

The Papers of Charles Hamlin (mss24661)

365_05_001-

Hamlin, Charles S., Scrap Book – Volume 221, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 221
FRBoard Members

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CONFIDENTIAL (F.R.)

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

VOLUME 221

- Pages 20 - Memo to Board from Mr. Morrill re "possible desirability of amending F.R. Act so as to permit a F.R. Bank in emergencies to make advances to member banks on the security of assets other than presenting eligible paper".
- Pages 26 - Letter from Sec'y Mellon to Chairman of Committee on Banking and Currency, U.S. Senate.
- Page 27 - Memo to Mr. Hamlin from Mr. Goldenweiser attaching table which shows aggregate principal and interest payments under the funding agreements with foreign governments.
- Page 46 - Amendment to F.R. Act permitting wider advances to F.R. Banks.
- Page 47 - (X-3784) Rediscounts for Nonmember Banks.
- Pages 49 & 51 - Letters to Mr. Hamlin from Atlantic National Bank of Boston "dealing with the proposed amendment to the existing trust under which the stock of The Atlantic Corporation is now held".
- Page 59 - Memo to Mr. Hamlin from Mr. Goldenweiser attaching memo on bank activities outside the field of deposit and discount.
- Page 65 - Memo to Mr. Hamlin from Mr. Goldenweiser attaching memo prepared by Mr. Blattner on activities of banks outside the field of deposit and discount.
- Page 73 - Preliminary Memorandum for the Open Market Policy Conference, November 30, 1931.
- Page 75 - Letter to Mr. Hamlin from Mr. Wyatt enclosing copy of a memo in which the Board's Regulation A could be modified so as to broaden the classes of paper eligible for rediscount without awaiting Congressional action.
- Page 83 - Memo to Mr. Wyatt from Mr. Seitz re Positions Board has taken re Value of Government Securities.
- Page 85 - Memo to Mr. Hamlin from Mr. Wyatt re rediscount of paper secured by bonds of War Finance Corporation.
- Page 87 - Broadening of Eligibility (Abstract of Replies to Questionnaire sent out by Senate Committee in December 1930).
- Page 101 - Secretary's Minutes - Governors' Conference.

Office Correspondence

FEDERAL RESERVE
BOARD

Date December 5, 1931.

To Each Board Member

Subject:

From Mr. Morrill

2-8495

During the April, 1931, Governors' Conference consideration was given to the "possible desirability of amending Federal Reserve Act so as to permit a Federal Reserve bank in emergencies to make advances to member banks on the security of assets other than presently eligible paper."

The discussion at the Conference developed the opinion that some broadening of eligibility requirements as an emergency measure under proper restrictions and regulations might be desirable, and it was voted (Governors Calkins, Martin and Talley voting in the negative):

"That it is the sense of the conference that it would be desirable to amend Section 13 of the Federal Reserve Act so as to make it possible for Federal Reserve banks to make advances to their member banks on their promissory notes when secured either by collateral now defined as eligible collateral under the terms of Section 13, or when secured by the deposit or pledge of debentures of Federal Intermediate Credit Banks which have a maturity of not more than six months, or in the case of an emergency when secured by other assets subject to the discretion of the Board of Directors of the Federal Reserve bank and subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board. It was the understanding of the conference that when such notes of member banks are secured by notes, drafts, bills of exchange, or bankers' acceptances, such as are now eligible for rediscount or purchase by Federal Reserve banks, such promissory notes should have a maturity of not more than 90 days sight, exclusive of days of grace, and that when secured in whole or in part by any other collateral they should have a maturity of not more than 15 days sight, exclusive of days of grace. It is the sense of the conference that if the Federal Reserve Board approves the principles involved in this resolution, it should be asked to consider what would be an appropriate time to request the necessary legislation."

This matter was also considered at the meeting of the Federal Advisory Council on September 15, 1931, and the Council made the following recommendation to the Board:

"The Federal Advisory Council suggests that the Federal Reserve Board consider the advisability of permitting Federal Reserve banks in times of pressure to accept from member banks bills payable on securities not now eligible, the Federal Reserve Board to issue regulations defining the conditions under which such action may be taken."

B20

See Ak

COPY.

December 22, 1931.

My dear Mr. Chairman:

I have your letter of December 12th enclosing a copy of S. 1, a bill to provide emergency financing facilities for banks and other financial institutions, and other purposes, and requesting the opinion of this Department as to the proposed bill.

I am satisfied that the need exists for the creation of the corporation contemplated in the bill. The mere existence of such an instrumentality, furnished with adequate resources and enabled to deal with any weakness that may develop in our credit structure, should have a reassuring effect on public confidence and a stimulating influence on the resumption of the normal flow of credit into the channels of business and commerce.

I understand that the Governor of the Federal Reserve Board has suggested an amendment to section 5 with a view to defining somewhat more accurately the term "other financial institution". I approve of this amendment. I understand further that Mr. Meyer has suggested that the loans to steam railroads provided for in section 5 should be made only subject to the approval and recommendation of the Interstate Commerce Commission. This seems to me a most desirable amendment.

The Treasury Department approves of the bill and trusts that it may receive early and favorable consideration by the Banking and Currency Committee of the Senate.

Very sincerely yours,
(Signed) A. W. Mellon,
Secretary of the Treasury.

Hon. Peter Norbeck,
Chairman Committee on Banking and Currency,
United States Senate.

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PAGE 26

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Office Correspondence

FEDERAL RESERVE
BOARDDate December 23, 1931 *See NK*To Mr. Hanlin

Subject: _____

From Mr. Goldenweiser*EGJ*

... 2-8405

I am sending you a table which I obtained from the Treasury, which shows aggregate principal and interest payments under the funding agreements with foreign governments. You will note that in the aggregate the principal is somewhat larger than the interest. During earlier years, however, the principal is much the smaller part of the payments and it wouldn't reach \$100,000,000 before 1936.

I believe the table is considered confidential.

*Does not include amounts with Germany for Army Costs and
Mixed Claims (see p. 341 Geary's Annual Sept 1930)*

RECEIPTS FOR THE FISCAL YEARS 1923 TO 1930, INCLUSIVE,
AND ESTIMATES OF RECEIPTS FOR FISCAL YEARS 1931 TO 1990, INCLUSIVE
FROM FOREIGN GOVERNMENTS UNDER DEBT FUNDING AGREEMENTS.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1923	-	\$ 69,135,000.00	\$ 69,135,000.00
1924	\$ 23,045,000.00	137,938,976.57	160,983,976.57
1925	23,084,672.50	137,905,551.04	160,990,223.54
1926	54,955,300.25	139,797,319.21	194,752,619.46
1927	66,060,130.06	139,826,159.14	205,886,289.20
1928	67,788,424.67	139,943,553.39	207,731,978.06
1929	59,154,795.26	139,973,850.97	199,128,646.23
1930	97,634,287.76	141,931,519.25	239,565,807.01
1931	51,588,133.37	184,474,614.51	236,062,747.88
1932	62,344,618.07	184,222,188.37	246,566,806.44
1933	74,881,881.00	195,094,700.43	269,976,581.43
1934	92,999,579.35	205,724,561.44	298,724,140.79
1935	99,076,903.41	204,678,348.38	303,755,251.79
1936	110,486,991.67	205,962,430.97	316,449,422.64
1937	122,101,685.80	204,160,798.20	326,262,484.00
1938	133,522,227.88	202,234,382.97	335,756,610.85
1939	140,177,475.38	200,082,500.23	340,259,975.61
1940	144,959,236.73	199,685,550.45	344,644,787.18
1941	122,346,750.58	234,013,060.65	356,359,811.23
1942	129,234,423.02	231,285,780.64	360,520,203.66
1943	131,247,682.03	228,428,470.08	359,676,152.11
1944	131,865,673.48	230,126,124.73	361,991,798.21
1945	138,084,642.28	227,091,078.18	365,175,720.46
1946	140,187,807.98	223,950,505.29	364,138,313.27
1947	142,151,938.30	220,773,880.15	362,925,818.45
1948	149,341,598.63	217,472,931.43	366,814,530.06
1949	151,472,414.16	214,046,601.86	365,519,016.02
1950	153,030,605.10	210,593,906.94	363,624,512.04
1951	143,694,109.33	225,310,182.92	369,004,292.25
1952	148,203,425.27	221,647,254.59	369,850,679.86
1953	152,773,591.71	217,864,366.70	370,637,958.41
1954	158,355,528.71	213,943,108.41	372,298,637.12
1955	165,280,247.76	210,090,328.64	375,370,576.40
1956	168,249,022.40	205,866,859.29	374,115,881.69
1957	171,154,773.79	201,585,086.42	372,739,860.21
1958	177,213,036.21	197,653,649.43	374,866,685.64
1959	171,527,175.82	204,679,579.74	376,206,755.56
1960	176,559,959.79	199,984,905.95	376,544,865.74
1961	181,651,170.62	199,345,572.11	380,996,742.73
1962	188,909,806.13	194,243,034.18	383,152,840.31
1963	192,128,514.05	188,992,770.08	381,121,284.13
1964	200,506,773.42	183,578,909.01	384,085,682.43
1965	205,849,230.91	177,961,156.80	383,810,387.71
1966	204,396,394.05	181,620,796.69	386,017,190.74

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1967	213,380,398.32	175,561,553.93	388,941,952.25
1968	220,048,383.64	169,281,551.11	389,329,934.75
1969	228,053,832.52	162,788,186.22	390,842,018.74
1970	236,887,536.66	156,026,052.30	392,913,588.96
1971	246,216,158.02	151,580,736.91	397,796,894.93
1972	254,730,380.02	144,154,117.36	398,884,497.38
1973	264,336,103.88	136,449,482.43	400,785,586.31
1974	273,145,411.96	128,461,843.03	401,607,254.99
1975	282,152,303.40	120,203,360.42	402,355,663.82
1976	292,766,012.73	111,649,566.18	404,415,578.91
1977	302,395,933.65	102,791,755.27	405,187,688.92
1978	314,130,488.00	93,629,360.55	407,759,848.55
1979	324,983,129.81	84,131,221.52	409,114,351.33
1980	335,259,227.48	74,299,669.93	409,558,897.41
1981	346,663,118.16	69,157,398.86	415,820,517.02
1982	360,391,547.27	57,980,973.83	418,372,521.10
1983	372,253,078.13	46,386,500.84	418,639,578.97
1984	388,357,946.79	34,350,784.78	422,708,731.57
1985	395,709,462.05	21,936,310.72	417,645,772.77
1986	216,711,585.62	12,577,329.66	229,288,915.28
1987	215,587,786.64	6,262,522.53	221,850,309.17
1988	350,000.00	-	350,000.00
1989	350,000.00	-	350,000.00
1990	350,000.00	-	350,000.00

\$11,704,487,463.44 \$10,554,582,184.81 \$22,259,069,648.25

February 16, 1931.

Q27

Office Correspondence

FEDERAL RESERVE
BOARDDate December 5, 1931. *See Mem*To Mr. Hamlin

Subject: _____

From Mr. Morrill

2-8495

During the April, 1931, Governors' Conference consideration was given to the "possible desirability of amending Federal Reserve Act so as to permit a Federal Reserve bank in emergencies to make advances to member banks on the security of assets other than presently eligible paper."

The discussion at the Conference developed the opinion that some broadening of eligibility requirements as an emergency measure under proper restrictions and regulations might be desirable, and it was voted (Governors Calkins, Martin and Talley voting in the negative):

"That it is the sense of the conference that it would be desirable to amend Section 13 of the Federal Reserve Act so as to make it possible for Federal Reserve banks to make advances to their member banks on their promissory notes when secured either by collateral now defined as eligible collateral under the terms of Section 13, or when secured by the deposit or pledge of debentures of Federal Intermediate Credit Banks which have a maturity of not more than six months, or in the case of an emergency when secured by other assets subject to the discretion of the Board of Directors of the Federal Reserve bank and subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board. It was the understanding of the conference that when such notes of member banks are secured by notes, drafts, bills of exchange, or bankers' acceptances, such as are now eligible for rediscount or purchase by Federal Reserve banks, such promissory notes should have a maturity of not more than 90 days sight, exclusive of days of grace, and that when secured in whole or in part by any other collateral they should have a maturity of not more than 15 days sight, exclusive of days of grace. It is the sense of the conference that if the Federal Reserve Board approves the principles involved in this resolution, it should be asked to consider what would be an appropriate time to request the necessary legislation."

This matter was also considered at the meeting of the Federal Advisory Council on September 15, 1931, and the Council made the following recommendation to the Board:

"The Federal Advisory Council suggests that the Federal Reserve Board consider the advisability of permitting Federal Reserve banks in times of pressure to accept from member banks bills payable on securities not now eligible, the Federal Reserve Board to issue regulations defining the conditions under which such action may be taken."

See 44

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3784
July 13, 1923.

SUBJECT: Rediscounts for Nonmember Banks.

Dear Sir:

During the emergency of 1921, the Federal Reserve Board granted to member banks the privilege of acting as the media or agents of nonmember banks in rediscounting paper with Federal Reserve Banks. (Circular letter X-3176, July 27, 1921: Federal Reserve Bulletin, August, 1921, page 963). That privilege, however, was granted only as a temporary emergency measure and, the emergency having passed, it was revoked by the Federal Reserve Board under date of June 26, 1923. In advising you of the withdrawal of such privilege the Board announced that all previous rulings on this subject were rescinded, and that announcement has led to a number of inquiries as to the proper application of the Board's ruling. The Board has deemed it advisable, therefore, to announce the following rules for the guidance of the Federal Reserve Banks and the member banks:

1. The ruling published on page 963 of the August, 1921, Bulletin, which gave member banks general authority to apply to their respective Federal Reserve Banks for discounts of eligible paper acquired from nonmember banks, and the ruling published on page 213 of the August, 1915, Bulletin are rescinded in toto. The rulings published on page 520 of the June, 1918, Bulletin and on page 745 of the August, 1918, Bulletin are rescinded in so far as they apply to the rediscount of paper bearing the signature or endorsement of nonmember banks or acquired from nonmember banks.

2. Except with the Board's permission, no Federal Reserve Bank shall discount any paper acquired by a member bank from a nonmember bank or bearing the signature or endorsement of a nonmember bank: Provided, however, That Federal Reserve Banks may discount bankers' acceptances and other eligible paper bearing the signature or endorsement of a nonmember bank, if such paper was bought by the offering bank in good faith on the open market from some party other than the nonmember bank.

3. Applications for permission to rediscount paper acquired from nonmember banks shall be made by the member bank which desires to offer such paper for rediscount and shall state fully the facts which give rise to each application and the reasons why the applying member bank feels justified in seeking such permission.

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4. As a general rule, the Federal Reserve Board will not permit member banks to discount paper for nonmember banks which are eligible for membership, because such banks should join the Federal Reserve System if they desire to participate in its benefits. The Board will make exceptions to this rule, however, in some cases in order to assist such banks in emergencies for a limited time; but such exceptions will be made only with the understanding that they will not be continued beyond the period when the bank concerned can qualify for admission to membership in the Federal Reserve System.

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

TO GOVERNORS OF F. R. BANKS

Em



See No

ORIGINAL CHARTER 1828

THE ATLANTIC NATIONAL BANK OF BOSTON

10 POST OFFICE SQUARE

BOSTON, MASS.

HERBERT K. HALLETT
CHAIRMAN OF THE BOARD

August 10, 1931.

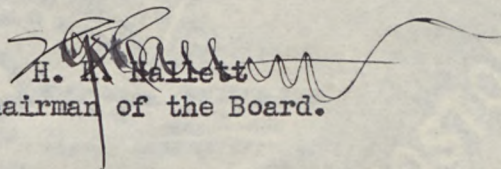
Mr. Charles S. Hamlin,
c/o Federal Reserve Board,
Washington, D. C.

My dear Mr. Hamlin:

I am enclosing herewith copy of my letter of even date to the Federal Reserve Board dealing with the proposed amendment to the existing Trust under which the stock of The Atlantic Corporation is now held.

Very truly yours,

HKH*CHM
Enclosure


H. K. Hallett
Chairman of the Board.

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August 10, 1931.

Federal Reserve Board,
Washington,
D. C.

Dear Sirs: -

The proposed amendment to the Trust Indenture under which the stock of The Atlantic Corporation is now held, accomplishes a situation which it seems to me merits the careful consideration of your Board. The form of the amendment has been agreed upon by the Counsel for the Board and our Counsel upon the understanding that the original order of the Comptroller required that The Atlantic National Bank should divest itself not only of the stock of The Atlantic Corporation, but also should remove from itself all possible future benefit from the assets of the Corporation which the stock now represents.

Before the proposed amendment is executed, I wish respectfully to question whether this result was contemplated by the order of the Comptroller, and to ask that your Board consider it with especial reference to the features I am now pointing out before you give it your final approval.

Following the receipt of the order of the Comptroller that we remove the stock of The Atlantic Corporation from the assets of The Atlantic National Bank, we charged off the amount at which the stock was carried upon the books of the Bank, and transferred the stock to three individuals, and new certificates were issued in their names as Trustees. They executed a Trust indenture (dated August 1, 1930) under which they stated that they held the stock for the benefit of the Bank; that they held the legal title to all property of the trust and had absolute control and disposition thereof as if they were the absolute owners; that all income and profits from the trust should be paid to the Bank and that, in event of termination of the trust for any cause, the trust fund should be paid to the Bank; that the Bank had the right to name the Trustees, alter or amend the Indenture and require that the trust property be reconveyed to the Bank or be sold and the proceeds paid to the Bank.

The transactions under which the stock was charged off from the assets of the Bank and transferred to the Trustees were authorized by the Directors and Stockholders of the Bank, and we believed that we had complied fully with the request of the Comptroller and that the result would be acceptable to him and to the Federal Reserve Board.

8/10/51

The Counsel for the Board objected to the Indenture and the proposed amendment is the result of negotiations between our Counsel and the Counsel for the Board.

The proposed amendment states that the Bank holds the beneficial interest in the trust fund for the benefit of the Stockholders of the Bank; that all income and distributions of principal of the fund upon termination of the trust or otherwise shall be paid by the Bank to its Stockholders forthwith upon receipt; and specifically that in no event shall any of the trust property or proceeds thereof be transferred to the Bank except for immediate distribution to its Stockholders.

The Comptroller and Federal Reserve Board are not interested in the complications arising as between the Bank and its Shareholders under the machinery of administration of the amended trust, or the legal questions arising as to the newly created rights and obligations of the Shareholders, but, it seems to me they are interested in the transaction in so far as it affects the stability and future prospects of the Bank. With the approval of the Stockholders of the Bank a substantial amount has been transferred from the surplus of the Bank to the capital of the Corporation. At no time have we understood that in so doing we had removed from the creditors and depositors of the Bank, the right to look to this fund for the satisfaction of the obligations of the Bank, and I am confident that at no time have the Shareholders of the Bank believed that they had any interest in the Corporation, excepting through their shareholdings of the Bank and as such subject to all of the Bank's obligations.

It is true that the Indenture of August 1, 1930 permits the re-transfer of the stock of the Corporation to the Bank, but it is unreasonable to suppose that this right would be exercised against the order of the Comptroller, and if this provision is considered of importance, it is a simple matter to amend that Indenture by adding a provision that the stock of the Corporation shall not be transferred to the Bank and that any transfer of assets from the Corporation to the Bank shall be in a form acceptable to the Comptroller.

It seems to me that the acts of the Bank under the Indenture of August 1, 1930, are in accordance with a practical and fair interpretation of the original order of the Comptroller. It does not seem to me that the order calls for a technical construction involving equitable interests, while the stock of the Corporation as such, cannot be carried legally as an asset of the Bank, it would seem to be going far also to say that the Bank can never derive any profit from the operations of the Corporation or receive any assets into which the stock may be converted or any of the cash proceeds in event of liquidation.

May it not be that in obtaining a strict interpretation of the order of the Comptroller, we are sacrificing vital interests of the Bank in which the Government Agencies are specially concerned. The interest of the creditors and depositors of the Bank are predominant, and we wish to co-operate with the Government Agencies in every effort that they be preserved.

Federal Reserve Board

-3-

8/10/31

I have given you these comments in the strong belief that the execution of the proposed amendment is contrary to the best interests of the Bank, and in the hope that you will decide that the Trust under the Indenture of August 1, 1930 is a satisfactory compliance with the order of the Comptroller.

Very truly yours,

H. K. Hallett
Chairman of the Board.

HKH:CHM

C-49

August 10, 1931.

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

The proposed amendment to the Trust Indenture under which the stock of The Atlantic Corporation is now held, accomplishes a situation which it seems to me merits the careful consideration of your Board. The form of the amendment has been agreed upon by the Counsel for the Board and our Counsel upon the understanding that the original order of the Comptroller required that The Atlantic National Bank should divest itself not only of the stock of The Atlantic Corporation, but also should remove from itself all possible future benefit from the assets of the Corporation which the stock now represents.

Before the proposed amendment is executed, I wish respectfully to question whether this result was contemplated by the order of the Comptroller, and to ask that your Board consider it with especial reference to the features I am now pointing out before you give it your final approval.

Following the receipt of the order of the Comptroller that we remove the stock of The Atlantic Corporation from the assets of The Atlantic National Bank, we charged off the amount at which the stock was carried upon the books of the Bank, and transferred the stock to three individuals, and new certificates were issued in their names as Trustees. They executed a Trust Indenture (dated August 1, 1930) under which they stated that they held the stock for the benefit of the Bank; that they held the legal title to all property of the trust and had absolute control and disposition thereof as if they were the absolute owners; that all income and profits from the trust should be paid to the Bank and that, in event of termination of the trust for any cause, the trust fund should be paid to the Bank; that the Bank had the right to name the Trustees, alter or amend the Indenture and require that the trust property be reconveyed to the Bank or be sold and the proceeds paid to the Bank.

The transactions under which the stock was charged off from the assets of the Bank and transferred to the Trustees were authorized by the Directors and Stockholders of the Bank, and we believed that we had complied fully with the request of the Comptroller and that the result would be acceptable to him and to the Federal Reserve Board.

The Counsel for the Board objected to the Indenture and the proposed amendment is the result of negotiations between our Counsel and the Counsel for the Board.

The proposed amendment states that the Bank holds the beneficial interest in the trust fund for the benefit of the stockholders of the Bank;

that all income and distributions of principal of the fund upon termination of the trust or otherwise shall be paid by the Bank to its stockholders forthwith upon receipt; and specifically that in no event shall any of the trust property or proceeds thereof be transferred to the Bank except for immediate distribution to its Stockholders.

The Comptroller and Federal Reserve Board are not interested in the complications arising as between the Bank and its shareholders under the machinery of administration of the amended trust, or the legal questions arising as to the newly created rights and obligations of the Shareholders, but, it seems to me they are interested in the transaction in so far as it affects the stability and future prospects of the Bank. With the approval of the stockholders of the Bank a substantial amount has been transferred from the surplus of the Bank to the capital of the Corporation. At no time have we understood that in so doing we had removed from the creditors and depositors of the Bank, the right to look to this fund for the satisfaction of the obligations of the Bank, and I am confident that at no time have the shareholders of the Bank believed that they had any interest in the Corporation, excepting through their shareholdings of the Bank and as such subject to all of the Bank's obligations.

It is true that the Indenture of August 1, 1930, permits the re-transfer of the stock of the Corporation to the Bank, but it is unreasonable to suppose that this right would be exercised against the order of the Comptroller, and if this provision is considered of importance, it is a simple matter to amend that Indenture by adding a provision that the stock of the Corporation shall not be transferred to the Bank and that any transfer of assets from the Corporation to the Bank shall be in a form acceptable to the Comptroller.

It seems to me that the acts of the Bank under the Indenture of August 1, 1930, are in accordance with a practical and fair interpretation of the original order of the Comptroller. It does not seem to me that the order calls for a technical construction involving equitable interests, while the stock of the Corporation as such, cannot be carried legally as an asset of the Bank, it would seem to be going far also to say that the Bank can never derive any profit from the operations of the Corporation or receive any assets into which the stock may be converted or any of the cash proceeds in event of liquidation.

May it not be that in obtaining a strict interpretation of the order of the Comptroller, we are sacrificing vital interests of the Bank in which the Government Agencies are specially concerned. The interests of the creditors and depositors of the Bank are predominant, and we wish to cooperate with the Government Agencies in every effort that they be preserved.

I have given you these comments in the strong belief that the execution of the proposed amendment is contrary to the best interests of the Bank, and in the hope that you will decide that the Trust under the

Indenture of August 1, 1930, is a satisfactory compliance with the order of the Comptroller.

Very truly yours,

(Signed) H. K. Hallett
Chairman of the Board.

HKH*CHM

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Office Correspondence

FEDERAL RESERVE
BOARDDate October 28, 1931 *See No*To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser
GG

••• 2-8405

I transmit herewith a memorandum on bank activities outside the field of deposit and discount prepared by Miss Cohen and Mr. Blattner of this division's staff. I hope that this memorandum will be suitable for your purpose.

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PAGE 59

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Office Correspondence

FEDERAL RESERVE
BOARDDate October 27, 1931To Mr. GoldenweiserSubject: Bank Activities Outside theFrom Miss Cohen and Mr. BlatnerField of Deposit and Discount

... 2-8495

You recently requested that statistics be brought together which would illustrate and form some basis of measurement of the extent to which banks have tended since the passage of the Federal Reserve Act to increase their activities outside the field of deposit and discount. It was suggested that the movement might be illustrated by presenting some facts with respect to New York City banks alone. After canvassing information available, it would appear that statistical tests are of a very imperfect sort, despite the fact that observers are conscious of the considerable growth in the varieties of bank activities over the last decade and a half. The factual evidence rests upon the piecing together of fragments taken from various places.

In using the banks of New York City (Borough of Manhattan) by way of illustration, the national bank group can perhaps best be used as a sample since the Federal Reserve Act contained several provisions liberalizing the powers of national banks, and the tendency among them is quite clearly defined.

The right to exercise trust powers, for example, was granted to national banks by the Federal Reserve Act; and according to the 1930 report of the Comptroller of the Currency, the trust business of national banks has reached considerable proportions in the meantime. Of the 20 national banks in New York City, Rand McNally reports that 15 have trust departments and the Comptroller's report shows that gross earnings from this business during the fiscal year 1930 amounted to about \$7,800,000,

or 3 per cent of the gross income of such banks. The growing importance of the earnings from this field is indicated in the following table for the years for which data are available:

All New York City National Banks

Year ending June 30	: Gross earnings		: Per cent of gross : derived from : trust business
	: From trust : business	: From all : business	
(In thousands)			
1924	\$1,821	\$157,842	1.15
1925	2,216	170,097	1.30
1926	3,107	184,193	1.69
1927	3,978	191,651	2.08
1928	5,229	204,924	2.55
1929	7,556	218,803	3.45
1930	7,762	226,185	3.43

Some banks, not included in the 15 having trust departments, transacted a fiduciary business through affiliates. A notable example of this is the City Bank Farmers Trust Company, which took over the trust business of the National City Bank and the Farmers Trust Company.

No figures for the aggregate of trustee assets controlled by New York City national banks have ~~come~~ come to our attention, but for all national banks of the New York Federal Reserve District it appears that on June 30, 1930, 298 banks (out of 371 having authority to do so) exercised their fiduciary powers. Most of these were large banks as the average resources amount-

ed to \$22,000,000. They were administering close to 12,000 individual trusts with trusted assets of \$1,068,000,000, and 3,000 corporate trusts representing bond issues outstanding of \$8,794,000,000.

According to Rand McNally, 15 national banks in New York City had savings departments as of December 31, 1930, but this does not include one bank which reported to Moody's as doing a savings business in addition to general commercial banking. As of December 31, 1930, time deposits were 14 per cent of total gross deposits among New York City national banks, which represents a considerable growth in this style of activity of recent years. In 1925 the ratio of time to total gross deposits was 8 per cent; in 1920, 4 per cent.

During the same period of time, the proportion of national bank portfolios represented by investments, as contrasted to loans and discounts, has been increasing. As of the end of 1915 approximately 16 per cent of the portfolios of New York City national banks was in investments; 18 per cent was in investments by 1920; 27 per cent in 1925; and 29 per cent in 1930. During these years national banks have been increasing their interest in the security business in general, as dealers, originators, and underwriters. Some statistical measure of these activities will be presented in paragraphs to follow which deal with some of the larger national banks specifically.

The managements of national banks have broadened their activities by means of organizing affiliates owned by the same stockholders as the banks, many of which have legal powers beyond those accorded national banks. Although affiliates of banks existed before 1915, recent years have witnessed particular activity with respect to organizations of this sort. The field

of activities covered by bank affiliates is very large and the scope of many of them is so broad as to render them difficult of classification. However, there are upwards of a dozen securities companies affiliated with New York City national banks, and affiliates include investment trusts, safe deposit companies, and realty holding companies. Some of the affiliates are non-financial organizations, such as the sugar companies indirectly controlled by the National City Bank, the shipping lines owned by the Grace Company, of which Grace National Bank is also a subsidiary, the numerous Harris, Forbes organizations merged into the Chase-Harris, Forbes Corporation and connected with the Chase National Bank through the Chase Securities Corporation. No material is available indicating the aggregate asset strength of affiliates.

It may serve a useful purpose by way of illustration to bring out separately some of the facts with respect to the three largest national banks in New York City, which among them have almost 80 per cent of the assets of all national banks there.

The Chase National Bank controls directly or through holding companies about 40 affiliates, the relationships originating in recent years in most instances. During 1930, the Chase Securities Corporation (established 1917) participated in the flotation of close to \$600,000,000 of securities of which \$267,000,000 were originations of this house. Harris, Forbes and Company (affiliated 1930) originated \$464,000,000 of securities and participated in a total of about \$1,500,000,000. The affiliates of the Chase National Bank included as of June 30, 1931:

Securities companies	10
Holding companies	1
Real estate companies	4
Travel accommodations	2
Banks, foreign and domestic, including trust companies	7

Miscellaneous	<u>17</u>
Total	41

The National City Bank has about 25 affiliates, 4 of which are domestic or foreign banks. The securities affiliate, National City Company, was established in 1911 and during 1930 it originated issues amounting to \$144,000,000 and participated in a total of about \$1,250,000,000. Nine subsidiaries are companies formed to take over the commitments of the bank in Cuban sugar companies. The City Bank Farmers Trust Company, the stockholders of which are owned by the bank, was established in 1929 when the trust business of the National City Bank and the Farmers' Loan and Trust Company was consolidated. The latter had one of the largest personal trust businesses in the city. The National City affiliates included:

Securities company	1
Real estate and mortgage companies	2
Holding companies	3
Banks, foreign and domestic, including trust companies	4
Importing and manufacturing companies and sugar companies	9
Miscellaneous	<u>5</u>
Total	24

The First National Bank of the City of New York, as is well known, has been for many years heavily interested in investment banking activities. It was a pioneer in the field of security affiliates, organizing the First Securities Company in 1908. In 1930 it participated in security flotations aggregating \$674,000,000.

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Office Correspondence

FEDERAL RESERVE
BOARDDate November 18, 1931 *See nu*To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser *[Signature]*

... 2-8495

I transmit herewith a memorandum from Mr. Blattner on activities of banks outside the field of deposit and discount. This is in accordance with your request of October twenty-eighth. You will notice that Mr. Blattner has had considerable difficulty in finding information bearing directly on the subject of your inquiry, but has put together such facts as may throw a light on the increasing importance played in banking operations by activities other than deposit banking.

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Office Correspondence

FEDERAL RESERVE
BOARD

Date November 16, 1931

To Mr. Goldenweiser

Subject: Activities of banks outside

From Mr. Blattner

the field of deposit and discount.

... 2-8495

We refer to our memorandum of October 27 on this subject and to Mr. Hamlin's memorandum requesting further development of certain points.

Our investigations suggest that in the year 1913 the following New York City banks were probably operating almost exclusively in the field of deposit and discount: National Bank of Commerce; Chase National Bank; National Park Bank; Seaboard National Bank; American Exchange National Bank; and Mechanics and Metals National Bank. On the other hand, the National City Bank, First National Bank, Guaranty Trust Company, and Bankers Trust Company, were in 1913 all engaged in activities outside the field of deposit and discount, including a securities or trust business or both.

The banks named above as being perhaps purely commercial banks in 1913 have all been caught up in the merger movement and are represented today in institutions that have broad scopes of activities. The National Bank of Commerce was merged with the Guaranty Trust Company in 1929. The Chase National Bank absorbed the Mechanics and Metals National Bank in 1926, the National Park Bank in 1929, and the Equitable Trust Company in 1930, which had previously absorbed the Seaboard National Bank in 1929; and the American Exchange National was absorbed by the Irving Trust Company in 1926.

It is difficult to find a statistical measure that will demonstrate the proportion of a bank's business which is commercial and that which is not. If the volume of loans and investments be taken as a measure of the size of a commercial business, it would not be fair to compare total trusted assets with that magnitude in order to measure the relative importance of trust and commercial business. In the same way the amount of loans and investments does

not compare directly with the volume of originations or participations.

If it were possible to segregate the proportion of gross and net income which arises from various activities, a common denominator would be at hand. However, earnings and expense statements made to authorities in 1913 did not supply much detail, and as a matter of fact the Comptroller has destroyed those for years earlier than 1919. Moreover, current earnings and expense statements are subject to much variation from bank to bank in the allocation of gross income among the following items on the official blank:

- (a) Interest and discount on loans
- (b) Interest and dividends on investments
- (c) Interest on balances with other banks in United States and in foreign countries
- (d) Domestic exchange and collection charges
- (e) Foreign department, except interest on foreign loans and bank balances
- (f) Commissions, brokerage, and underwriting fees
- (g) Trust department
- (h) Profits on securities sold
- (i) Other earnings

Income under items (a), (b), (c), and (d) may be regarded as largely from commercial business, while foreign department income (e) may be largely commercial although some of it may not be. Commissions, brokerage, and underwriting fees (f) may not be wholly connected with securities business as commissions can arise from a purely commercial transaction such as for acting as an acceptor of a bill. Income from the securities business conducted in separate securities corporations may never appear on the earnings and expense statement of the parent bank, and the separate earnings of securities companies are not generally published or even available to authorities. Trust department income (g), of course, may be regarded as arising wholly outside the field of deposit and discount. Profits on securities sold (h) may relate to activities

in connection with acting as a dealer in securities although they may arise out of sales out of a portfolio representing the investment of surplus funds, - not necessarily a non-commercial banking transaction.

Because of these variations, the following percentage distribution of the gross income of five of the largest New York City trust companies for the year 1930 can be used only as a rough indication as to the relative importance of various styles of activities:

<u>Gross earnings</u>	Bank "A"	Bank "B"	Bank "C"	Bank "D"	Bank "E"	Total of all five banks
(a) Interest and discount on loans	61.22%	54.18%	63.03%	60.05%	57.07%	59.78%
(b) Interest and dividends on investments	9.13	12.26	13.31	19.48	22.06	14.67
(c) Interest on balances with other banks in U.S. and in foreign countries	.43	.16	.50	.82	.20	.44
(d) Domestic exchange and collection charges	.01	--	--	.02	.12	.02
(e) Foreign department, except interest on foreign loans and bank balances	.07	--	3.85	3.69	1.31	2.12
(f) Commissions, brokerage, and underwriting fees	20.03	20.53	4.59	4.14	1.57	9.66
(g) Trust department	7.51	--	12.76	6.64	3.06	7.15
(h) Profits on securities sold	.50	3.61	1.96	2.02	5.17	2.28
(i) Other earnings	2.12	9.26	--	3.14	9.44	3.88
Total gross earnings	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Neither the Chase National Bank nor the National City Bank ^{W.M.S.} were included in the above tabulation as the earnings reports are in the Comptroller's office and not as easily available as those of the member trust companies, which are in this building. Moreover, in the case of both of these banks the major proportion of the security business is in subsidiaries and would not appear on the

earnings report of the bank. In the case of the National City Bank, the trust business is also in the hands of a separate corporation. The totals show that in the case of the five banks combined the items (f) (g) (h) and (i) account for 23 per cent of the gross income. The aggregate of these items represents income arising largely from activities outside the field of deposit and discount. Several of these trust companies also have subsidiaries carrying on a securities business or other activities, the income from which may not be included in the earnings reports of the trust companies.

* * * * *
Many commentators of recent years have alluded to changing styles in American finance with respect to the inclination of corporations to raise funds from stock and bond issues rather than through short-term instruments. For example, Eugene Stevens in an article in the American Bankers' Association Journal of October, 1931, said:

"The corporation which formerly borrowed seasonally from its bank on its commodities has in numerous instances financed itself permanently by the sale of its stocks and bonds to an eager public during these years of increasing individual wealth seeking investment. That corporation no longer borrows from its bank, thereby giving the bank eligible and liquid paper -- it is more likely at certain seasons of its year to be competing with the bank as a lender of money. Some of our great corporations, who thus have financed themselves publicly on the basis of an inflated prosperity in capacity, in volume, and in prices of commodities, may now find themselves in possession of working capital substantially in excess of their normal needs, and thus they are engaging to some extent in the banking business as lenders of money, a purpose for which they were not constituted and for which their stockholders did not make their investments. The amount of call loans on the New York Stock Exchange for others than banks in 1929 reached the enormous sum of \$3,825,000,000, and a substantial portion of this came from the corporations.

"It might not be amiss for some of them to consider the redistribution of a part of this excess working cash capital in special dividends to their stockholders, who probably need it more than the corporation does, to pay their individual debts accrued in buying the stock or to be used for the purchase of goods they require. Or, possibly, such a corporation might wisely use some of this excess cash capital in buying back from the open market some of its own stock and retiring it, not without benefit to itself, its stockholders, and the markets."

Serious efforts to measure statistically the tendencies of the sort above described have not come to our attention, but a few facts, which throw some light on the matter suggest themselves. The Bureau of Internal Revenue in its statistics for the past few years has been presenting some aggregate balance sheet items for corporations filing tax returns. According to the books of manufacturing, mining, and public utility companies, such short-term obligations as accounts and bills payable decreased by 13 per cent between 1925 and 1928. On the other hand, such long-term obligations as bonds and mortgages increased by 30 per cent.

During the past few years security paper came to represent a larger proportion of bank assets, as is well known. For example, loans on securities plus investments in reporting member banks accounted for 53 per cent of total portfolio on the basis of averages of weekly figures in December, 1919, and 48 per cent in December, 1921. The ratio was appreciably higher ten years later, being for December, 1928, 59 per cent, and for December, 1930, 63 per cent.

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(November 27, 1931)

PRELIMINARY MEMORANDUM FOR THE OPEN MARKET
POLICY CONFERENCE, NOVEMBER 30, 1931.

In the past three months the United States has gone through an extraordinary financial crisis in which were combined the largest gold export movement in the history of the country and a heavy domestic withdrawal of currency continuing a movement of almost a year's duration. These foreign and domestic drains upon bank reserves were met in the classic way by increases in discount rates combined with a policy of free lending. This is the method of meeting such an emergency described by Walter Bagehot in his Lombard Street in the following terms:

"Whatever persons - one bank or many banks - in any country hold the banking reserve of that country, ought at the very beginning of an unfavorable foreign exchange at once to raise the rate of interest, so as to prevent their reserve from being diminished farther, and so as to replenish it by imports of bullion.

"A domestic drain is very different. Such a drain arises from a disturbance of credit within the country, and the difficulty of dealing with it is the greater, because it is often caused, or at least often enhanced, by a foreign drain. Times without number the public have been alarmed mainly because they saw that the banking reserve was already low, and that it was daily getting lower. The two maladies - an external drain and an internal - often attack the money market at once. What then ought to be done?

"In opposition to what might be at first sight supposed, the best way for the bank or banks who have the custody of the bank reserve to deal with a drain arising from internal discredit, is to lend freely. The first instinct of everyone is the contrary. There being a large demand on a fund which you want to preserve, the most obvious way to preserve it is to hoard it - to get in as much as you can, and to let nothing go out which you can help. But every banker knows that this is not the way to diminish discredit. This discredit means, 'an opinion that you have not got any money,' and to dissipate that opinion, you must, if possible, show that you have money: you must employ it for the public benefit in order that the public may know that you have it. The time for economy and for accumulation is before. A good banker will have accumulated in ordinary times the reserve he is to make use of in extraordinary times."

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In recent weeks these methods of dealing with the acute situation proved effective: the gold drain came to an end and was in fact reversed early in November and domestic currency withdrawals slackened. The drain itself and the remedies which it became necessary to apply, wrought, however, a profound change in the banking and credit situation. The results of these events on the country's financial position may be summarized as follows:

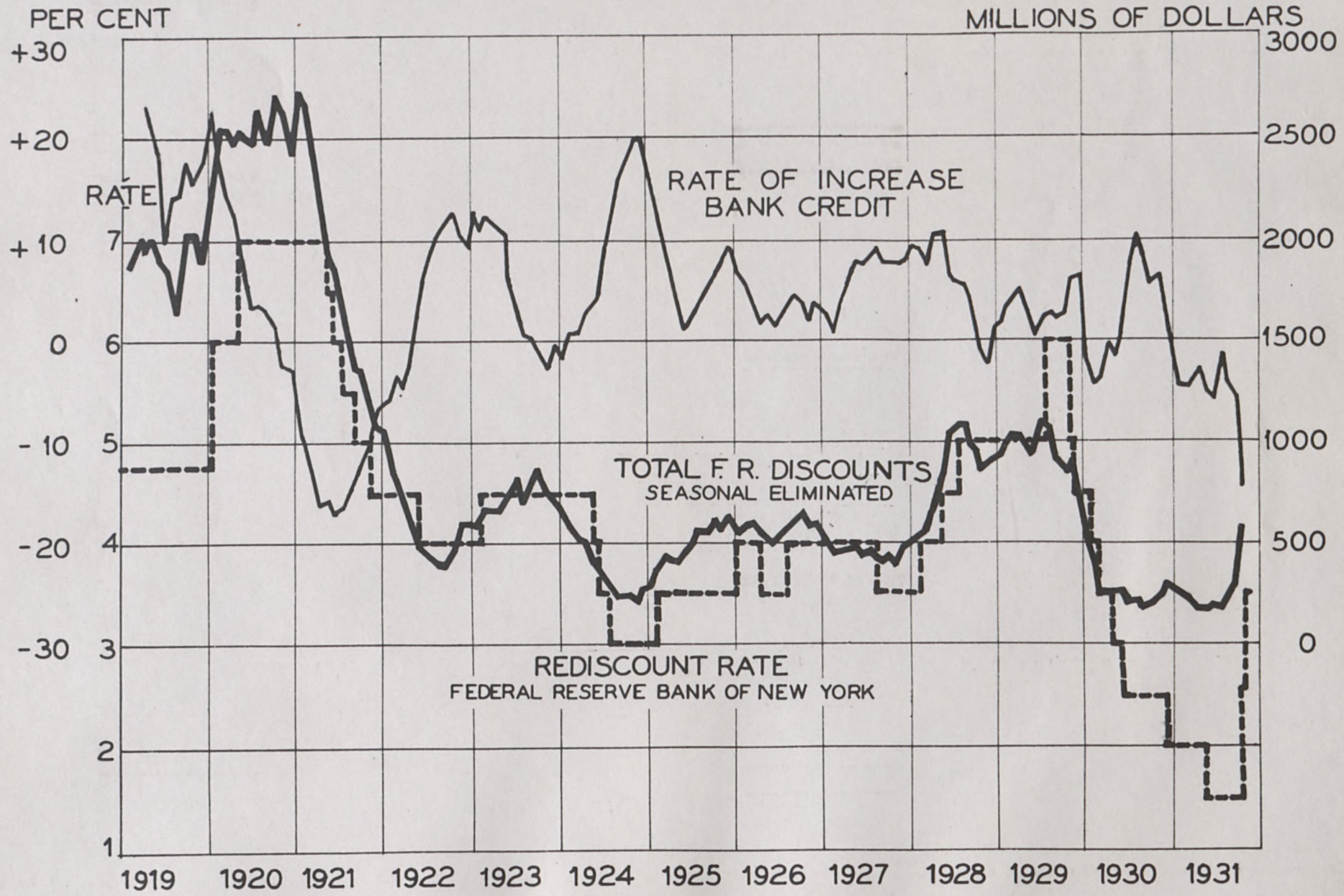
1. Gold. The country's gold stock is reduced by \$600,000,000, and now stands at about \$4,400,000,000. This loss of gold is not serious; it had long been expected that at some time large gold exports would occur. There is plenty of gold left, since we still have about \$1,500,000,000 in gold in excess of minimum requirements. Moreover, foreign short term funds in this market have now been reduced to a point where they are now covered by our excess gold quite apart from our credit balances abroad.

2. Federal Reserve Credit. As a result of gold exports and currency withdrawals the total amount of Federal reserve credit in use has been expanded from about \$1,000,000,000 to about \$2,000,000,000. This change in itself is not disturbing. It was normal that when gold left the country the Reserve System should be called upon to replace in the market the funds withdrawn. Moreover, it seems reasonable to anticipate a return of the volume of Federal reserve credit to figures comparable with the averages of recent previous years. For money in circulation is now \$1,000,000,000 larger than appears to be required by the active business of the country, and when habits of hoarding are broken a considerable part of the extra money outstanding may be expected to return to the Reserve banks and in the process repay Federal reserve credit.

Meanwhile the elements requiring scrutiny are the large volume of discounts and the large holdings of bankers bills. Member banks are now borrowing about \$675,000,000. Such a volume of discounts has always in the past been accompanied by relatively firm money conditions and some pressure upon credit, as illustrated in the accompanying chart. Member banks which are in debt are constantly seeking some means by which they may get out of debt and are reluctant to make loans or investments liberally. The existence of this volume of discounts is today more than usually an important element in the credit situation. This is especially true because of the nature of distribution of discounts: the New York City banks are carrying less than their usual share of the load, and banks in the interior are carrying more than their usual share. The credit pressure in certain interior districts is, therefore, severe.

In addition to relatively large discounts the Reserve banks now hold about half of the total volume of bills outstanding. It was fortunate that the crisis found the member banks supplied with large holdings of bills by the use of which they were able to secure Federal reserve credit, and thus to that extent avoid the necessity of borrowing with its accompanying pressure. Under these circumstances the proportion of bills in the Reserve System does not appear excessive, but on the contrary helpful to the general situations.

3. Money Rates. An increase of 2% in the discount rate of the New York reserve bank and sharp increases in member bank discounts was accompanied by substantial increases in the general



level of money rates as indicated below.

MONEY RATES AT NEW YORK

	<u>Aug. 31,</u> <u>1931</u>	<u>Sept. 30,</u> <u>1931</u>	<u>Oct. 30,</u> <u>1931</u>	<u>Nov. 27,</u> <u>1931</u>
Stock Exchange call loans	1 1/2	1 1/2	2 1/2	2 1/2
Stock Exchange 90 day loans	*1 1/4-1 1/2	2 1/2	*3 1/2-4	*3-3 1/2
Prime commercial paper	2	2	3 3/4-4 1/4	3 3/4-4
Bills - 90 day unindorsed	7/8	1 1/4	3 1/4	3
Customers' rates on commercial loans	^x 3.44	^x 3.33	^x 3.67	^x 4.50
Treasury certificates and notes				
Maturing December 15 (yield)	.34	.85	1.48	1.10
Maturing March 15 (yield)	.48	1.17	2.32	1.87
Federal Reserve Bank of New York re- discount rate	1 1/2	1 1/2	3 1/2	3 1/2
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	1	1 1/4	3 1/8	3 1/8

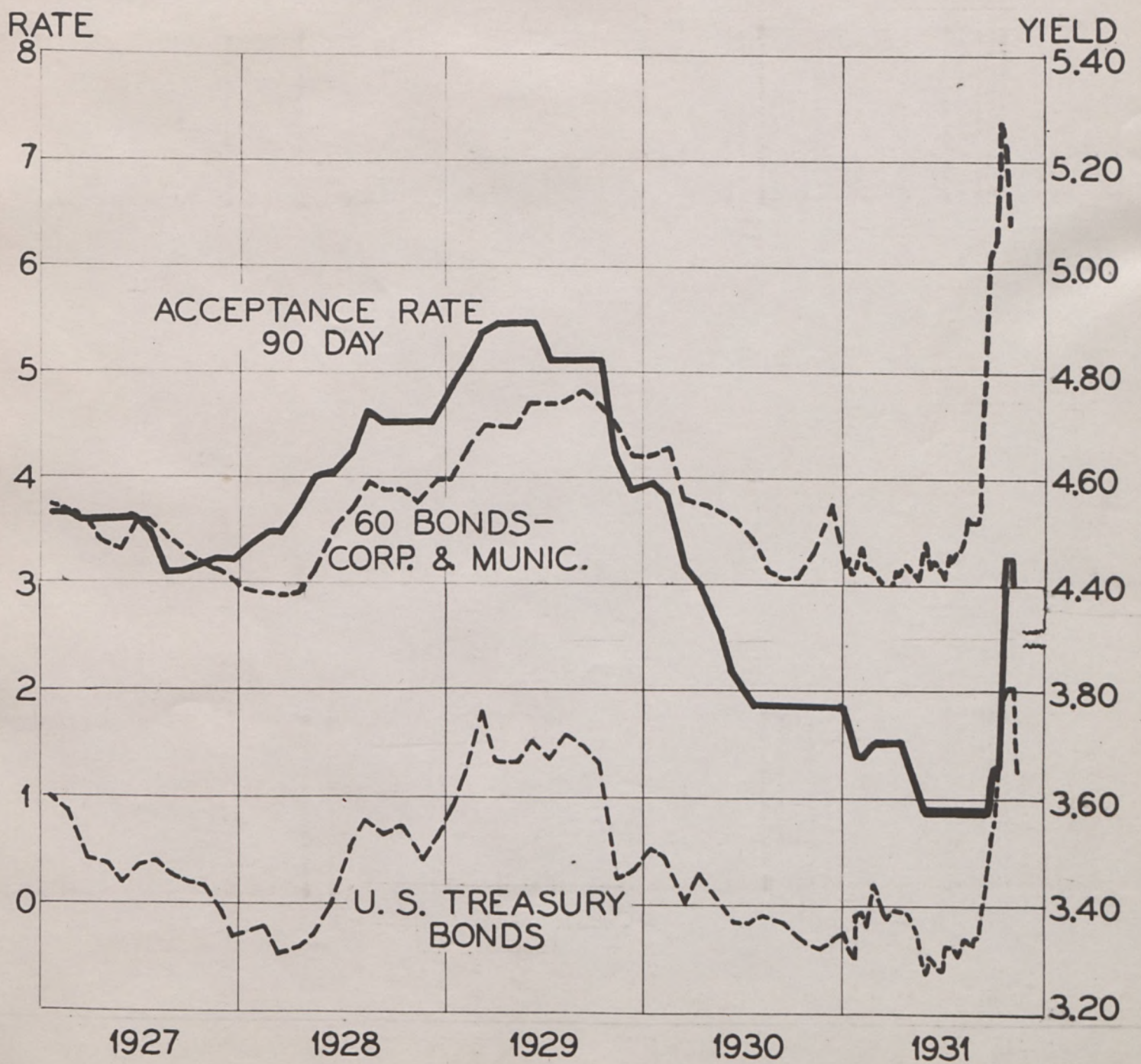
* Nominal

^x Average rate of leading banks at middle of month.

4. Public Psychology. The upsetting of the gold standard in London, together with the threat to the dollar was a powerful disturbing factor to public psychology both in this country and abroad, the results of which are impossible to measure. One result was certainly to make bankers and others more timid and reluctant in contemplating new uses of funds or new enterprises, or even the maintenance in some cases of existing credit lines.

5. The Bond Market. Following the sharp increase in money rates, the pressure upon the banks, and the psychological influence of all these bond price averages dropped 6 to 13 points in a few weeks. The simultaneous movement of interest rates and bond yields are shown in the accompanying chart.

This movement in bond prices is of particular importance because of the weakened position of many banks. A few points difference in bond prices may make the difference between the solvency or insolvency of no inconsiderable number of banking institutions.



Broadly speaking the effect of these developments was to place additional credit pressure upon a situation already uncertain, to make banks more reluctant to lend and invest at a time when they were already reluctant, and in particular to worsen the position of many banks.

At the end of October and early November, following the establishment of the National Credit Corporation, it looked for a time as though a turn might have been reached in the business and financial situation. But that hope now appears to be dissipated and there is no convincing evidence of recovery.

To a considerable extent the basic forces operating upon the present financial situation are political and industrial, and thus outside the immediate influence of the Federal Reserve System. But with respect to the volume of rediscounts and their pressure upon the situation, the influence of money rates, and the general attitude of the financial community, the Reserve System exercises an influence which is or may be important.

There are now two major problems for the Reserve System - the long time policy and the policy to deal with events of the year-end. The first of these questions is so largely affected by the large movement of funds at the year-end, and again by the normal tendency for currency to flow back in January, that it seems difficult to deal with broader questions of policy before the first of the year. In the meantime the year-end offers problems deserving of full attention.

YEAR END PROBLEM

Currency demand and large bill maturities may require something over \$500,000,000 of new Federal reserve credit in some form by December 23. The following rough estimates may be made although the many complex factors in the present situation necessarily make estimates most uncertain.

(In Millions of Dollars)

	To Meet Currency <u>Demand</u>	To Meet Bill Ma- <u>turities</u>	<u>Total</u>
December 2	80	135	195
" 9	80	210	290
" 16	120	290	410
" 23	220	350	570

While the maximum figures are likely to be for the few days before Christmas, the year-end will also offer a complicated and perhaps difficult situation because of the sensitiveness of many banks and their customers to any borrowing position which year-end reports may show, at a time when the volume of discounts is so large.

In view of the considerable amounts of currency now outstanding in excess of estimated normal demands the Christmas increase in currency may be smaller than usual. It seems unsafe, however, to count upon this since any increase in bank failures would further increase currency requirements. The large bill maturities reflect heavy purchases of bills by the Reserve system in September and early October. It is improbable that the full amount of these maturities can be replaced from offerings of bills to the Reserve banks in coming weeks. The member banks now hold somewhat limited amounts of bills and at present rates there is going forward a considerable distribution of bills outside the Reserve banks. In the past week adjustments of rates have been made which should make possible the maintenance of present market rates throughout the balance of the year and give reasonable encouragement to the offering of bills to the Reserve banks especially under repurchase agreement. During the past week the dealers have raised their rates to 3 1/8% bid, 3% offered. The New York Reserve bank some days ago reduced its 1 to 45 day buying rate to 3%, and reduced its carrying rate to 3% this past week so that the market rates and our own buying rate are in a reasonable relationship. Even with these adjustments it seems clear that there will be a considerable gap to be filled in some other way than by bills. The two methods deserving of thorough consideration appear to be, first, a discussion with the banks in important

centers as to their willingness to show borrowing on their year-end statements, and second, provision for year-end purchases of government securities similar to those made last year.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

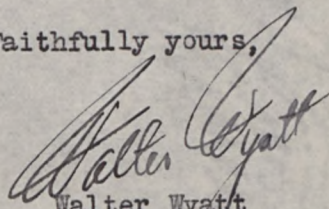
October 9,
1931.

Honorable Charles S. Hamlin,
Mattapoisett, Massachusetts.

My dear Mr. Hamlin :

For your confidential information, I enclose herewith a copy of a memorandum which I am sending Governor Meyer inviting his attention to certain respects in which the Board's Regulation A could be modified so as to broaden the classes of paper eligible for rediscount without awaiting Congressional action.

Faithfully yours,



Walter Wyatt
General Counsel

Enclosure

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October 9, 1931.

Governor Meyer

Mr. Wyatt, General Counsel.

Respects in which Federal Reserve Board could broaden classes of eligible paper without amendment to the law.

CONFIDENTIAL.

In his statement of October 7, 1931, the President said:

"4. I shall propose to the Congress that the eligibility provisions of the Federal reserve act should be broadened in order to give greater liquidity to the assets of the banks, and thus a greater assurance to the bankers in the granting of credits by enabling them to obtain legitimate accommodation on sound security in times of stress."

It has occurred to me that, in view of the present emergency, it might be advisable for the Federal Reserve Board to consider in what respects the present provisions of its regulations could be amended so as to broaden the classes of eligible paper without waiting for Congress to amend the law. An announcement by the Federal Reserve Board of amendments to its regulations having this effect might be of great psychological value and certain possible amendments might have material practical advantages in the present emergency.

I therefore respectfully invite your attention to the following respects in which certain provisions of the Board's Regulation A, which place restrictions upon rediscounts, could be modified without any amendment to the law.

PAPER ACQUIRED FROM NONMEMBER BANKS.

Without any amendment to the law the Board could grant blanket permission for member banks to rediscount paper acquired from non-member banks, as it did from July 27, 1921 to June 26, 1923.

In normal times, member banks which act as city correspondents for nonmember banks can make loans to such nonmember banks against their bills receivable and then borrow from the Federal reserve bank against Government bonds and eligible paper acquired by such member banks from their own customers. In the present emergency, however, the city correspondents may not have enough Government bonds or eligible paper acquired from their own customers to enable them to take care of the needs of their country correspondents; and it might be very helpful to grant blanket permission for the rediscount of nonmember bank paper. This could be done by a public statement granting such blanket permission; but it would be advisable to repeal or modify Section IX (b) of Regulation A, which requires written application for permission in each particular case.

REQUIREMENT OF FINANCIAL STATEMENTS.

Section IV (b) makes certain classes of paper ineligible for rediscount unless a recent financial statement of the borrower is on file with the member bank. I believe that this is a good requirement; but it undoubtedly has the effect of making ineligible much paper which otherwise would be eligible, because the member banks have neglected to obtain financial statements of the borrowers. This is particularly important in the case of member banks which have been in the habit of borrowing from their city correspondents and now find it necessary to apply to the Federal reserve bank for the first time.

As an emergency measure, the Board might consider the advisability of repealing the second, third, fourth and fifth paragraphs of Subdivision (b) of Section IV, leaving only the first and last paragraphs of that section. The requirement in the last paragraph that, "A Federal reserve bank may, in

any case, require the financial statement of the borrower to be filed with it", would seem to afford sufficient protection in this respect in the present emergency.

LIMITATION ON DISCOUNTS FOR FEDERAL INTERMEDIATE CREDIT BANKS.

Section VI (d) contains the following restrictions:

1. "Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount paper for any Federal intermediate credit bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation;" and

2. "Except with the permission of the Federal Reserve Board, the aggregate amount of paper discounted by all Federal reserve banks for any one Federal intermediate credit bank shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal intermediate credit bank."

Without any amendment to the law or the regulations, these limitations could be modified by the issuance of a public statement granting blanket permission for Federal reserve banks to rediscount paper for Federal intermediate credit banks notwithstanding these limitations.

LIMITATION ON REDISCOUNT OF PAPER WITH MATURITY
IN EXCESS OF SIX MONTHS.

Section VI (e) provides, in part, that, "The aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of six months, but not exceeding nine months, which may be discounted by any Federal reserve bank shall not exceed 10 per cent of its total assets."

While this probably is of little practical importance, an amendment abolishing or modifying this restriction might have a good psychological effect.

CONCLUSION.

At this moment I am not prepared to recommend any of the above modifications of the Board's regulations; but I respectfully submit the matter for your consideration.

For your further information, I respectfully submit herewith a copy of Regulation A with the provisions referred to above marked, and copies of the Board's circular letters of July 27, 1921 (X-3176) and July 18, 1923 (X-3784) with regard to rediscounts for nonmember banks.

Respectfully,

Walter Wyatt,
General Counsel.

Regulation and circular
letters attached.

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Office Correspondence

FEDERAL RESERVE
BOARDDate Dec. 15, 1931. *See Bu*To Mr. Wyatt- General Counsel.Subject: Positions Board has takenFrom Mr. Seitzre value of Government securities.

... 2-8495

In accordance with your request, there are summarized below the various positions which the Federal Reserve Board has taken from time to time with reference to the question whether Government securities given as collateral to member banks' promissory notes or as collateral to paper rediscounted by one Federal reserve bank with another, should be valued at par or at current market price. The only kinds of Government securities with which the Board was concerned from the standpoint of value were Liberty Bonds and Victory Notes and, therefore, wherever the term "Government securities" is used below it refers to these particular classes of obligations.

SUMMARY

The Board's first circular letter on this subject was that of January 2, 1920 (X-1784), wherein the Governors and Chairmen of all the Federal reserve banks were advised that the Board concurred in the suggestion which a Federal reserve bank made to a member bank that credit for Government securities which it had purchased in the open market and wished to use as collateral to its 15-day note, should only be allowed at the market value of the securities.

The next and final circular letter the Board sent out was that of June 15, 1920 (X-1954), wherein the Chairmen of all the Federal reserve banks were instructed that collateral notes discounted by one Federal reserve bank for another should be fully secured from the

standpoint of market value. These instructions were modified to some extent by a plan which the Board sent to some of the Federal reserve banks under which they could discount for another Federal reserve bank, notes of member banks secured by bonds at their par value, but would only pay the offering Federal reserve bank an amount equal to the market value of the bonds, the difference between such market value and the face of the notes being retained until payment was received on the notes.

The Board later instructed certain of the Federal Reserve Agents that, in issuing Federal reserve notes against bond secured collateral, they should insist that the market value of the bonds equal the face amount of the notes tendered as security for the Federal reserve notes. Subsequently, a few Federal Reserve Agents were advised that they could for a short time accept as security for Federal reserve notes, member banks' notes deficient in market value collateral, if the margin of collateral carried by them against issued Federal reserve notes equalled or exceeded the difference between the market value of the Government bonds and the face of the notes which the bonds secured.

It also appears that the Board advised a few of the Federal reserve banks that they should bring about a condition whereby their transactions with member banks would be fully secured with market value as a standard. Furthermore, the Board later gave advice to two of the Federal reserve banks which in effect authorized the temporary rescission or suspension of all requirements which it had previously imposed upon these Federal reserve banks.

The Board's records on this general subject are not complete in some instances, but, except as to those Federal reserve agents and Federal reserve banks to whom or which the specific advice or instructions above referred to had been given, it would seem that the only general requirement the Board issued was that which was laid down in circular letter X-1954.

DISCUSSION

The question of the value of Government securities when used as collateral was first presented to the Board in December of 1919, by Mr. Heath, Federal Reserve Agent at Chicago, Mr. Heath asked whether (1) he could accept as collateral for Federal reserve notes a note of a member bank secured by Government securities at their face value when he had knowledge that the securities had been purchased by the member bank at less than par, and (2) the Federal reserve bank could loan against Government securities at par when it knew that such securities had been purchased at a discount.

Under date of December 27, 1919, Governor Harding replied that:

(1) The member bank's note is the collateral upon which Federal reserve notes are issued and that they may be issued upon the face value of the member bank's note even though the Government securities securing it are selling below par. The Board, however, later gave advice to some of the Federal reserve agents, including the Federal Reserve Agent at Chicago, which is directly opposed to that

which it gave in this particular instance.

(2) The Federal Reserve Bank could lawfully make an advice to a member bank on its notes secured by Government securities even though such securities might be below par.

Subsequently, Mr. Heath advised that his inquiry was occasioned by the action of a member bank in buying Government bonds in the open market below par and using such bonds at their par value as security to its promissory note which it presented to the Federal Reserve Bank of Chicago. Mr. Heath stated that in this particular case the needs of the member bank were taken care of; but when it was suggested to the member bank that, because its acquisition of the bonds was in the open market, it should either deposit additional collateral to margin the transaction up to 100% or reduce it to the market value of the collateral, the member bank agreed to comply with the suggestion.

In replying under date of December 31, 1919, Governor Harding said:

"The Board takes the view that the attitude of the Federal Reserve Bank was entirely sound. The underlying principle of a collateral loan is that aside from the value of the maker's name from a moral standpoint the chief reliance for security is placed upon the collateral, and collateral notes provide as a rule for the maintenance of a certain margin and for the calling for additional security should the market value of the collateral decline.

"We are now getting away from war financing and from the principles which governed the Federal Reserve Banks in facilitating such financing. It is quite probable that there are no longer existent any commitments to carry securities, and the Board feels that it is sound banking policy

"to require notes secured by Government bonds to be limited to the market value of the bonds. It assumes, of course, that it is not the policy of the Federal Reserve Banks, as it certainly is not the Board's policy, to do anything to reflect on the value of Government obligations, but the banks have already established higher rates of discount for paper secured by Government bonds than were in effect several months ago and the adoption of a well-established banking principle as to adequacy of collateral does not constitute, and should not be regarded as any reflection upon the collateral itself."

The facts of Mr. Heath's letter and the text of Governor Harding's reply were sent in the form of a circular letter on January 2, 1920 (X-1784), to the Chairmen and Governors of all the Federal reserve banks.

The language used in this letter is general in its terms and somewhat misleading. In other words, it might be interpreted as requiring that all notes of member banks secured by Government bonds should be fully secured with market value as a criterion when taken by Federal reserve banks; and the following excerpts from two letters which were addressed to Senator Chamberlain under dates of February 2 and 7, 1920, seem to indicate that the Board intended the letter to require such security at least in cases where the bonds had been purchased at less than par:

"Your correspondent has quoted correctly a part of a circular letter sent to all Federal Reserve Banks by the Federal Reserve Board under date of January 21, (2) 1920. It has come to the knowledge of the Board that banks and individuals have been buying Government bonds at the market price and then sought to rediscount notes with the Federal reserve banks for the

"the full face value of the bonds attached as security. The Board has been informed of an instance where bonds of the face value of \$100,000 were bought at around \$92,000, and the purchaser then desired to borrow \$100,000 on the security of the bonds. I think you will agree with me that it is necessary to put a check on transactions of this kind." (From letter of February 2, 1920.)

"I have received your letter of the 4th instant and have discussed it with my colleagues on the Federal Reserve Board.

"While the Board is anxious to do everything that it can consistently to sustain the value of Government bonds, and while it believes that present conditions are only temporary and that the bonds are worth intrinsically much more than present quotations and will ultimately go to par or better, it feels, nevertheless, that it would be a very unsound policy to permit the Federal reserve banks to make loans up to the face value of the bonds in cases where it is known that they have been bought at the prevailing discounts. In view of present conditions, it seems to the Board that any attempt to stabilize the bond market by artificial measures, either as to the value of the bonds or discount rates on paper secured by bonds, would be an incentive for borrowing on a vast scale resulting in further expansion and further disturbance of price levels, and if carried to extreme would jeopardize our credit structure." (From letter of February 7, 1920.)

On the other hand, letters which the Board later addressed to certain of the Federal reserve agents (hereinafter referred to) clearly show that the Board had never intended to prescribe the terms on which Federal reserve banks should take notes from member banks which were secured by Government obligations. It appears, therefore, that the purpose of X-1784 was merely to bring to the attention of the other Federal reserve banks the fact that the Board approved of the position which the

Federal Reserve Bank of Chicago had taken in the case described.

On May 27, 1920, Mr. Heath suggested that he should not accept as collateral to Federal reserve notes any paper which was not secured by Government securities at their market value; and on May 28, 1920, Governor Harding sent him the following telegram which had been approved that day at a Board meeting:

"Board believes that where you accept collateral notes as security for Federal reserve notes issued to Federal Reserve Bank, that collateral security securing such notes should be accepted on basis of market value, and Board approves your contemplated action".

The Board of Directors of the Federal Reserve Bank of Chicago then instructed its Governor and Federal Reserve Agent to bring about a condition whereby loans on collateral would be based on its market value; and on June 4, 1920, the Federal Reserve Bank of Boston also advised that it had adopted a similar policy.

On June 11, 1920, Mr. Morss, Governor of the Federal Reserve Bank of Boston, advised that his bank had discounted for the Federal Reserve Bank of Richmond certain notes secured by Government securities and that, figuring the value of the collateral at the market price, there was a deficiency of approximately 7%. He stated that Federal reserve notes were issued against such notes and collateral for the full amount of the notes, and requested advice as to whether his bank should require collateral from other Federal reserve banks at more than the market price.

The question presented by Governor Morss was considered by the Board at its meeting of June 15, 1920, and as a result, Governor Harding on that same day transmitted a circular letter (X-1954) to the Chairmen of all the Federal reserve banks advising as follows:

"The Board has considered this question and desires that all Federal Reserve Banks be informed that they are expected in their discount transactions for other Federal Reserve Banks to require that all collateral notes discounted be fully secured, that is, that the market price of the collateral be equal to the face of the notes. The Board would suggest, however, that Federal Reserve Banks which hold collateral notes discounted for other Federal Reserve Banks give the borrowing banks a reasonable time, say until July 1st, to make good any deficiency in collateral."

On June 23, 1920, in accordance with action taken by the Board at its meeting of the preceding day, Governor Harding advised the Federal Reserve Agent at Atlanta to the following effect in connection with an inquiry he had made regarding the value of Government bonds:

"You are advised that after careful consideration of the matter the Board has reached the conclusion that in receiving collateral notes from a Federal reserve bank as security for Federal reserve notes, a Federal reserve agent should satisfy himself that the market value of the collateral is equal to the face of the notes tendered as security for Federal

reserve notes."

Governor Harding also stated:

"While the Board does not undertake at this time to lay down any rules to govern the officers and directors of Federal reserve banks in passing on the value of eligible paper offered for discount, it wishes to point out that acting through the Federal Reserve Agent it has the right 'to grant in whole or in part, or to reject entirely the application of any Federal Reserve Bank for Federal reserve notes', and has, therefore, the right to give a Federal Reserve Agent general instructions to guide him in passing on the notes, drafts, bills of exchange, etc. offered by a Federal reserve bank as collateral security for Federal reserve notes."

Under date of June 24, 1920, Governor Harding said the following to the Federal Reserve Agent at Kansas City:

"so far the Board has been inclined to the view that each Federal Reserve Bank should determine for itself the terms on which it will take notes secured by government obligations. It is of the opinion, however, that Federal Reserve Agents should not take from the banks collateral notes as security for Federal Reserve notes unless the market value of the collateral is equal to the face amount of the note pledged."

Similar advice was given to the Federal Reserve Agent at Dallas by Governor Harding in a letter dated June 26, 1920. It was stated that while the Board felt it desirable that all collateral should be valued at its market price

"it has not so far undertaken to determine such a policy for the Federal reserve banks in their own transactions with members" but "that Federal Reserve Agents in taking notes from their members to secure Federal reserve notes should feel assured that the market value of the security held as collateral for notes is equal to the face of the notes."

These three letters show conclusively that the Board had never laid down any rules governing transactions between Federal reserve banks and their member banks and, therefore, support the conclusion that circular letter X-1784 merely advised the Federal reserve banks of the position which the Federal Reserve Bank of Chicago had taken in the case described.

On July 6, 1920, the Governor of the Federal Reserve Bank of Boston advised that his bank had discounted paper for the Federal Reserve Bank of Dallas which was not secured "on the basis of your letter" (X-1954). He stated that the Dallas Bank had informed him that its directors were averse to changing its policy of taking notes secured by Government bonds at the face value of the bonds and that it had offered to give additional collateral in the form of member banks' notes secured by Government bonds to make up the deficiency in the notes discounted. Because the Dallas bank did not give its own note to the Boston bank, the Governor of the latter bank felt that the additional collateral should be deposited with some form of agreement to pledge it for any debts owed to his bank by the offering Federal reserve bank; and he

submitted this proposition to the Board for its consideration.

As a result, Mr. Logan, the Board's General Counsel at that time, was requested to give his opinion as to the legal considerations involved in the following plan :

Federal Reserve Bank A desires to rediscount with Federal Reserve Bank B, 15- day notes of member banks aggregating \$5,000,000 which are secured by Government bonds of a face amount of \$5,000,000, but of a market value of only \$4,500,000. The latter bank desires to make such discount but wishes to abide by the terms of circular letter X-1954. It was proposed, therefore, that both banks agree that Bank B pay for the notes by transferring \$4,500,000 through the Gold Settlement Fund and crediting the account of Bank A with \$500,000 on the books of Bank B, it being understood by both banks that this credit was to protect Bank B for any deficiency in the market value of the collateral, and that Bank A would not draw upon it until Bank B had received payment on the notes discounted.

Mr. Logan also considered the question whether, if Bank A should fail after such transaction had been carried out, Bank B could set off against the \$500,000 credit the liability of Bank A as indorser of the notes rediscounted; and, in the memorandum he addressed to Governor Harding under date of July 20, 1920, discussing this plan, he considered that the asset of Bank A was a debt due from Bank B; and Bank B had the right to offset against this debt any debt from Bank A to it. He held, therefore, that no special agreement between the two

Federal Reserve Banks was necessary to give Bank B protection under the \$500,000 credit. Mr. Logan also stated that:

"In order to comply with the present requirements of the Board with regard to collateral security for Federal reserve notes, the Reserve Agent for Federal Reserve Bank B should issue Federal reserve notes against the collateral notes rediscounted for Federal Reserve Bank A only up to the market value of the security behind such collateral notes. In other words in calculating the collateral for Federal reserve notes collateral notes secured by Liberty bonds and Victory notes should be put in at the market value of the security held therefor."

The details of this plan together with Mr. Logan's comments were sent to the Governor of the Boston bank and he advised that the plan would be put into operation the next time his bank discounted for another Federal Reserve Bank notes which were deficient from a market value standpoint. The plan was also sent to the Federal Reserve Bank of Dallas and paper was subsequently rediscounted by that bank with the Boston bank under the procedure outlined therein; but it does not appear that it was brought to the attention of any other Federal reserve banks at that time.

In short, the plan provided that, instead of a Federal reserve bank requiring notes discounted for another Federal reserve bank to be fully secured from a market value standpoint, it discount the notes tendered but pay to the offering bank only an amount equal to the market value of the security, and credit the difference between such market value and the face of the notes to the account of the offering bank to become available upon payment of the notes. It, therefore,

qualified to some extent the requirement which the Board had laid down in circular letter X-1954,

In the meantime, the entire question of how member banks' notes secured by Government bonds should be treated had been under consideration by the Federal Reserve Board; and as a proposed solution of the problem, a plan (X-1972) was sent by Governor Harding on July 3, 1920, to the Federal Reserve Banks of Philadelphia, Richmond, Atlanta and Dallas, in whose districts the bond question was most important.

That plan suggested that the Federal Reserve Banks mentioned establish preferential rates for 15-day notes of member banks secured by Government bonds if they were willing to adopt the policy of declining to discount these notes unless they were secured by bonds of an equal market value which were actually subscribed for and owned by the borrowing bank or taken by it from defaulting subscribers before a certain designated date. If the notes were not so secured the deficiency was to be made up by the pledge of additional United States bonds or notes, or by such notes, drafts, etc., as were eligible for purchase or rediscount by Federal reserve banks.

The Federal Reserve Banks of Philadelphia and Richmond were strongly opposed to adopting any such plan. The Federal Reserve Banks of Atlanta and Dallas, however, submitted proposed changes in their discount rates to the Board for its approval in

accordance with its suggestions; but after some correspondence with these Federal reserve banks, Governor Harding advised the respective Federal Reserve Agents under date of July 14, 1920, that the approval of the plans "would invite pressure for like action in other districts and there are so many possible complications that (the) Board desires further time to investigate (the) proposition from (the) standpoint of (the) system as a whole." These letters, which were substantially the same, were approved by the Board at its meeting of July 15, 1920.

Governor Harding referred to the difficulty that would be encountered in the Atlanta and Dallas districts in making effective a policy of requiring full market value security without at the same time making some concession in discount rates, and advised that the Board had decided to modify its requirement covering the issuance of Federal reserve notes in cases where Government securities were involved. He said:

"* * * The Board realizes, however, that in a few of the districts, including yours, it would be difficult to make this policy effective at this particular time of the year with the absence of some special inducement in the way of a lower discount rate. Therefore pending final action on the recommendations made by your Board of Directors and awaiting more favorable conditions for making the new policy effective, in case the Board should find itself unable to approve the plan recommended, it has been decided for the present not to require you as Federal Reserve Agent to insist that each collateral note offered by * * * (your) Federal Reserve Bank * * * as security for Federal reserve notes be in itself fully secured, but you should require that in each instance the aggregate of notes,

(counting collateral notes as being worth the market value of the bonds attached thereto) be equal at least to the amount of Federal reserve notes released by you to the bank. The Board's figures show that at present you have in your possession as Federal Reserve Agent an apparent excess of * * * (amount given) million dollars face value of paper above the amount of Federal reserve notes issued. This would indicate that you have ample margin."

With reference to rediscount transaction with other Federal reserve banks, Governor Harding said:

"In your rediscount transactions with other Federal reserve banks, however, it will be necessary for you to meet the requirements of the banks which rediscount for you. The Board does not feel disposed to compel any Federal reserve bank to discount collateral notes for another Federal reserve bank which are inadequately secured. Perhaps the easiest way for you to arrange with other banks which may discount for you would be for your bank to leave with the rediscounting bank a balance as an offset. For example, in case you should rediscount five million dollars of member banks' collateral notes with Boston and the collateral to the notes is worth only four and a half million dollars, it is the Board's view that you might arrange with Boston to transfer four and a half million dollars for you through the Gold Settlement Fund and to retain five hundred thousand dollars as a book credit. While the five million dollar transaction would go through at the regular rate, the Board would have no objection to the lending bank making you the proper reduction on account of the free balance left with it."

With reference to the value of the collateral behind a member bank's note, Governor Harding made the following remarks:

"It is the view of the Board that when a Federal reserve bank discounts a member bank's note secured by collateral the market value of the collateral to the note ought to be equal at least to the face of the note discounted.* * *

"The Board desires, however, to call the attention of your directors to the desirability of having all member banks' collateral notes fully secured with market value as a standard, and will expect, regardless of any action which may finally be taken on the proposition to reduce rediscount rates, that your officers will be able during the next few months to have all collateral notes fully secured."

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A copy of these letters was also sent to the Federal Reserve Agents at New York and Philadelphia.

The Federal Reserve Bank of Atlanta seemed to be satisfied with the decision of the Board as above expressed. The Federal Reserve Bank of Dallas, however, through its Federal Reserve Agent, repeatedly urged the Board to approve its preferential rate plan; but on August 4, 1920, the Board wired the Federal Reserve Agent as follows:

"The Board is not yet prepared to approve resolution adopted by your board of directors * * * and would suggest that you defer for the present and until credit situation eases in your district enforcing requirement that notes secured by Government obligations be fully secured on basis of market value. General proposition will come up for discussion at meetings of Federal Reserve Agents and Governors some time this Fall."

This advice had the effect of suspending, until after the 1920 Fall Conferences of Federal Reserve Agents and Governors, all requirements which the Board had previously imposed upon the Federal Reserve Bank of Dallas.

It does not appear that the Board ever approved either of the proposed plans referred to above.

I also wish to call your attention to certain remarks which were made by Governor Harding in a letter he addressed to Mr. Morss, Governor of the Boston bank, under date of August 18, 1920. This bank had been requested by the Federal Reserve Bank of Dallas to rediscount its bond secured paper at the face value of the bonds and Governor Morss advised Governor Harding that he was going to submit the matter to the Executive Committee

of his bank for its consideration. He also said:

"It will bring up the question of whether we ought not recede from our position in this District of requiring market value of bonds for collateral. If the New York bank and other banks think it is sufficient to allow par value on bonds for collateral, why should this District not follow the course, which is more favorable to our member banks?"

In replying, Governor Harding said:

"* * * * * It is noted that you intend to put the whole question up to your Executive Committee at the next meeting and the Board will be satisfied to leave the matter entirely to its determination. It is the view of the Board that no legal question is necessarily involved when a Federal reserve bank rediscounts for a member bank a customer's note which has Government obligations attached as collateral, for the note may have been made for one of the purposes outlines in Section 13 of the Federal Reserve Act, and might, therefore, be eligible without security. In any event the Federal reserve bank would have double protection, the obligation of the maker of the note as well as that of the member bank endorsing it. There may, however, be a legal question involved in discounting a member bank's collateral note.

* * * * *

"It seems clear that a Federal reserve bank could not discount the straight note of a member bank unsecured and that it could not discount the note of a member bank for \$100,000, secured by \$85,000 par value of Treasury certificates. A question arises, therefore, whether a note of a member bank for \$100,000 secured by the same amount par value of Liberty Bonds, which are actually worth on the market, however, only \$85,000 can be legally discounted by a Federal reserve bank. In either case it would seem that an advance of \$15,000 would be made upon the unsecured obligation of the member bank, which the law does not appear to permit.

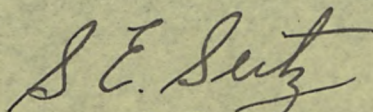
"However, the Board is content to leave the matter to the discretion of your Executive Committee and the question will be discussed at the Conference in October."

It would seem that this letter authorized the suspension, until after the 1920 Fall Conferences of Agents and Governors, of all requirements which the Board had previously imposed upon the Federal Reserve Bank of Boston.

The question "Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis" along with certain other related questions were discussed at the October, 1920, joint conference of the Governors and Agents of the Federal reserve banks (pp. 207-239, Part B, Vol. 1 of Stenographic Report of Proceedings); but it does not appear that any definite recommendations were made in the premises.

Copies of the above mentioned circular letters (X-1784 and X-1954), and memorandum containing the Board's suggestions for preferential discount rates on bond-secured paper (X-1972) are attached hereto for your further information.

Respectfully,


S. E. Seitz

Circular letters and
memorandum attached.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

January 2, 1920.

X-1784

Subject: Collateral Loans; Relation of Collateral
back of Note to face amount of Note.

Dear Sir:-

There is quoted below for your information the text of a letter addressed by the Board to the chairman of one of the Federal Reserve Banks:

"The Board has considered your letter in which you call attention to a case where a member bank buying Government securities in the open market at a discount sought to discount its fifteen-day paper with the bonds as collateral at their face value. You state that when the situation was made clear to the member bank that as the transaction was an open market one and the bonds had been purchased at a discount additional collateral should be deposited in order to margin the loan up to one hundred per cent., or else the loan should be reduced to the market value of the collateral, it recognized the propriety of the suggestion and agreed to comply with it.

The Board takes the view that the attitude of the Federal Reserve Bank was entirely sound. The underlying principle of a collateral loan is that aside from the value of the maker's name from a moral standpoint the chief reliance for security is placed upon the collateral, and collateral notes provide as a rule for the maintenance of a certain margin ~~for~~ and for the calling for additional security should the market value of the collateral decline.

We are now getting away from war financing and

from the principles which governed the Federal Reserve Banks in facilitating such financing. It is quite probable that there are no longer existent any commitments to carry securities, and the Board feels that it is sound banking policy to require notes secured by Government bonds to be limited to the market value of the bonds. It assumes, of course, that it is not the policy of the Federal Reserve Banks, as it certainly is not the Board's policy, to do anything to reflect on the value of Government obligations, but the banks have already established higher rates of discount for paper secured by Government bonds than were in effect several months ago and the adoption of a well-established banking principle as to adequacy of collateral does not constitute, and should not be regarded as any reflection upon the collateral itself."

Very truly yours,

Governor.

Letter to Governors and Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 15, 1920.

X-1954

Subject: Value of Security for Collateral
Notes Rediscounted.

Dear Sir:-

The Governor of a Federal Reserve Bank has advised the Board that his Bank has discounted for another Federal Reserve Bank several million dollars worth of collateral notes and that figuring the value of the collateral at the present market price, there is an average deficiency in the collateral of about 6.7 percent. He states that these notes and collateral are held for the account of the Federal Reserve Agent of his Bank and that Federal Reserve notes are issued against them for the full amount of the notes. He asks whether in these circumstances his Bank should accept collateral from other Federal Reserve Banks at more than the market price.

The Board has considered this question and desires that all Federal Reserve Banks be informed that they are expected in their discount transactions for other Federal Reserve Banks to require that all collateral notes discounted be fully secured, that is, that the market price of the collateral be equal to the face of the notes. The Board would suggest, however, that Federal Reserve Banks which hold collateral notes discounted for other Federal Reserve Banks give the borrowing banks a reasonable time, say until July 1st, to make good any deficiency in collateral.

Very truly yours,

Governor.

To Chairmen of all F.R. Banks.

MEMBER BANKS COLLATERAL NOTES
SECURED BY GOVERNMENT WAR OBLIGATIONS.

The Act approved September 7, 1916, amended Section 13 of the Federal Reserve Act by adding thereto the following paragraph:

"Any Federal Reserve Bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal Reserve Bank, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act or by the deposit or pledge of bonds or notes of the United States."

This particular amendment was suggested to the Banking and Currency Committees of the House and Senate by the Federal Reserve Board in the Spring of 1916, at a time when little use had been made of the rediscount facilities of the Federal Reserve Banks. Experience had shown that quite a number of the larger member banks could use funds to advantage for a few days at a time and would be willing to secure accommodations from the Federal Reserve Banks for short periods, while they would have no occasion to use the funds for thirty, sixty or ninety day periods, and the banks as a rule were reluctant to offer for discount paper the maturity of which ran longer than the time for which funds were needed. It frequently happened

that banks having occasion to use funds for a few days only would not have available paper of very short maturity in sufficient volume to satisfy their requirements and in order that the Federal Reserve Banks might be in position to respond to the short time needs of member banks the Board suggested the foregoing amendment.

Before Congress had taken action, however, and as the summer advanced, it became more and more evident that the United States might be drawn into the World War, and in order to be in a position to facilitate Government financing in such an event the Board suggested that member banks' fifteen day collateral notes might be secured also by the deposit or pledge of bonds or notes of the United States. Up to May, 1917, member banks' collateral notes discounted by Federal Reserve Banks were secured almost entirely by "notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or purchase", but since the issue of the first series of Treasury Certificates of Indebtedness and of the first Liberty Loan, member banks' collateral notes have been secured almost entirely by bonds and notes of the United States.

It seems, therefore, that it would be proper to divide member banks' fifteen day collateral notes into two classes; (1), those secured by "notes, drafts, bills of exchange or bankers' accept-

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ances eligible for rediscount or purchase", and (2), those secured by "bonds and notes of the United States". With respect to the first class, it is evident that such notes are offered by member banks for the purpose of securing short time accommodations for the exact time the funds are needed. Where credit is required for a longer time a member bank would endorse the "notes, drafts, bills of exchange or bankers' acceptances" and rediscount them with the Federal Reserve Bank. Transactions of this kind do not call for any concession in rate and such notes should properly take the rate established for rediscounts of longer maturities.

As to class (2), however, the situation is different. Member banks have always been the purchasers and distributors of Treasury Certificates and they were to a very large extent the purchasers and distributors of the various issues of the Government's war bonds. Pending distribution it was necessary for most of the member banks, and particularly those which subscribed for liberal amounts, to borrow from the Federal Reserve Banks and the fifteen day collateral notes secured by Treasury Certificates, Liberty Bonds and Victory Notes have always been used as a means of getting the needed accommodations from the Federal Reserve Banks.

Paragraph (d) of Section 14 authorizes the Federal Reserve Banks, subject to the review and determination of the Federal Reserve Board to establish rates of discount "for each class of

paper" and while the banks may classify paper according to maturity or according to the character of security, they cannot draw any distinction between notes secured by the same class of collateral. Thus a Federal Reserve Bank may establish one rate of discount for member banks' collateral notes secured by commercial paper eligible for discount and another rate of discount on notes secured by bonds and notes of the United States, but it cannot establish two distinct rates of discount on notes secured by notes and bonds of the United States.

Therefore while the purpose of Congress in permitting notes or bonds of the United States to be used as collateral to members banks' fifteen day notes was to facilitate the war financing of the Government, no consideration can be given in establishing discount rates for such paper to the circumstances attached to the ownership of notes and bonds of the United States by borrowing banks. It follows, therefore, that if a preferential rate of discount should be established for notes of class (2), member banks could avail themselves of the opportunity thus afforded of securing commercial accommodations at the lower rate, and ^{an}incentive would be given to the borrowing of bonds by member banks and there would be danger of an undue expansion of credit.

But while a Federal Reserve Bank cannot establish differential rates on paper of a given maturity having the

same security, it is not prohibited by law from adopting the policy of receiving certain notes for discount and declining to consider application for discount of other notes. Therefore it would seem in the present circumstances that a Federal Reserve Bank might properly divide member banks' collateral notes into two classes as outlined above, and discount class (1), that is, notes secured by eligible commercial paper, at the current market rates for thirty day paper, and decline to receive for discount notes of class (2), that is, notes secured by bonds and notes of the United States, unless the bonds and notes of the United States are actually owned by the borrowing bank and are directly connected with the war financing of the Government. As Treasury certificates are being issued to take care of the floating obligations of the Government arising out of the war, and as the purchase of these certificates by the banks is an accommodation to the Government, member banks' promissory notes secured by such certificates, having not longer than fifteen days to run, should be taken freely and there can be no objection to a preferential rate on paper of this class. The Board's policy has been to approve the same rate on paper secured by Certificates of Indebtedness as the certificates themselves bear.

This leaves to be considered member banks' promissory notes

secured by the various issues of Liberty Bonds and Victory Notes. The Board has never approved any preferential rate on member banks' collateral notes which were secured by bonded obligations of the United States other than bonds issued since April, 1917, but has taken the position consistently that the preferential rates given to notes of this class are for the accommodation of the Government in its war financing. In some districts there are many member banks which for patriotic reasons subscribed heavily to the Government war bond issues and some of them have not liquidated their holdings of such bonds to an extent which would relieve them of the necessity of borrowing from the Federal Reserve Banks on them. There are cases also where member banks have liquidated entirely their original subscriptions to Government bonds and have repurchased bonds for the sake of investment at the lower rates now prevailing in the market, or where member banks have borrowed bonds from their customers and have used them as collateral to fifteen day notes for the purpose of obtaining funds with which to make commercial loans.

There does not seem to be any reason why a Federal Reserve Bank should receive for discount member banks' collateral notes which are secured by borrowed bonds or bonds bought purely for investment, and the inquiry is therefore made whether your Federal Reserve Bank would care to adopt the policy of declining to discount for member

-7-

banks their fifteen day collateral notes when secured in this manner and announce that hereafter it will be its policy to confine such transactions only to offerings of notes which are secured by Liberty Bonds and Victory Notes, actually subscribed for in good faith by the borrowing bank before the allotment of the final issue of Government war bonds, that is, the Victory Notes.

The Federal Reserve Banks should also require that all collateral pledged as security to member banks' fifteen day notes have a market value at least equal to the face of the note. Therefore in discounting member banks' collateral notes secured by Liberty Bonds and Victory Notes actually subscribed for and owned by the member bank, a Federal Reserve Bank should require, first, that such notes be secured by an amount of such bonds, the face value of which is equal to the amount of the note, and second, that the deficiency between the market value of such bonds and the face of the note be covered by the pledge of additional notes or bonds of the United States, or by the pledge of notes, drafts, bills of exchange or bankers acceptances eligible for discount or purchase by the Federal Reserve Banks.

In consideration of all the attendant circumstances and in further consideration of the fact that by the limitations above outlined, it is clear that under this plan there can be no use of Government war obligations as

X 1972

collateral to member banks' fifteen day notes for the purpose of securing commercial accommodations at reduced rates, and therefore no additional inflation or expansion of credit, it would be proper for a Federal Reserve Bank to bear in mind the circumstances under which the bonds pledged with it are acquired and to make a liberal concession in the discount rate on such paper, that is, on member banks' fifteen day promissory notes secured by Liberty Bonds and Victory Notes actually subscribed for and acquired from the Government by the borrowing bank, or taken before the final allotment of Victory Notes, from borrowing subscribers in default. In the Board's opinion, however, it would not be wise to make the rate on paper of this classification uniform with the rate borne by the bonds, for there should be no incentive to the borrowing banks to hold bonds as a basis of collateral to loans indefinitely. It has been suggested that where the notes are secured by Victory Notes which bear $4-3/4\%$ interest that the rate of discount be 5% and where notes are secured by Liberty Bonds bearing $4-1/4\%$ interest that the rate of discount be $4-1/2\%$. It is further suggested that a Federal Reserve Bank, if it should adopt the foregoing policy and schedule of rates, should inform its member banks that they will be expected in view of the favorable rate accorded them to make a reasonable reduction in the amount of such notes at the end of each fifteen day period. The member banks could well afford to make this reduction equal at least to the amount of interest saved.

X 1972

It is clearly impracticable to give any preferential rate to customers' notes which are secured by Liberty Bonds. This would open up avenues for too large an extension of credit when the large volume of Liberty Bonds outstanding is considered. A Federal Reserve Bank, therefore, should continue to discount for member banks customers' notes secured by Liberty Bonds and Victory Notes at the established commercial rate. Such customers' notes, however, ought not to be used as collateral to member banks' fifteen-day notes of class (2).

July 3, 1920.

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Office Correspondence

FEDERAL RESERVE
BOARD

Date Dec. 22, 1931.

To Mr. Hamlin

Subject: Rediscount of paper secured

From Mr. Wyatt, General Counsel.

by bonds of War Finance Corporation.

... 2-8495

Dear Mr. Hamlin:

Confirming our conversation on the above subject, I find that the original War Finance Corporation Act of April 5, 1918, 40 Statutes at Large, 506,510, contained the following provision on the above subject:

"Sec. 13. That the Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such bonds of the Corporation and to rediscount eligible paper secured by such bonds and indorsed by a member bank. No discount or rediscount under this section shall be granted at a less interest charge than one per centum per annum above the prevailing rates for eligible commercial paper of corresponding maturity.

"Any Federal reserve bank may, with the approval of the Federal Reserve Board, use any obligation or paper so acquired for any purpose for which it is authorized to use obligations or paper secured by bonds or notes of the United States not bearing the circulation privilege: Provided, however, That whenever Federal reserve notes are issued against the security of such obligations or paper the Federal Reserve Board may make a special interest charge on such notes, which, in the discretion of the Federal Reserve Board, need not be applicable to other Federal reserve notes which may from time to time be issued and outstanding. All provisions of law, not inconsistent herewith, in respect to the acquisition by any Federal reserve bank of obligations or paper secured by such bonds or notes of the United States, and in respect to Federal reserve notes issued against the security of such obligations or paper, shall extend, in so far as applicable, to the acquisition of obligations or paper secured by the bonds of the Corporation and to the Federal reserve notes issued against the security of such obligations or paper."

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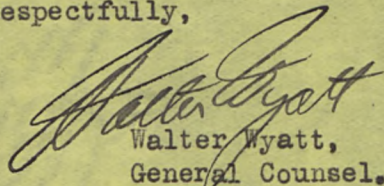
Memorandum-Mr. Hamlin- 2

The Act of August 24, 1921, 42 Statutes at Large, 181, 184, amended and reenacted the first paragraph of Section 13 of the original War Finance Corporation Act to read as follows:

"Sec. 6. Paragraph 1 of section 13 of Title I of the War Finance Corporation Act is hereby amended and reenacted to read as follows:

"That the Federal Reserve Banks shall be authorized, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such notes or bonds of the Corporation and to rediscount notes or other negotiable instruments secured by such notes or bonds and indorsed by a member bank. Discounts or rediscounts under this section shall be at an interest rate equal to the prevailing rate for eligible commercial paper of corresponding maturities."

Respectfully,


Walter Wyatt,
General Counsel.

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BROADENING OF ELIGIBILITY.

Abstract of Replies to Questionnaire sent out by Senate Committee
in December, 1930.

With a few exceptions, Federal reserve banks did not favor changing the provisions of the Federal Reserve Act relative to paper eligible for discount, or the rulings or the regulations of the Federal Reserve Board, interpretive of these provisions.

Federal Reserve Bank of Chicago:

- (a) That the maturity date on otherwise eligible paper be extended from 90 days to 6 months.

Rediscounts of such paper should bear a higher rediscount rate than that prevailing on 90-day paper.

Above should be allowed only under conditions and circumstances to be established by the regulations of the Federal Reserve Board.

- (b) Permitting Federal reserve banks to loan member banks, not exceeding 90 days, on notes secured by bonds which are now acceptable by the Treasury Department as security for war loan deposits.

Such advances to be granted at penalty rates, and not to serve as the basis of the issuance of Federal reserve notes.

Federal Reserve Bank of Dallas:

- (a) That landlords' obligations be made eligible for rediscount.

- (b) That the statutory limit be increased from 15 to 90 days for advances to member banks secured by notes, drafts, bills of exchange, or bankers acceptances eligible for discount and purchase.

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Federal Reserve Bank of Philadelphia:

- (a) Suggested that in some instances it might be advisable to grant permission to advance funds to individual banks in distress, against any of their assets.

The obligations taken should not be used as security for Federal reserve notes.

Federal Reserve Bank of Richmond:

- (a) Federal reserve banks to be permitted to make advances, secured by high grade bonds, to banks lacking eligible paper. Not to serve as security for Federal reserve notes.

The existence of the emergency should be determined by the Federal Reserve Board.

Governors' Conference, April 19, 1931.

It was voted (Governors Calkins, Martin and Talley voting in the negative) as follows:

(a) To broaden eligibility of collateral on member bank collateral notes, by admitting deposits of Federal Intermediate Credit Banks having a maturity of not more than 6 months.

(b) In cases of emergency, to permit advances to be made secured by other assets, subject to the discretion of the Board of Directors of the Federal reserve bank and the restrictions, limitations, and regulations imposed by the Federal Reserve Board.

(c) Such memberbank notes should have a maturity of not more than 90 days, when secured by notes, drafts, bills, or bankers acceptances now eligible for rediscount or purchase by Federal reserve banks.

(d) Such notes when secured in whole or in part by any other collateral, should have a maturity of not more than 15 days.

Federal Advisory Council.

Advised Board to consider advisability of permitting Federal reserve banks in times of pressure, to accept from member banks bills payable on securities not now eligible, the Federal Reserve Board to issue regulations defining the conditions under which such action may be taken.

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Wm. Franklin

20 Nov

CONFIDENTIAL

SECRETARY'S MINUTES
GOVERNORS CONFERENCE
DECEMBER 1 AND 2, 1931.
WASHINGTON, D. C.

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CONFIDENTIAL

PROGRAM
GOVERNORS CONFERENCE

December 1 and 2, 1931

Washington, D. C.

- I. ELECTION OF CHAIRMAN AND SECRETARY FOR YEAR 1932
- II. CREDIT TRANSACTIONS AND POLICIES
- A. Discount rates and open market operations. New York
1. Report of Open Market Policy Conference. New York
2. Seasonal program covering December and year-end operations. New York
3. Adjustment of system investments in Government securities in times of emergency. Richmond
- B. Gold. New York
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 - 1. Increased burden on municipal budgets due to unemployment. New York
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III. OPERATION AND ADMINISTRATION

A. How can we balance our budget. Kansas City

B. Safekeeping of securities for member banks.

- 1. The advisability of securing from all member banks depositing securities with Federal Reserve banks for safekeeping an agreement whereby the depositing bank would agree to approve and accept the insurance policy carried by the Federal reserve bank, and all liability other than that covered in the Federal reserve bank's policy would be assumed by the depositing bank, which, if it desired, could itself carry insurance against such additional liability.

F. R. Board

- 2. Cost of the safekeeping function at Federal reserve banks.

F. R. Board

(See Federal Reserve Board's letters X-6940 and X-6940-a dated August 11, 1931.)

C. Inquiries involving matters of system policy or interest. (See Federal Reserve Board's letter X-7030 dated November 23, 1931.)

F. R. Board

IV. COLLECTIONS AND CLEARINGS

A. Report of Standing Committee on Collections.

V. REPORTS OF COMMITTEES

- A. Committee on Bank Reserves.
- B. Insurance Committee.
- C. Leased Wire Committee.
- D. Pension Committee.
- E. Sub-committee of General Committee
on Bankers Acceptances.

SUPPLEMENTARY TOPIC. Report of Committee on group,
branch, and chain banking.

G O V E R N O R S C O N F E R E N C E

December 1 and 2, 1931.

Washington, D. C.

First Day's Session. Tuesday. December 1.

Morning

The meeting was called to order at 10:30 a. m.

Present: Governor Calkins, Chairman, and
Governors Young, Harrison,
Norris, Fancher, Seay, Black,
McDougal, Martin, Geery, Bailey,
and McKinney.

Mr. Strater, Secretary.

TOPIC I. ELECTION OF CHAIRMAN AND SECRETARY FOR THE (1)
YEAR 1932.

VOTED that Governor Calkins be re-appointed Chairman,
and Mr. Strater re-appointed Secretary for the calendar year 1932.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (2)

A. Discount rates and open market
operations.

1. Report of open market opera-
tions.
2. Seasonal program covering
December and year-end opera-
tions.

Governor Harrison, Chairman of the Open Market Policy Conference, furnished to each of the Governors a report of open market operations for System Account, showing changes in the holdings of Government securities and bills, and the changes in the participations of the individual Reserve banks.

There was a general discussion of discount rates in relation to, and as they might be affected by, open market operations.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES.

(3)

3. Adjustment of system investments
in Government securities in times
of emergency.

Governor Seay outlined his views regarding the necessity for some provision being made for any Reserve bank which finds it necessary to dispose of its participations in Government securities held for System Account, particularly in the event that its proportion could not be absorbed by the other participating banks.

It was the sense of the conference, as previously recommended by the Executive Committee of the Open Market Policy Conference, that in any case where a Federal Reserve bank needs to adjust its position on account of its reserve ratio, it should offer for participation among other Federal Reserve banks some of its holdings of Bankers' acceptances, and that in any case where a Federal Reserve bank needs to adjust its free gold position, which would not be aided by a sale of Bankers' acceptances, it should offer for participation to the other Federal Reserve banks some of its holdings of Government securities. If in the latter case such necessary offerings of Government securities are not accepted by other Federal Reserve banks, then it is clearly within the authority of the Reserve bank needing accommodation to sell such Government securities in the open market. It was generally understood, however, that no Federal Reserve bank, so long as it is a member of the Open Market Policy Conference, should sell its holdings of Government securities in the market as a matter of credit policy contrary to the approved policy of the Open Market Policy Conference. The right to buy or sell securities in the market as an emergency was generally agreed to by all the Governors present.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (4)

B. Gold.

1. Review of recent movements.
2. Future policy here and abroad.

Governor Harrison discussed the recent unprecedented withdrawal of gold from the United States by foreign countries, and the factors which entered into the apparent halting of these withdrawals which had continued for a period of five or six weeks, ending at the close of October.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (5)

C. Relations with foreign banks.

1. Report of foreign operations of the system.
2. Foreign exchanges and the gold standard.

Governor Harrison discussed the various matters relating to the operations of the system with foreign central banks, also the status of principal foreign countries with respect to the gold standard, and furnished each of the Governors with a memorandum entitled "The Credit Crisis of 1931," giving in detail a history of the crises in various foreign countries and the events leading up to the abandonment or suspension of the gold standard in many of them.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (6)

D. The banking situation and bank failures.

1. National Credit Corporation.

There was a general discussion of the activities of the corporation, and the present status of its operations.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (7)

D. The banking situation and bank failures.

2. Proposed Real Estate Mortgage Discount Corporation.

There was a general discussion of the effect of such a corporation on the commercial banking situation. It was generally the

opinion that the proposed limitations would make the corporation of relatively little direct benefit to commercial banks of the country.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (8)
D. The banking situation and bank failures.
3. Policies of bank examiners.

There was a general discussion of this topic, and it was the consensus of opinion that it is very important that the supervisory authorities exercise the greatest care and their best judgment to the end that no possibility of keeping solvent banks in operation is overlooked.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (9)
D. The banking situation and bank failures.

4. Recommendation to the Federal Reserve Board that at an appropriate time legislation be sought limiting the proportion of capital and surplus which a National bank may invest in building and fixtures, either by statutory designation or by requiring the approval of the Comptroller of such investment.

After a general discussion, it was

VOTED that in connection with recent bank troubles, the Governors have been impressed by the excessive proportion of the capital structures invested, in many cases, in banking quarters. The conference therefore suggests to the Federal Reserve Board the advisability of considering legislation which will secure some effective check upon investments of this kind, by member banks.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (10)
E. Intermediate Credit Banks.
1. Cooperation of Federal Reserve Banks.

The suggestion with respect to Intermediate Credit Bank

debentures made by the Federal Advisory Council to the Federal Reserve Board at its meeting on November 16 was read, and it was

VOTED that it is the sense of the conference that it concurs in the recommendation of the Advisory council with respect to Intermediate Credit Bank debentures, and approves the council's suggestion that the Federal Reserve Board consider the possibility of recommending to Congress that debentures issued by Intermediate Credit Banks be made eligible as security for promissory notes discounted by member banks with Federal Reserve banks. The conference believes, however, that such debentures should have a maturity of not exceeding six months.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (11)

F. Municipal finance.

1. Increased burden on municipal budgets due to unemployment.
2. Purchase of municipal warrants by Federal Reserve banks.

It was the consensus of opinion that member banks should be aided by the Federal Reserve banks, when necessary, by the purchase of eligible municipal warrants. Municipal warrants of the character defined in the Regulations of the Federal Reserve Board might appropriately be purchased on a fifteen (15) day resale agreement at a rate to be determined by the purchasing Federal Reserve bank.

At 12:50 p.m. the conference adjourned to reconvene at 2:30 p. m.

First Day's Session. Tuesday. December 1.

Afternoon

The meeting was called to order at 2:35 p. m.

Same attendance as at the morning session.

TOPIC III. OPERATION AND ADMINISTRATION

(12)

A. How can we balance our budget?

There was a general discussion as to the attitude of the several Governors regarding salary reductions, omission of dividends, and the suspension of free services to member banks. In this connection, it was pointed out that in all districts salary scales are already at best only equal to, and in many cases lower than, salaries paid by commercial institutions for comparable work. In view of that fact, and the further fact that the reserve banks do not provide bonuses, or give other advantages such as obtain at commercial institutions, especially during more prosperous periods, it would be unjust and disorganizing to reduce salaries in periods of depression.

It was the sense of the conference that, although it now appears that the gross earnings of the Federal Reserve banks will not be sufficient to provide for expenses, reserves, and dividends for the current year, it would be unwise at this time to omit the dividend on capital stock, to make any flat reductions in salaries, or to curtail free services to member banks, and that the resulting deficit should be charged to accumulated surplus. It was understood, however, that the reserve banks will continue to closely check expenses in order to keep them as low as possible without impairing operating efficiency, or the morale of the personnel.

TOPIC III. OPERATION AND ADMINISTRATION

(13)

B. Safekeeping of securities for member banks.

1. The advisability of securing from all member banks depositing securities with Federal Reserve banks for safekeeping.

an agreement whereby the depositing bank would agree to approve and accept the insurance policy carried by the Federal Reserve bank, and all liability other than that covered in the Federal Reserve bank's policy would be assumed by the depositing bank, which, if it desired, could itself carry insurance against such additional liability.

The report of the Insurance Committee dealing with the subject was read and after a general discussion, it was

VOTED that it is the sense of the conference that there be no change in the method of handling safekeeping securities for the reasons given by the Insurance Committee in its report. It was thought, however, that insurance coverage should apply first to losses sustained by the Federal Reserve bank, and second to losses sustained by the depositing member bank.

It was also informally understood that the Insurance Committee should consider the advisability of trying to arrange to have a rider attached to insurance policies to that effect.

TOPIC III. OPERATION AND ADMINISTRATION (14)

B. Safekeeping of securities for member banks.

2. Cost of the safekeeping function at Federal Reserve banks.

No action was taken on this topic.

TOPIC III. OPERATION AND ADMINISTRATION (15)

C. Inquiries involving matters of system policy or interest.

After discussion, it was

VOTED that it is the sense of the conference that the Federal Reserve banks should continue, as in the past, to refer matters of

system policy or interest to the Federal Reserve Board before replying to circular inquiries on such questions.

TOPIC V. REPORTS OF COMMITTEES (16)
A. Committee on Bank Reserves.

At the invitation of the Conference, Governor Meyer and Messrs. Hamlin, James, McGhee, and Miller of the Federal Reserve Board, together with Messrs. Harrison, Morrill and Wyatt, and Messrs. Smead, Goldenweiser and Riefler here entered the meeting and joined in the discussion which followed.

At 6:00 p. m. the conference adjourned to reconvene at 10:00 a. m. on Wednesday, December 2.

Second Day's Session - Wednesday, December 2, 1931.

Morning

Meeting was called to order at 10:20 a. m.

Same attendance as at the preceding session.

TOPIC V. REPORTS OF COMMITTEES (17)
A. Committee on Bank Reserves.

The discussion of the report of the Committee on Bank Reserves begun at the previous session was concluded, and it was

VOTED that the conference expresses its appreciation of the work done by the Committee on Bank Reserves in preparing a very comprehensive report, but feels that further study of the report should be made by each bank pending the next conference, at which time it will be fully considered and a recommendation made to the Federal Reserve Board.

TOPIC V. REPORTS OF COMMITTEES (18)
B. Insurance Committee.
C. Leased Wire Committee.
E. Sub-committee of General Committee on
 Bankers' Acceptances.

The committee reports were read, and it was
VOTED that they be accepted and placed on file.

TOPIC V. REPORTS OF COMMITTEES (19)
D. Pension Committee.

The Pension Committee's report was read and, after a general
discussion, it was

VOTED that the report be accepted and action postponed
pending a further effort to obtain a Federal charter through the in-
troduction of a Bill in Congress.

TOPIC IV. COLLECTIONS AND CLEARINGS (20)
A. Report of Standing Committee on
 Collections.

The Secretary outlined briefly the committee's recommenda-
tions on the topics submitted to it for consideration by the Conference
of Governors of April 27 - 29, 1931.

- (21)
1. Desirability of definition by
the Treasury Department of the
rights, duties, and responsi-
bilities of Federal Reserve
banks in cashing Government
checks and warrants.

It was

VOTED to refer this matter to the Conference of Counsel for
Federal Reserve banks for consideration and consultation with the Stand-
ing Committee on Collections and officials of the Treasury Department,
with a view to obtaining a clarification of the applicable provisions
of Treasury Department Circular No. 176, with respect to the duties and
responsibilities of the Federal Reserve banks in cashing Government

checks and warrants.

(22)

2. Uniform arrangement to notify all Federal Reserve banks and branches of reopening or succession of banks previously closed.

After discussion, it was

VOTED that each Federal Reserve bank report to all other Federal Reserve banks by wire daily the closing, reopening or succession of all banks in their district so far as they have such information.

With respect to the other topics covered by the committee's report, it was

VOTED that the report be accepted and filed.

SUPPLEMENTARY TOPIC. REPORT OF THE COMMITTEE ON GROUP, BRANCH, AND CHAIN BANKING (23)

At the invitation of the conference, Doctor Goldenweiser submitted a brief oral report of progress, and provided each of the Governors with a copy of the material accumulated by the committee.

The following resolution was unanimously adopted: (24)

"The conference has heard with great regret the announcement from Governor Bailey that it is his purpose to retire from the Governorship of the Federal Reserve Bank of Kansas City at the end of the year, and we all tender him our most sincere good wishes for many more years of health, usefulness, prosperity, and happiness."

At 1:00 p. m. the conference adjourned.

H. F. STRATER

Secretary.