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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 219 of Mr. Hamlin's scrap book and placed in the Board's files:

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Group Life Insurance at F.R. Banks.

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Changes in loans and investments of weekly reporting member banks during the week and year ending October 21, 1931. (Marked Confidential)

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Minutes of meeting of Executive Committee of Open Market Policy Conference in New York, October 26, 1931.

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Cablegram from Mr. Dulles to Eugene Meyer re financial situation of foreign countries.

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Letter to Mr. Hamlin from W. R. Burgess enclosing a Preliminary Memorandum on Credit Conditions for the Meeting of the Executive Committee of the Open Market Policy Conference.

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Memo to Files re Services to be Performed by the F.R. Banks for National Credit Corporations.

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Wire from Mr. Crane to Mr. McClelland re renewal agreement of credit to Bank of England.

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Letter to Mr. Hamlin from F.R. Agent Wood re Loan of Managing Director Kincheloe held by National Bank of Kentucky.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7002

October 23, 1931.

SUBJECT: Group Life Insurance at Federal Reserve Banks.

Dear Sir:

Referring to the Board's letter of September 3 on the above subject, there is attached hereto for your further information, copy of a memorandum prepared by the Division of Bank Operations under date of September 25 on the cost of group life insurance at Federal reserve banks.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure.

TO GOVERNORS AND CHAIRMEN OF ALL F. R. BANKS.

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C O P Y

X-7002-a

TO Federal Reserve Board DATE: September 25, 1931.

FROM Mr. Van Fossen SUBJECT: Group Life Insurance

Since the preparation of my memorandum of August 12 on the above subject, we have compiled certain information, shown below, on the cost per $1000 of group life insurance carried by the various Federal reserve banks, which may be of interest to the Board. In this connection it should be borne in mind that the cost of group life insurance varies considerably from year to year at a given Federal reserve bank, and accordingly only very general conclusions can be drawn from the table below as to the relative cost of such insurance at the respective Federal reserve banks. The cost per $1,000 of insurance shown in the first column below is based on essentially the same scale of rates at each reserve bank and the relatively high average rates at certain of the banks are due to a correspondingly high ratio of employees of advanced age. For example, at Minneapolis and Kansas City 15 per cent of the employees are over 50 years of age and the cost of insurance on these lives is 52 per cent of the total cost at Minneapolis and 47 per cent at Kansas City. None of the other banks, except Philadelphia perhaps, have more than 10 per cent of their employees in this age group and the cost of insurance on such employees is but 28 per cent of the total cost at Boston and but little over 30 per cent at a number of other banks.

Cost per $1,000 of Group Life Insurance carried by Federal reserve banks.

Federal Reserve Bank	Average tabular or policy rate*	Experience discount -- per cent of tabular rate	Dividends received -- per cent of tabular rate	Actual cost per $1,000	
				Per cent of tabular rate	Amount
Annual Premium Policies					
Philadelphia	$11.28	36	Non-participating	64	$7.21
Kansas City	12.29(a)	27	"	73	8.97
San Francisco	9.48	23	"	77	7.30
Cleveland	8.91	15	"	85	7.58
	9.27(b)	18.2		81.8	7.58
Boston	8.89	12	"	88	7.82
Dallas	9.65(a)	None	44.1	55.9	5.39
Monthly Premium Policies					
New York	9.95	10.7	37.6	51.7	5.14
Richmond	10.44	19.5	24.4	56.1	5.86
Atlanta	10.20	2.3	7.7	90.0	9.18
Chicago	10.10	9.7	8.5	81.8	8.26
St. Louis	10.86	9.4	43.8	46.8	5.08
Minneapolis	12.72	16.0	None	84.0	10.68

*Slightly higher rates are charged on the monthly premium policies due to interest on deferred payments. Allowing for this the scale of rates at each age is identical for all banks, except Cleveland.

(a) After deduction of extra premium for double indemnity for accidental death.

(b) Calculated on the scale of rates charged the other reserve banks.

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CHANGES IN LOANS AND INVESTMENTS OF WEEKLY REPORTING MEMBER BANKS DURING THE WEEK AND THE YEAR ENDING OCTOBER 21, 1931

B-538

	TOTAL LOANS AND INVESTMENTS			TOTAL LOANS			TOTAL INVESTMENTS		
	Oct. 21	Change Week	Change Year	Oct. 21	Change Week	Change Year	Oct. 21	Change Week	Change Year
ALL REPORTING BANKS	21,289	- 212	- 2,094	13,541	- 139	- 3,175	7,748	- 73	+ 1,081
New York City	7,351	- 187	- 922	4,540	- 130	- 1,506	2,811	- 57	+ 584
Chicago	1,693	+ 2	- 333	1,154	+ 7	- 386	539	- 5	+ 53
Other reporting banks	12,245	- 27	- 839	7,847	- 16	- 1,283	4,398	- 11	+ 444

	TOTAL SECURITY LOANS			ALL OTHER LOANS			U. S. SECURITIES			OTHER SECURITIES		
	Oct. 21	Change Week	Change Year	Oct. 21	Change Week	Change Year	Oct. 21	Change Week	Change Year	Oct. 21	Change Week	Change Year
ALL REPORTING BANKS	5,906	- 95	- 2,229	7,635	- 44	- 946	4,159	- 41	+ 1,099	3,589	- 32	- 18
New York City	2,300	- 103	- 1,250	2,240	- 27	- 256	1,739	- 42	+ 609	1,072	- 15	- 25
Chicago	662	- 2	- 261	492	+ 9	- 124	317	- 2	+ 123	222	- 3	- 69
Other reporting banks	2,944	+ 10	- 718	4,903	- 26	- 566	2,103	+ 3	+ 367	2,295	- 14	+ 76

	CLASSIFICATION OF LOANS ON SECURITIES								
	TO BROKERS AND DEALERS IN NEW YORK CITY			TO BROKERS AND DEALERS OUTSIDE NEW YORK CITY			TO OTHERS		
	Oct. 21	Change Week	Change Year	Oct. 21	Change Week	Change Year	Oct. 21	Change Week	Change Year
ALL REPORTING BANKS	573	- 77	- 1,317	412	- 8	- 280	4,921	- 10	- 632
New York City	517	- 91	- 953	86	- 5	- 34	1,697	- 7	- 263
Chicago	21	-	- 162	144	- 1	- 73	497	- 1	- 26
Other reporting banks	35	+ 14	- 202	182	- 2	- 173	2,727	- 2	- 343

DIVISION OF BANK OPERATIONS
FEDERAL RESERVE BOARD

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October 29, 1931.

Meeting of Executive Committee of Open Market Policy
Conference in New York.
October 26, 1931.

Governor Harrison stated two questions:

1. Whether to buy or sell Governments, or to maintain the present holdings unchanged.

2. The question of distribution of Governments and bills between individual reserve banks to help banks maintain their reserve percentage or their amount of free gold.

Governor McDougal recommended a reduction of System security holdings by the amount of the maturities through next March.

Governor Harrison reviewed the situation, saying that the free gold position of the System was not a consideration at this time, because, although having lost 700 millions in gold, there remains over 800 millions of free gold, practically as large as before; that a sale of Governments would not in fact strengthen the System's gold position. Its only effect would be to provide additional collateral for Federal reserve notes; that there is ample collateral now; that at the present time only 300 millions of Treasury notes out of 2 billion 700 million outstanding are not collateraled to 60% of value by eligible paper; that the most important question today are bank failures and hoarding of currency. A decrease in System holdings of Governments might affect the situation adversely, - first, psychologically. Second, as tending to increase member bank discounts and thus making them somewhat less willing to lend freely to help banks actually in need; that he had advised New York banks to lend freely; that liquidity should be used rather than preserved at the present time; that nothing should be done unnecessarily to discourage the use of this liquidity in rendering aid to banks in need.

All agreed everything should be done to persuade banks to adopt a liberal policy and to borrow freely from the Federal Reserve System when necessary.

Governor Norris said although recently opposed to purchases of governments, and feeling that System holdings should be reduced, he did not think this a proper time to sell securities, as many banks under the easy money policy had bought governments at low yields, and any action now tending to accentuate the losses of banks on governments would be most unpopular.

Governor Meyer pointed out that the Committee had no authority to sell governments, but could, if desired, request permission from the Board, and asked that the Board approve the recommendation of the last Open Market

Policy Conference that the executive committee be given authority to sell up to 120 millions of governments.

Governor Young felt it would not be wise at this time to sell governments, or to let the total run off except possibly to the extent that it might be desirable to offset purchases of Intermediate Credit Bank debentures and municipal warrants.

Governor McDougal moved that unless conditions changed, System maturities of governments in November be allowed to run off.

Governor Meyer reported telegrams from Governor Calkins recommending letting maturities of governments run off for the balance of the year at least, and also recommending some plan for a more equitable distribution of holdings between the reserve banks to provide a more ample free gold position and reserve position for some of the banks.

Governor McDougal's motion was defeated 4 to 1.

It was moved and carried that while at the moment there is no occasion for a reduction in System holdings of governments, yet in view of the wish of some governors for a sale of governments, and in view of the possibility of a change in the credit situation which might make sales desirable, the Committee ask the Board to give it the same authority with respect to sales of governments as it now possesses with respect to purchases.

It was voted to send a copy of these proceedings to each bank, and it was agreed there should be a meeting of the full Conference as soon as conditions appeared to make it wise and practicable for the governors to leave their own institutions for such a meeting.

It was agreed that a bank short in reserves should ask for relief through the sale of bills to other reserve banks, whenever its situation could be relieved by that method. Secondly, that where the difficulty was lack of free gold, it should offer its government securities to other reserve banks through the committee, and should only make this request when absolutely necessary, and the amount of the request should be limited to that necessary to meet the usual fluctuation of its gold holdings; that the committee would then offer participation in these bills and securities to the other banks, with the understanding that those whose reserve position enabled them , should take bills or securities to the fullest extent possible.

The question was then taken up of the policy followed by the banks as to lending on government bonds. New York, Chicago, Minneapolis, and Atlanta were lending at their par value; Philadelphia was loaning at par when the market price was 95 or better; Boston was loaning on values at market.

It was brought out that the reserve banks were vigorously supporting the Comptroller's ruling under which prime bonds were to be listed at par, and it was felt that the acceptance of governments at something less than par would appear to be inconsistent with this position. It was also felt it would create disturbance among member banks and the recent decline in governments would be accentuated if the reserve banks took these bonds at less than par. It was believed that no considerable risk was taken at lending at par, in view of the limited amount of governments selling below par and the additional protection the reserve banks possessed.

Governor Young raised the question whether there was any way of distributing earnings or losses on open market holdings in a more equitable manner, but after discussion no motion was made.

Reference was made to payments of gold coin into circulation, and it was agreed that payments should be made with complete freedom, and that the amounts of such payments made thus far have not been important.

Governor Harrison reported that at the New York bank gold certificates were being paid out only on request, but that there was no hesitation in making such payments when asked; that as a result considerable amounts of gold certificates were being retired from circulation.

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LCD E MEYER (DELVR 214 TREASURY DEPT.)

(EUGENE MEYER 1624 CRESCENT PLACE WASHINGTON, D.C.)

SPENT LAST WEEK PRAGUE AND TODAY HAD EXTENDED CONFERENCE WITH IMPORTANT MEMBER POLISH FINANCE MINISTRY WITH WHOM AM WELL ACQUAINTED. MY GENERAL CONCLUSIONS WHICH ARE APPLICABLE TO GERMANY AS WELL AS CZECHOSLOVAKIA AND POLAND ARE THAT IN EACH COUNTRY THE SITUATION IS DOMINATED BY APPREHENSION AS TO MAINTENANCE STABILITY OF THEIR CURRENCIES AND STRONG INTERNAL PRESSURE IS EXERTED FROM CENTRAL BANKS AND OTHER BANKERS TO RESTRICT SHORT TERM DOLLAR COMMITMENTS TO ABSOLUTE MINIMUM. APART FROM GENERAL IMPROVEMENT THE SPECIAL MEASURES WHICH MIGHT STIMULATE OUR EXPORTS OF AGRICULTURAL PRODUCTS PARTICULARLY COTTON WOULD BE LONGER CREDIT TERMS WHICH WOULD ATTRACT BUYING AND SALES IN TERMS OF FOREIGN CURRENCIES. AM CONSIDERING THIS LATTER POSSIBILITY FURTHER AND WILL ELABORATE ALL MY VIEWS IN REPORT WHICH I WILL MAKE ON RETURN. AM PLANNING SHORT VACATION TRIP TO THE SOUTH RETURNING PARIS NEXT WEEK AND PROBABLY SAILING FROM ENGLAND ON BREMEN NOVEMBER ELEVENTH. CAN ALWAYS BE REACHED THROUGH PARIS OFFICE.

DULLES.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7009

October 30, 1931.

SUBJECT: Procedure in Approving Applications of State Banks for Membership.

Dear Sir:

The procedure followed by the Federal Reserve Board in the past in connection with the approval of applications of State banks for membership in the Federal Reserve System has involved, what is believed to be, an unnecessary exchange of telegrams between the Board and the Federal reserve agent, and, in order not to delay the admission to the System of banks whose applications have been approved by the Board, it has been decided to simplify the procedure, as set out below.

In the past the Board has advised the Federal reserve agent by wire of its approval of an application for membership, subject to the regular conditions of membership contained in Section IV of Regulation H, and any special conditions considered necessary (code word "anchoring"). This was followed by a letter to the Federal reserve agent, enclosing a letter to the applicant bank, to be transmitted by him, advising formally of the approval of the application, setting forth in detail the conditions prescribed by the Board, and instructing the bank to advise the Board of its acceptance of such conditions. Upon receipt of notice of acceptance from the applicant bank, either directly or through the Federal reserve agent, the Board dispatched a second wire to the Federal reserve agent authorizing him to proceed with the final arrangements for the admission of the State bank (code word "anchoress"). Membership was considered as being effective from the date payment was made on the Federal reserve bank stock, the Federal reserve agent advising the Board of such payment by wire (code word "narratell").

Hereafter, upon approval of an application of a State bank for membership in the System, the Board will wire you

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advising of such approval and authorizing you, when notice of acceptance of the conditions of membership has been received from the applicant bank, to arrange for the issuance of the necessary Federal reserve bank stock, upon receipt of payment therefor, and for acceptance of the transfer of the required reserves (code word "anchoring"). The usual letter to the bank, setting forth the conditions of membership, will be sent to your office as at present, but will instruct the bank to file with you, instead of the Federal Reserve Board, a certified copy of a resolution of its Board of Directors accepting such conditions of membership. The Board's letter will state that you have been authorized, upon receipt of notice of acceptance, to proceed with arrangements for its admission to the System, all of which must be accomplished within thirty days from the date of the Board's letter, unless, on the bank's application, the time is extended by the Board for good cause. Upon completion of all arrangements for the membership of the bank, you are requested to wire advice to the Board (code word "narratell"), and to forward promptly, for the Board's files, the certified copy of the resolution of the Board of Directors of the applicant bank accepting the conditions of membership. Upon receipt of this advice from you, a formal certificate of membership will be mailed to the bank.

Whenever special conditions of membership are involved which are to be complied with prior to admission, you are requested to assure yourself that such conditions have been met in every respect before proceeding with arrangements for the completion of membership. In any case where acceptance of conditions is qualified, or there is question as to whether the bank has complied properly with any special conditions, the matter should be taken up with the Federal Reserve Board before arrangements for the admission of the bank are completed.

The code words to be used under the new procedure are set out below:

1. Anchoring. The application of (name and location of applying bank) for membership in the Federal Reserve System has been approved by the Federal Reserve Board, subject to the conditions contained in Section IV, Regulation H, Series of 1930, numbered 1 to 7 inclusive (special conditions, if any, to be quoted). When notice of acceptance of these conditions by the applicant bank has been received, you are authorized to arrange for the

issuance of Federal reserve bank stock, upon payment therefor, and for acceptance of the required reserves. Please advise the Board the date upon which the [illegible]'s membership becomes effective.

2. <u>Narratell.</u> (Name and [illegible] of applying bank) has completed arra[illegible] for membership, effective (date).

The code word "<u>anchoress</u>" will, under [illegible]ew [illegible] cedure, become obsolete and will be discontinued[illegible]

By order of the Federal Reserve Bo[illegible]

Yours v[illegible]

Che[illegible]ill,
Secre[illegible]

TO AGENTS OF ALL F. R. BANKS.

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FEDERAL RESERVE BANK

OF NEW YORK

November 2, 1931.

Dear Mr. Hamlin:

In accordance with your request of October 29, I am pleased to send you herewith a copy of the Preliminary Memorandum on Credit Conditions presented at the meeting of the Executive Committee of the Open Market Policy Conference on October 26, together with the minutes of the meeting.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Deputy Governor

Encl.

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Preliminary Memorandum on Credit Conditions for the Meeting of the Executive Committee of the Open Market Policy Conference, October 26, 1931.

A number of developments of unusual importance have occurred since the last meeting of the Open Market Policy Conference on August 11:

Continued withdrawals of funds from London led to suspension of gold payments by Great Britain; this has been followed by similar action in a number of other countries;

Subsequent strengthening of foreign central bank gold holdings and a "run on the dollar" have led to heavy purchases of gold from the United States by foreigners;

Currency hoarding has resulted in further heavy withdrawals of deposits from the banks;

As a result the demand for Federal Reserve Credit has increased at an extraordinary rate;

Federal Reserve Bank discount rates and open market money rates have risen;

Security prices have declined further; prices of United States Government securities have dropped precipitately within a few weeks from approximately the highest levels in recent years to levels even lower than were reached in 1929;

Bank failures have increased considerably in number;

Liquidation of member bank credit has been resumed at an unprecedented rate, with consequent shrinkage in the supply of money available for business use;

The emphasis of banks on liquidity has increased and the financing of business either by investors or by banks has become increasingly difficult;

Business activity and employment after seasonal adjustment have declined further, and commodity prices are lower;

Efforts toward the restoration of confidence in the banks have been undertaken chief of which has been the organization of the National Credit Corporation.

System Gold Position

The effects of gold losses and currency hoarding on the System gold position are shown in the attached diagrams and the following table. Recent gold losses of about $700,000,000 have not yet entirely offset the gain to the country's gold stock since early 1929 when it was generally considered that the gold supply was well in excess of the country's needs.

The "free gold" of the Federal Reserve System has shown little change during the recent outflow, as the second diagram indicates. This is due to the fact, which is also illustrated by the diagram, that the amount of gold required as collateral for Federal Reserve notes has diminished about as rapidly as have the gold reserves of the System. The foreign demand for gold, together with the domestic demand for currency, have brought into the Reserve Banks a large volume of eligible paper in the form of discounts and acceptances, which has been pledged as collateral for Federal Reserve notes, so that a large part of the gold used until recently as collateral has been released. The following table summarizes the demands on the reserves of the Federal Reserve System between September 16 and October 21, and shows the position of the System with respect to gold after meeting these demands.

Demand for Gold and Other Reserves between September 16 and October 21, and Effect on Reserve Position of the Federal Reserve System

(In millions of dollars)

Demand for Gold (and other reserve cash):

For earmarking	418
For gold exports (net)	261
Total	679
Reduction in required reserve against F.R. deposits	- 49
Increase in required reserve against F.R. notes	151
Total	102
Estimated increase in gold certificate and coin circulation	41
Total demand from all sources	822

Effect on Reserve Position of Federal Reserve System:

	Sept. 16, 1931	Oct. 21, 1931	Change
Total reserves - - - - - - - - -	3647	2927*	-720
Excess reserves over minimum requirements - - - - -	1919	1097*	-822
Gold required as collateral for F. R. notes - - - - - -	1037	281	-756
"Free Gold" - - - - - - - -	882	816*	- 66

*The issuance of Federal Reserve Notes in place of gold certificates will tend to increase the reserves of Federal Reserve Banks and eventually to increase the amount of "free gold"; this process is already under way.

As this indicates, the System on October 21 still had excess reserves totaling about $1,100,000,000, either in the form of "free gold," or in the form of gold collateral which will be released when further needs for funds bring in additional bills or discounts. Recently dollar exchange has strengthened relative to the exchanges of European countries which have been taking gold, and there are indications that the outflow of gold is subsiding.

Net Change in Monetary Gold Stock of the United States

Week ended:	
September 26	-$173,000,000
October 3	- 168,000,000
" 10	- 153,000,000
" 17	- 151,000,000
" 24 (Preliminary)	- 58,000,000

The Banking Position

From the viewpoint of the business of this country, the developments relating to the position of commercial banks - the great numbers of bank failures, the continued hoarding of currency, and the consequent excessive caution on the part of bankers which has been instilled by these occurrences - have been of more importance than the gold outflow. Security markets have become almost completely closed to new financing; banks are more reluctant than ever to employ their funds in any but the most liquid forms of loans or investments; the supply of credit available for business has been shrinking rapidly. The following table shows changes in the loans and investments and in the deposits of weekly reporting member banks during October and since the beginning of July.

(In millions of dollars)

	July 1, 1931	Sept. 30, 1931	Oct. 21* 1931
Security loans - - - - - - - - - - - - - -	6,746	6,346	5,873
All other loans - - - - - - - - - - - - -	7,945	7,845	7,681
U. S. securities - - - - - - - - - - - - -	4,129	4,223	4,158
Other securities - - - - - - - - - - - - -	3,666	3,693	3,606
Total loans and investments - - - -	22,486	22,107	21,314
Net demand deposits - - - - - - - - - - -	13,688	13,227	12,532
Time deposits - - - - - - - - - - - - - -	7,172	6,775	6,459
Total - - - - - - - - - - - - - - - - -	20,860	20,002	18,991

*Estimated largely on basis of October 21 figures for New York City banks.

During the past three weeks the loans and investments of reporting banks have been reduced nearly $800,000,000. To the effect of this on deposits has been added the effect of gold and currency withdrawals, partly offset by funds paid out by the Reserve Banks through bill purchases. Consequently the deposits of these banks have shown a decline of about $1,000,000,000 during the three-week period and a decline of nearly $1,900,000,000 since the first of July. This constitutes by far the most rapid shrinkage in member bank deposits during the life of the System.

The closing of banks has proceeded at an accelerated rate. In July the number of closed banks was 93, in August 158, in September 298, and in the first three weeks of October 386. This brings the number of banks closed since the beginning of the year to a total of more than 1,600.

Depreciation in the market value of bond holdings is probably responsible for the difficulties of more banks than any other cause. Until recently the depreciation was confined largely to the lower grades of bonds, but within the past few months prices of even the highest grade corporation bonds have declined considerably, especially railroad bonds the status of which with respect to "legal lists" has been endangered by the continued decline in railroad earnings. Since the beginning of September there has been an extraordinary severe decline in the market prices of United States Government securities - the only class of bank assets which up to that time had maintained an unimpaired market value. Between September 16 and October 19 the market value of long-term Government bonds declined about 8 per cent on the average, representing a "paper" loss to all member banks in the neighborhood of $300,000,000.

Thus altogether, present banking conditions are such as to constitute a serious obstacle, rather than an aid, to business recovery. Some improvement in this situation may be hoped for from the operations of the National Credit Corporation. Sentiment is already better though no definite results have been shown.

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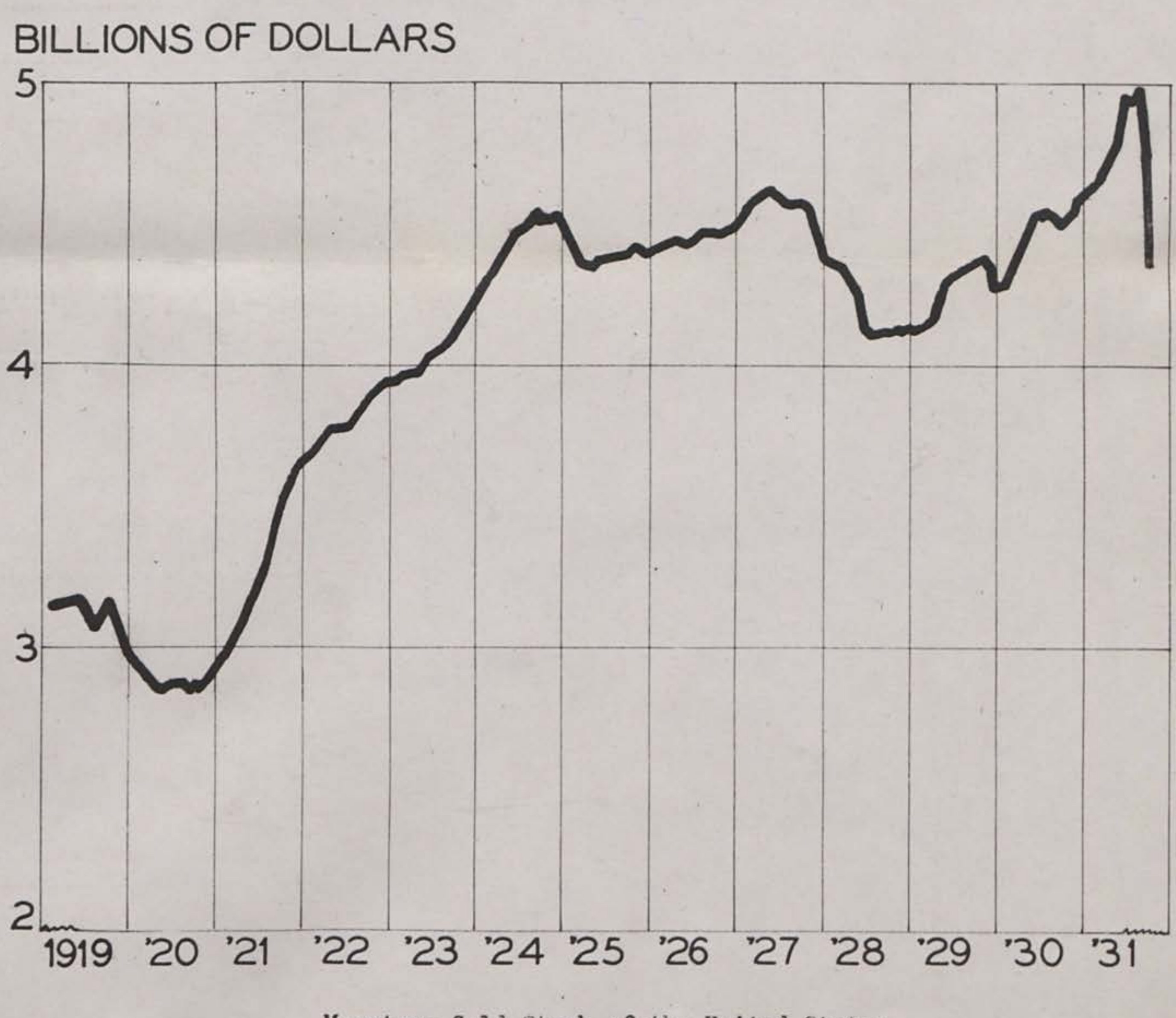
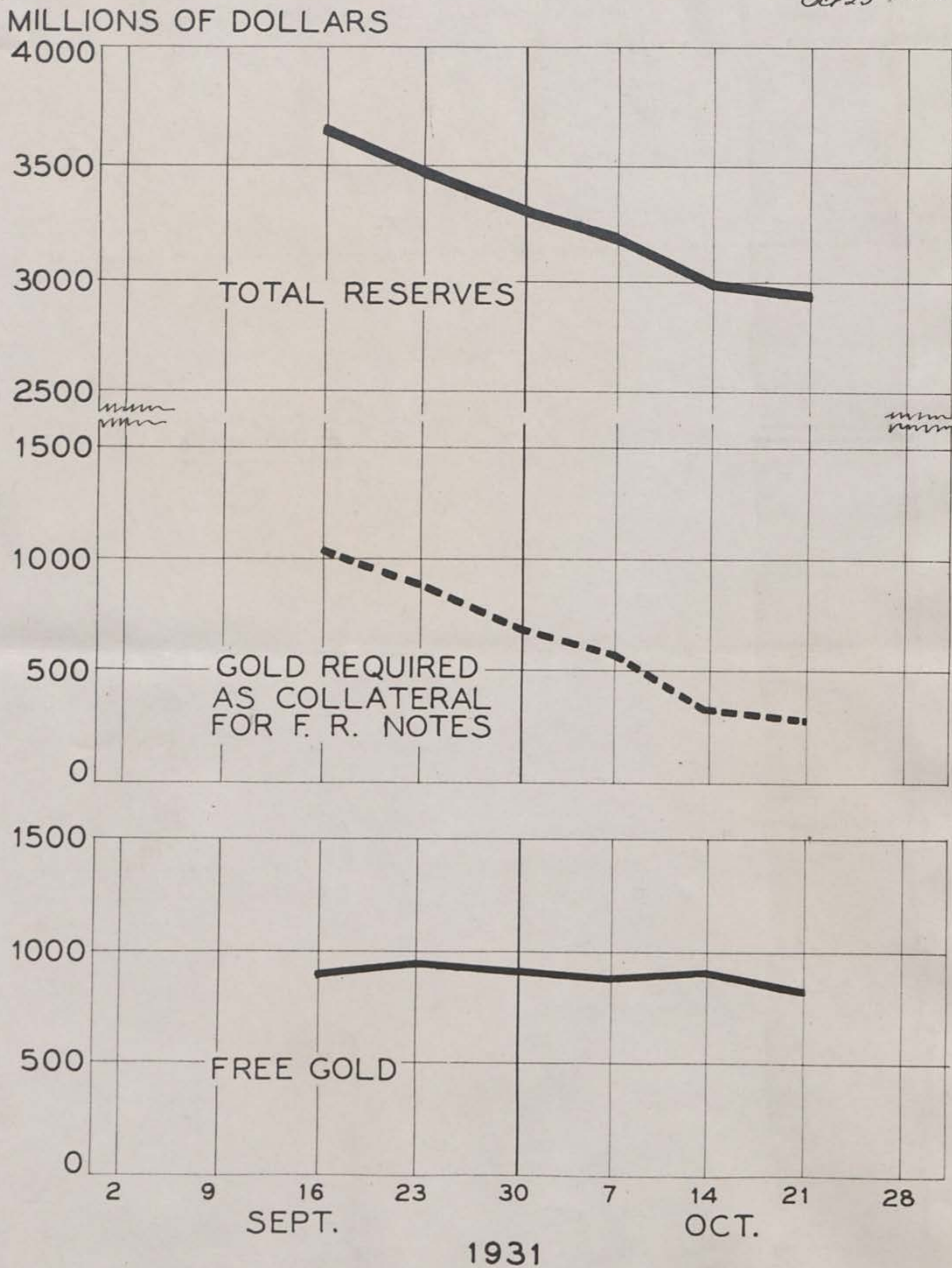
Federal Reserve Bank
of New York
Reports Department
March, 25, 1931.



Monetary Gold Stock of the United States
(End of month figures; latest figure Oct.21)

Reports Department
Oct 23, 1931.



Gold required as collateral for Federal Reserve notes has been replaced by eligible paper as total reserves have been drawn down by gold exports and earmarkings, leaving the System's free gold virtually unchanged

CONFIDENTIAL

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE
OF THE OPEN MARKET POLICY CONFERENCE HELD AT THE
OFFICE OF THE FEDERAL RESERVE BANK OF NEW YORK
OCTOBER 26, 1931

The members of the committee arrived at about 10:30 a. m., and report of operations and memorandum on credit conditions were distributed and read.

The meeting was formally called to order at 11:25, there being present the following:

Governor Harrison, chairman, and Governors Young, Norris, Black, and McDougal, Governor Meyer of the Federal Reserve Board, and Mr. Burgess, secretary.

The report of operations and memorandum on credit conditions were ordered received and placed on file.

Governor Harrison stated that there appeared to be two important problems to consider, the first relating itself to system general policy, whether to buy governments, sell governments, or to maintain present holdings unchanged, and second, the question of the distribution of governments and bills between individual reserve banks to take care of needs which might arise for banks to maintain their reserve percentage or their amount of free gold. He proposed discussing the first question first and separately from the other question.

Governor McDougal made a statement as to the position of the Chicago Bank with regard to government securities citing the changes which had taken place in Federal Reserve credit and recommending the reduction of system security holdings by the amount of the maturities through next March.

Governor Harrison reviewed the considerations affecting open market policy, indicating, first, that the free gold position of the System was not a consideration at this time first because there is now, even after a loss of over $700,000,000 of gold over $800,000,000 free gold in the System, practically as large as before the outward gold movement started and second because a sale of government securities would not in fact really strengthen the System's gold position. Its only effect would be to provide additional collateral for Federal reserve notes, whereas there is an ample amount of collateral either now on hand or in sight so that a shortage of collateral would not be a limiting factor on the amount of gold which could be exported or the amount of Federal reserve notes which could be issued. At the present time only $300,000,000 of Treasury notes out of $2,700,000,000 outstanding are not collateraled to 60% of value by eligible paper.

The most important question which the System faces at present is the problem of bank failures and hoarding of currency. Failures had been increasing at a rapid rate and are exercising a terrific pressure on the credit situation. Every action of the System should be considered in the light of its possible effect on these failures and on the willingness of banks to help out their correspondents in time of difficulty. A decrease in the System's holdings of government securities might affect the situation adversely, first, by its psychological influence as indicating a policy of pressure, and second, as tending to increase the amount of member bank discounts and so making them somewhat less willing to lend freely to help banks actually in need.

Governor Harrison reported his conversations with New York bankers in which he had recommended that a policy of very liberal lending be followed, particularly to out-of-town banks which had need. The present was a time when liquidity should be used rather than preserved. He felt it desirable that nothing should be done by voluntary System action unnecessarily to discourage the use of this liquidity in rendering aid to banks in need.

There ensued a general discussion of the attitude taken by city banks toward assisting banks in difficulty, the general sentiment of the meeting being that everything should be done to persuade banks to adopt a liberal policy in this regard and to borrow freely from the Federal Reserve System when that was necessary to meet the needs of the situation.

Governor Norris stated that while he had recently been opposed to purchases of government securities and would like to see System holdings reduced, he did not think the present was a time when we could wisely sell securities. The System had cooperated in the movement toward easy money as a result of which many banks had bought government bonds at low yields, and any action now which tended to accentuate the losses of banks on governments would be most unpopular.

Governor Meyer indicated that the committee at present had no authority to sell governments, but that it could, if desired, request the Federal Reserve Board to approve the recommendation of the last Open Market Policy Conference that the executive committee be given authority to sell up to $120,000,000 of governments.

Governor Young summarized the advantages and disadvantages of a decrease in holding of government securities, and concluded that it would not be wise at this time to sell government securities or to let the total run off except possibly to the extent that it might be desirable to offset purchases of Intermediate Credit Bank debentures and municipal warrants.

Governor McDougal moved that unless conditions changed System maturities of government securities in November be allowed to run off.

The meeting adjourned at 12:50 without action having been taken on this motion.

The members of the committee attended the meeting of the executive committee of the Federal Reserve Bank of New York and resumed their own meeting at 3:25 p. m., there being present all of those who were present at the morning meeting.

Governor Harrison reported the probable plans of the Bank of France with respect to its American balances.

Governor Meyer reported a series of telegrams from Governor Calkins of the Federal Reserve Bank of San Francisco recommending letting maturities of government securities run off for the balance of this year at least, and recommending some plan for a more equitable distribution of holdings between the Reserve banks to provide a more ample free gold position and reserve position for some of the banks.

The motion made by Governor McDougal at the conclusion of the morning's meeting was seconded and on motion defeated by a vote of 4 to 1.

It was moved and carried that while for the moment there is no occasion for a reduction in System holdings of government securities, that by reason of the views expressed by a number of governors favorable to a sale of government securities, and because of the possibility of changes in the credit situation which might make sales desirable, the committee ask the Federal Reserve Board to give the executive committee the same leeway with respect to sales of government securities as it now possesses with respect to purchases as recommended by the resolution of the Open Market Policy Conference on August 11.

With regard to the desirability of a meeting of the Open Market Policy Conference it was agreed that the results of the day's meeting should be sent to the other Federal reserve banks by telegram and letter as early as possible, and it was the sense of the committee that there should be a meeting of the Conference as soon as conditions appeared to make it wise and practicable for the governors to leave their own institutions for such a meeting.

There ensued a discussion of the distribution of government securities between individual Reserve banks with special reference to a number of requests which have been received recently to take over securities from Reserve banks whose position required strengthening. It was agreed first that a bank which was short in its reserves should ask for relief through the sale of bills to other Reserve banks whenever its situation could be relieved by that method; and second, that in the case of a bank where its difficulty was in its free gold position rather than simply in its reserve position, it should offer its government securities to other Reserve banks through the committee, but should only make this request when it was really necessary to strengthen its position, and the amount of the request should be limited to that necessary to meet the usual fluctuation in its gold holding.

The committee would then offer participation in these bills and securities to the other banks with the understanding that those whose reserve position is such as to enable them to take bills or securities should cooperate to the fullest extent possible.

There was then some discussion as to the policies followed by the Reserve banks as to lending on government bonds. The New York, Chicago, Minneapolis, and Atlanta banks were reported as lending on government bonds at their par value. The Philadelphia bank was lending at par value when the market price was 95 or better, and the Boston bank was reported as lending on values at market. In the discussion it was emphasized that the Reserve banks had been vigorously supporting the ruling of the Comptroller under which prime bonds were to be listed at par, and the acceptance of governments at something less than par would appear to be inconsistent with this position. Moreover, there was a good deal of disturbance among member banks at recent declines in government bonds which would be accentuated if the Reserve banks took these bonds at less than par. In view of the limited amount of governments selling below par and the additional protection the Reserve banks possessed it was not believed any considerable risk was taken.

Governor Young raised the question whether there was any way of distributing earnings or losses on open market holdings in a more equitable manner, but after discussion no motion was made upon this point.

Reference was made to payments of gold coin into circulation, and it was agreed that the principle which must be followed was that payments should be made with complete freedom. The amounts of such payments made thus far have not been important.

Governor Harrison reported that at the New York bank gold certificates were being paid into circulation only on request, but that there was no hesitation in making such payments when asked. As a result considerable amounts of gold certificates were being retired from circulation.

The meeting adjourned at 4:40 p. m.

W. Randolph Burgess,
Secretary.

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October 29, 1931.

Memorandum for the Files.

SUBJECT: Services to be performed by the Federal Reserve Banks for National Credit Corporations.

There is attached a final draft of the memorandum covering a plan for the services to be performed for the National Credit Corporation by the Federal Reserve Bank of New York, with the assistance of the other Federal reserve banks, as prepared in New York during a conference attended by the following persons:

Mr. Alfred A. Cook, Counsel, National Credit Corporation.

Mr. Nelson S. Dearmont, Secretary, National Credit Corporation and Assistant Treasurer New York Trust Co

Mr. Walter S. Logan, Deputy Governor and General Counsel, Federal Reserve Bank of New York.

Mr. L.R. Rounds, Deputy Governor, Federal Reserve Bank of New York.

Mr. L. F. Sailer, Deputy Governor, Federal Reserve Bank of New York

Mr. Chester Morrill, Secretary, Federal Reserve Board.

Mr. Walter Wyatt, General Counsel, Federal Reserve Board.

Governor Harrison came into the meeting for a short time.

Late in the afternoon of October 28, 1931, this plan was submitted by Mr. Dearmont to Mr. Buckner, President of the National Credit Corporation, and Mr. Logan later informed Mr. Morrill that he had received word that it was satisfactory to Mr. Buckner. Thereupon, a telegram (copies of which are in the files) was prepared by Mr. Logan and dispatched to all Federal reserve banks by Governor Harrison of the Federal Reserve Bank of New York requesting their cooperation.

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The attendance of Mr. Morrill and Mr. Wyatt at the above conference was merely for the purpose of obtaining as much information as possible and assisting in the working out of a plan which would be satisfactory to all parties; and it was understood by all parties that Mr. Morrill and Mr. Wyatt were not speaking for the Federal Reserve Board or committing the Federal Reserve Board to the plan in any way.

It is not contemplated that this plan will be submitted to the Federal Reserve Board for formal approval; but, if it is submitted to the Board, I am prepared to render an opinion to the effect that the functions to be performed by the Federal reserve banks are within the province of the Federal Reserve Act.

Clearly, the New York Corporation, which is organized under the investment banking laws of the State of New York, may lawfully open a nonmember clearing account with the Federal Reserve Bank of New York and may deposit with the Federal Reserve Bank of New York maturing notes and bills for collection, pursuant to the non-cash collection circular.

Clearly, such maturing notes and bills may be forwarded to other Federal reserve banks for collection, pursuant to the terms of the non-cash collection circular just the same as any other maturing notes and bills when deposited by a member bank or nonmember clearing bank.

If such notes are to be collected by a Federal Reserve Bank, it would seem clearly incidental to this service for such notes to be made payable at the Federal reserve banks, in order to simplify their collection.

While some question may be raised as to whether the Delaware Corporation can properly open a non-member clearing account with the

Federal Reserve Bank of New York, it would seem that (1) it may reasonably be deemed to be a bank, since it is organized for the purpose of making loans, not out of its own capital, but with the funds borrowed for this purpose, and therefore comes within the broad definition of a "bank"; (2) although its principal office is nominally in Delaware, since it is incorporated under the laws of Delaware, as an actual fact its principal office will be in the City of New York; (3) moreover, in substance the Delaware Corporation and the New York Corporation constitute a single institution located in New York and engaged in a banking business.

As an analogy to the existing practice whereby member banks in one district send checks to Federal reserve banks in other districts for the account of the Federal reserve bank of their own district, it would seem that, where remittances are to be made by banks scattered all over the United States to a nonmember clearing bank, and are to be credited to that bank's account at the Federal Reserve Bank of New York, it would be reasonable to hold that, in order to simplify the procedure and eliminate unnecessary delay and expense, such remittances could be made to the Federal reserve banks of the districts in which the remitting banks are located for transmission to the Federal Reserve Bank of New York. Normally, such remittances would be entered on the books of the receiving Federal reserve bank to the credit of the Federal Reserve Bank of New York and would be settled daily through the Gold Settlement Fund; but there would seem to be no legal reason why such amounts could not be held in the Federal reserve bank which receives them to the credit of the Federal Reserve Bank of New York until the Federal Reserve Bank of New York requests that they be transferred to it through the Gold Settlement Fund.

Moreover, the performance of service of this character by one Federal reserve bank for another Federal reserve bank, would seem to be within the incidental powers of all Federal reserve banks.

It was understood that the understanding embodied in the plan described in the attached memorandum would be confirmed in writing by the Federal Reserve Bank of New York and the National Credit Corporationsso as to indicate clearly the contractual relations between the different parties.

The procedure in making disbursements of the proceeds of a loan granted to a local credit association by the National Credit Corporation of New York was outlined in more detail as follows:

1. The association applying for the loan would request that when the loan is granted the funds be paid to a bank designated by such association, which we will call Bank X.

2. Upon approval of the loan, the New York Corporation will instruct the Federal Reserve Bank of New York to transfer the funds by wire to Bank X for the account of the association applying for the loan.

3. Upon telegraphic advice from the Federal Reserve Bank of New York, the Federal reserve bank of the district in which Bank X is located will credit the ac count of Bank X for the account of the association applying for the loan.

4. Bank X will make the funds available to the borrowing bank on the order of the association applying for the loan.

During the course of the discussion the question of the custody of collateral underlying the original loan was discussed and Messrs. Cook and Dearmont distinctly stated that the Federal reserve banks would not be requested to take custody of any collateral but would only be requested to handle the receipt and transmission of funds and the collection of maturing notes and bills under the usual terms and procedure of non-cash collections. Mr. Dearmont further stated that he desired checks received in payment of subscriptions to be handled on a non-cash basis instead of a cash basis, in order that the corporation might be protected against the possibility of issuing its gold notes before the receipt or payment in actually and finally collected funds and also in order that complete advice as to the source of payment would be available to the Federal Reserve Bank and could be made available by it to the National Credit Corporation. All collateral will be held by a local custodian designated by the New York corporation and may be the same bank as "X" in the foregoing outlined procedure.

Walter Wyatt,
General Counsel.

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Telegram.

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New York Nov 4 409p

McClelland
Washington.

Referring our wire October 30 we have advised Bank of England we are willing to waive opening commission on renewal of credit in view of substantial increase in rate of discount for purchase of bills it being our understanding that Bank of France has omitted commission on the renewal. Rate of discount fixed for the renewal is six percent and opening commission was 1/16 percent flat. We will send Board copy of renewal agreement when received.

Crane.

414 p.m.

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FEDERAL RESERVE BANK
OF
ST. LOUIS

June 4, 1931

Hon. Charles S. Hamlin
c/o Federal Reserve Board
Washington, D. C.

Dear Mr. Hamlin:

I am sending you as a member of the St. Louis Committee a copy of a report submitted by me to the Federal Reserve Board in connection with the matter of the loan of Managing Director Kincheloe, held by the National Bank of Kentucky.

With best regards, I am

Yours very truly

Jno. S. Wood

Federal Reserve Agent.

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June 4, 1931

Federal Reserve Board
Washington, D. C.

Gentlemen:-

I desire to submit the following facts relating to the matter of the loan of Mr. William P. Kincleloe, Managing Director, Louisville Branch, Federal Reserve Bank of St. Louis, held by the National Bank of Kentucky, Louisville, Kentucky.

An excerpt from the minutes of the meeting of Board of Directors held on Wednesday, May 6, 1931, is as follows:

"Governor Martin reported a matter brought to his attention by a member of the Federal Reserve Board while last in Washington and concerning the Louisville Branch. After a full discussion, the Chairman of the Board and the Governor were instructed to go into the question fully with the Managing Director of the Louisville Branch preparatory to making a report to the next meeting and to have the Managing Director available if the Board desired his presence at the meeting."

An exexrpt from the minutes of meeting of Board of Directors on June 3, 1931, is as follows:

"The Louisville Branch matter referred to in the Board minutes of May 6 was taken up and Governor Martin reported that in compliance with the Board's request he and the Chairman had taken it up with Mr. Kincheloe; that the investigation showed that when the National Bank of Kentucky was closed and taken over by the Comptroller's Department on November 17, 1930, it held the unpaid note of the Managing Director of the Louisville Branch amounting to approximately $50,000.00; that Mr. Kincheloe had frankly admitted that he had obtained the original loan in 1918 from a Louisville bank which later became a part of the National Bank of Kentucky; that this loan had been carried continuously in the National Bank of Kentucky since that date, and the same remained unpaid at this time; that Mr. Kincheloe claimed that at the time the original loan was obtained and at all times up to the closing of the National Bank of Kentucky the loan was amply secured by collateral, the salable value of which at all times was more than sufficient to take care of the loan.

At Mr. Kincheloe's request, he appeared before the Board and submitted a transcript of the account from its inception to the present date. The transcript showed the amount of the loan at stated periods, together with the collateral, and the salable value of the collateral on the respective dates; all of which showed, that, taking the value of the securities in accordance with the statement, the sale value of the collateral was sufficient to pay the loan at all times up to the date of the closing of the National Bank of Kentucky.

Mr. Kincheloe stated that he knew of no law, rule, regulation, suggestion, or ethics he was violating in obtaining the loan; that he had no idea that he was doing anything wrong in the matter; that it was not a speculative loan, but a plain loan, properly secured, to take care of a real investment; that the Receiver of the National Bank of Kentucky had never requested that the loan be taken up; on the other hand, it had seemed preferable to the Receiver that it be carried for the present. Mr. Kincheloe then retired from the meeting and a full discussion followed.

It was the general concensus of opinion as expressed by the several directors that even though no law, rule, regulation, or suggestion had been violated, nevertheless, under the circumstances surrounding this case, the act of the Managing Director in borrowing from a member bank was not compatible with the aim of the Federal Reserve System in maintaining that high standard of conduct in its officers and employees so necessary in keeping evey act above suspicion.

The Board wished further information on some matters in connection with the case before taking action and, by common consent, it was carried over to the next meeting and the Governor and Chairman were requested to obtain the desired information.

Governor Martin further reported that this is the only instance he knows of where an officer or employee of the Parent Bank or Branches is borrowing from a member bank; and that the Managing Director of the Louisville Branch had told him prior to the closing of the bank that he had arranged to take this loan out of the bank.

After a full discussion, it was moved by Director Lonsdale, seconded and carried, that even though the Federal Reserve Board, under its power to promulgate rules and regulations governing the operation of the Reserve banks, had not promulgated any rules or regulations or made any suggestions covering the matter, nevertheless, the action of the Managing Director, under the circumstances surrounding the case mentioned, was not compatible with the aim of the Federal Reserve System in maintaining that high standard of conduct in its officers and employees so necessary in keeping every act above suspicion; and that the Governor be instructed to notify all officers and employees of the Parent Bank and Branches that they must not borrow from member banks within Federal Reserve District No. 8."

An excerpt from the minutes of meeting of Board of Directors dated June 3, 1931, is as follows:

"Governor Martin and Mr. McConkey presented to the Board information obtained in accordance with the request of the directors made at the last regular meeting. Managing Director Kincheloe also appealed befofe the directors and made statements supplemental to the statements made by him at the last regular meeting. After considering the information presented and the statements made, the Board was unable to modify its criticisms of the action of the Managing Director as expressed in the minutes of Board meeting held May 20, 1931. However, considering all the facts in the case in their relation to the best interests of the Federal Reserve Bank of St. Louis, it was moved by Director Lonsdale, seconded by Director Boehne, and unanimously carried by a vote of the Board, that the matter be held in abeyance for the present."

On May 29, Mr. James G. McConkey, General Counsel for the Federal Reserve Bank of St. Louis, was in Louisville and investigated some of the facts stated by Managing Director Kincheloe to the Board of Directors at meeting held May 20. His conference with the Receiverrof the National Bank of Kentucky disclosed the fact that the Receiver held a different opinion from Managing Director Kincheloe in respect to the manner in which the loan was to be handled. In fairness to Mr. Kincheloe, however, will state that his conferences and discussions with relation to the loan have been held principally with Assistant Receiver McCandless instead of Receiver Keyes. It seems that Receiver Keyes understood that the loan was to be kept collaterall-ed at all times and that it was to be further secured by a second mortgage on the home of Mr. Kincheloe,. Assistant Receiver McCandless understood that the loan was to be carried for two years with periodic reductions. Receiver Keyes was reported as being disturbed when he learned the manner in which the loan had been handled.

The general information obtained by Mr. McConkey from various sources seemed to suggest that President Brown, of the National Bank of

Kentucky, showed Mr. Kincheloe special favor in connection with the loan, but he received no information that suggested that Managing Director Kincheloe in the discharge of his official duties, showed any favor to President Brown or the National Bank of Kentuky.

The matter has profoundly disturbed the directors of the Federal Reserve Bank of St. Louis. The vote was unanimous on resolutions passed at meeting of May 20 and June 5. There was a feeling, however, that it would not be for the best interests of the Federal Reserve Bank of St. Louis to demand the resignation of Managing Director Kincheloe at this time. At least a part of the directors felt that it might be best to let the matter remain in status quo until the regular annual election of officers in January 1932. The resolution passed yesterday simply holds the matter in abeyance with freedom of action on the part of the directors of the Federal Reserve Bank of St. Louis to take the matter up at any meeting should the best interests of the Federal Reserve Bank of St. Louis seem to suggest the advisability offso doing.

Yours very truly

Federal Reserve Agent.

JSW:RMS

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