and call loans of the National City Bank and of 22 of the largest member banks in New York City for the six days from Monday, March 25, to Saturday, March 30, 1929. It was on the afternoon of March 26, 1929, as you will recall, that Mr. Mitchell made his public statement regarding the attitude of his bank towards the market.

Date	NATIONAL CITY BANK: Borrowings from Federal reserve bank	NATIONAL CITY BANK: Call loans	22 banks in New York City: Borrowings from Federal reserve banks	22 banks in New York City: Call loans
	(In millions of dollars)			
Friday 22	14	157	114	812
Sat 23	0	138	157	823
March 25	25	144	191	842
26	24	150	177	809
27	35	141	190	802
28	-	135	154	785
29	-	135	137	826
30	-	135	154	848

You will note from the above statement that the National City Bank reduced its borrowings slightly on March 26, the afternoon of which Mr. Mitchell made his statement, notwithstanding an increase of $6,000,000 in its call loans. On the follIwing day, Wednesday, the bank increased its borrowings at the Federal reserve bank by $11,000,000 but reduced its call loans by $9,000,000. It is clear, therefore, that the increased borrowings on Wednesday were not for the purpose of enabling the bank to make additional call loans. On Thursday, the second day after Mr. Mitchell made his public statement, the bank reduced its call loans by $6,000,000 more and paid off its entire indebtedness to the Federal reserve bank. I may also state that the National City Bank borrowed from the Federal reserve bank on only 11 days during the following 12 weeks.

You will also note from the above figures that there was no increase by the 22 large New York City banks in either their borrowings from the Federal reserve bank or in call loans, during the week ending March 30, which could be ascribed to Mr. Mitchell's statement. It would appear, therefore, that while Mr. Mitchell's statement was generally regarded as an expression of his views and the attitude of his bank toward borrowing from the reserve bank to support the security market it apparently had no discernible effect upon the credit policies of the large New York City banks. This, of course, may have been due to the unfavorable reception accorded Mr. Mitchell's remarks by the press.

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The above figures show:

1. That the National City Bank did not borrow to make additional advances to the market on March 26th and March 27th. Although their borrowings increased March 27th from 24 to 35 millions, their call loans decreased from 150 to 141 millions, and for the following three days they were absolutely out of debt, and during the next 12 weeks, Mr. Smead states that they were only in debt to the Federal reserve bank for 11 days.

2. 22 New York City Banks:

Mr. Smead's figures show that although borrowings increased from 177 on March 26th, to 190 on March 27th, their call loans decreased from 809 to 802 millions on those days, and on March 28th their borrowings decreased from 190 on March 27th, to 154 on March 28th, while their call loans decreased from 802 on March 27th, to 785 on March 28th.

Mr. Smead states that it is a fair statement to make that the National City Bank, and other New York banks, did not obtain Federal reserve credit in order to come to the relief of the market on March 26th and 27th.

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