

The Papers of Charles Hamlin (mss24661)

367_05_001-

Hamlin, Charles S., Scrap Book – Volume 239, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 239
FRBoard Members

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CONFIDENTIAL (F.R.)

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CONFIDENTIAL (F.R.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 11, 1941

To The Files

Subject: _____

From Mr. Coe

M.P.C.

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

VOLUME 239

- Page 7 - Funds for loans to employees of F.R. Banks.
- Page 11 - (X-7356) Conditions of membership which will be prescribed for State banks hereafter admitted to membership in the Federal Reserve System.
- Page 16 - Earnings & Expenses of F.R. Banks, February 1933.
- Page 18 - Board comments on S. 320. (Wyatt)
- Page 23 - Confidential - Secretary of Treasury's advice to F.R. Board to issue licenses for the resumption of banking functions.
- Page 29 - Comments on Senate Bill 320. (Typed draft)
- Pages 30 & 34 - Amendment intended to be proposed by Senator Glass to provide for direct loans by F.R. Banks to State banks and trust companies.
- Page 33 - Letter to Senator Glass from Board re S. 320.
- Page 36 - Telegram from Mr. Seay to Board expressing views. (against S. 320)
- Page 37 - (X-7367) Telegram to all banks re Regulation O.
- Pages 38 & 39 - (X-7360-61) Telegrams sent to all F.R. Banks, signed by Mr. Morrill, re amendment to Federal Reserve Act.
- Page 41 - (X-7365) Re Section 18 of F.R. Act, as amended by Section 401.
- Page 42 - (X-7369) Telegram from Mr. Morrill to all F.R. Banks re penalties for deficiencies in reserves of F.R. Banks.
- Pages 44 & 45
Telegrams to Board re S. 320.
- Page 47 - Amendment prepared by Board for Senator Glass.
- Page 54 - Letter to Mr. Morrill from F.R.Bk. of Chicago re S. 320.
- Page 55 - Reserve Percentages of March 15 and March 8, 1933. (Confidential)
- Page 56 - Telegram to Mr. Morrill from Mr. Seay re S. 320.
- Page 67 - Data re vacancies on F.R. Board.
- Page 70 - Telegram to Governor Meyer from Joseph F. Guffey re partiality being shown to banks in Mell Bank Group.
- Page 77 - Letter from F.R.Bk. of Richmond to Mr. Wyatt re Title 2.
- Page 86 - Suggestions by C.S. Hamlin re gold.
- Page 90 - Data by Dr. Miller re gold hoarding.
- Page 92 - Letter to Senator Glass re S. 320.
- Page 95 - Amendment - S. 320. (Draft)
- Pages 102 & 105 & 107 - Telegrams to all F.R. Banks from Mr. Morrill re S. 320.
- Page 111 - Cooksey's wire of March 13 & 15 to loan agencies.
- Page 113 - Memo to Mr. Hamlin from Mr. Goldenweiser re decline in cost of living.

Page 115 - Letter to Board from F.R. Bk. of Phila. enclosing letter from Mr. Gest giving suggestions about the hoarding of gold and the allied questions arising under the Emergency Finance Act.

Page 117 - Letter to Mr. Morrill from Secretary Cooksey of R.F.C. re revoking telegraphic instructions to Loan Agency Managers to encourage obtaining of credit and currency from the F.R.Banks.

FEDERAL RESERVE BOARD
WASHINGTON

Mr. Homein:

You asked
for information about
funds in the banks
used to help out the
employees. Only half
of them provide such
funds. The attached
memo indicates the
banks, the amounts, and
how the accts are
carried. I am be glad
to answer any questions
arising out of the
matter.

JH Paulsen B-1

Funds for loans to employees of Federal Reserve Banks

| <u>Bank</u> | <u>Last report of examination</u> | <u>Amount</u> | <u>Procedure</u> |
|---------------|---|---------------|---|
| Boston | 8-13-32 | \$5,000 | Reserve account ("Special de- posit Gov. & Ch. Trustees.") Asset - Deferred charges \$1,394. |
| New York | 6-18-32 (See rept. 4-11-31 for details) | 10,000 | Carried in Deferred charges. Liability-"Other deposits" \$512.73 |
| Philadelphia | 10-10-31 | 10,000 | Reserve Account. Miscel. Assets \$2,424.32 |
| Cleveland | 5-28-32 | 7,323.06 | Suspense Account General, Debit. |
| Richmond | 5- 9-32 | - | |
| Atlanta | 11- 7-31 | - | |
| Chicago | 7-18-31 | 10,000 | Asset - Deferred charges \$10,000, Liability-"Other deposits" incl. \$10,000 employees loan fund. |
| St. Louis | 1-23-32 | - | |
| Minneapolis | 1- 5-32 | 1,500 | Deferred charges \$1,500. Cash held in outside bank. |
| Kansas City | 3- 5-32 | - | |
| Dallas | 2-13-32 | - | |
| San Francisco | 4- 2-32 | - | |

See 124

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7356

March 11, 1933.

SUBJECT: Conditions of membership which will be
prescribed for State banks hereafter
admitted to membership in the Federal
Reserve System.

Dear Sir:

It has been the Federal Reserve Board's practice, as you know, to prescribe for State banks applying for membership in the Federal Reserve System the seven conditions of membership contained in the Board's Regulation H and such special conditions as the facts in each individual case indicated were desirable to correct unsatisfactory conditions in the bank and to prevent the exercise of powers which the bank might have under its charter or the State law that were not consistent with the purposes of the Federal Reserve Act and considered undesirable in a commercial banking institution. Some of these special conditions have been of a general nature and the Board feels that it would be advisable hereafter to prescribe for each State bank applying for membership all special conditions of this character which have been approved by the Board and which tend to prevent unsound developments in banks regardless of whether the bank appears to be engaged in practices at the time of admission to membership which may lead to such developments. It is believed that this procedure will be helpful in developing a more effective supervision of banking in the Federal Reserve System and will tend to develop better banking

-2-

practices, and it is contemplated that if the Board's experience indicates that any further conditions of a general nature are desirable they also will be prescribed for State banks subsequently admitted to membership.

Some of the conditions contained in the Board's Regulation H are very broad in their terms and it is possible that there is some overlapping of these conditions and certain of the conditions regarding specific practices or powers; but this is not believed to be objectionable. Accordingly, in the case of each State bank hereafter applying for membership, the Board will prescribe the following conditions of membership which include the seven conditions contained in the Board's Regulation H, with one revision, and other conditions of a general nature that have been approved in substance by the Board as special conditions in individual cases:

1. Except with the permission of the Federal Reserve Board, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. Such bank shall at all times conduct its business and exercise its powers with due regard to the safety of its depositors.
3. Such bank shall maintain its loans within the limits prescribed by the laws of the State in which it is located.
4. The board of directors shall not permit loans to directors, officers, employees, principal stockholders and/or their interests, including loans to, or upon the security of stocks of, corporations in which any of them have substantial interests, to assume unduly large proportions or to endanger the bank's solvency or the liquidity of its assets, and the Board of directors shall give special attention to all such loans.

5. Such bank shall maintain adequate credit data in connection with all unsecured loans.
6. Such bank shall keep past due paper and overdrafts at a minimum, and shall not hold any checks in cash items to avoid overdrafts.
7. Except with the permission of the Federal Reserve Board, such bank shall not purchase or acquire through any device whatever any stock of any other bank, trust company, or other corporation of any kind or character except in satisfaction or protection of debts previously contracted in good faith; and all stock acquired in satisfaction or protection of debts shall be disposed of within six months from the date on which it was acquired unless the time is extended by the Federal Reserve Board on the application of such bank for good cause shown.
8. Such bank shall not permit any investment in a bank building or in a site for a bank building to assume such proportions as, in the judgment of the Federal Reserve Board, would endanger the bank's solvency or liquidity or would otherwise be unduly large or improper, and before any investment is made in a bank building or a site for a bank building the bank shall refer the matter to the Federal Reserve Board for consideration.
9. Such bank shall not reduce its capital stock except with the permission of the Federal Reserve Board.
10. Such bank shall not pay any dividends which will reduce its surplus below an amount equal to at least 20 per cent of its capital stock, and if at any time its surplus should be less than 20 per cent of its capital stock it shall carry to its surplus account annually, or for any shorter period covered by each closing of its books, not less than 50 per cent of its net earnings for any such period after deducting all losses and providing reserves for depreciation.
11. Such bank shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limits.
12. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, engage in the business of issuing or selling, either directly or indirectly (through affiliated corporations or otherwise), notes, bonds, mortgages, certificates, or other evidences of indebtedness representing

real estate loans or participations therein, either with or without a guarantee, indorsement or other obligation of such bank or an affiliated corporation.

13. Such bank may accept drafts and bills of exchange drawn upon it of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all acceptances outstanding at any one time shall not exceed the limitations imposed by section 13 of the Federal Reserve Act, that is, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank, may increase this limit from 50 per cent to 100 per cent of its capital and surplus; provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank.
14. The board of directors of such bank shall adopt a resolution authorizing the interchange of reports and information between the Federal reserve bank of the district in which such bank is located and the banking authorities of the State in which such bank is located.

The Board will also prescribe for each trust company or bank exercising trust powers at the time of its admission to membership the following conditions of membership which are appropriate for institutions exercising trust powers:

15. Such bank shall not, after the date of its admission to membership, invest trust funds held by it in obligations of the bank's directors, officers, employees or their affiliations or corporations affiliated with the bank.
16. Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, invest the funds of various trusts held by the bank in participation in pools of mortgage bonds or other

securities, and the funds of all such trusts shall be invested separately from each other: Provided, however, that the Federal Reserve Board will not object to the collective investment of small amounts of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary.

17. If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

Attention is called to the fact that the condition numbered seven above is a revision of the condition numbered three contained in the Board's Regulation H and prohibits the acquisition of stock in any other corporation except with the Board's permission. As you know, this condition as contained in the Board's Regulation H refers only to the acquisition of stock of other banks and trust companies; but the Board believes that it is desirable in future cases to prescribe a condition which will prohibit the member bank from purchasing stock in any corporation except with the Board's permission.

In connection with the condition numbered 10 it may be noted that if in any case the application of a bank with a surplus of less than 20% of its capital is approved the Board will prescribe an additional requirement that the surplus shall be increased to at least 20% of the bank's capital out of earnings.

One of the conditions contained in the Board's Regulation H and set out above provides that, except with the permission of the Federal Reserve Board, a member bank shall not cause or permit any change to be

made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership. In some cases State member banks have overlooked this requirement and have made changes in the general character of their assets or in the scope of the corporate powers exercised at the time of their admission to membership without obtaining the Board's permission. Accordingly, in the letter prescribing conditions of membership which is addressed to each State bank whose application is approved hereafter, special attention will be called to the necessity for obtaining the Board's permission under this general condition covering any such change made by the bank after its admission to membership in the System.

You will understand that in particular cases it may be desirable to prescribe special conditions not of a general nature to correct unsatisfactory conditions in the particular bank, and, as a matter of emphasis, to prescribe conditions prohibiting, except with the Board's permission, the exercise of specific powers which a particular bank may be authorized to exercise under its charter or the State law, even though such powers are not exercised at the time of admission to membership and accordingly, under the general condition referred to above, might not be exercised except with the Board's permission. In connection with the submission of applications for membership, the Board would, of course, like to have your recommendation as to any special conditions which should be prescribed in the particular case and as to any conditions of a general

nature which experience indicates would be desirable as condition to be prescribed for each State bank thereafter admitted to membership.

Very truly yours,

Chester Morrill,
Secretary.

P. S. This letter is a confirmation of the telegram sent you today.

TO ALL FEDERAL RESERVE AGENTS.

Q11

CONFIDENTIAL

Not for publication

B-811

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, FEBRUARY 1933.

| Federal Reserve Bank | Month of February 1933 | | | | | Jan. - Feb. 1933 | | | | | | |
|----------------------|------------------------|------------------|-------------------|---------------|-----------|-----------------------------------|------------|----------------------|--------------------------|----------------------|--------------------------|---|
| | Earnings from - | | | | | Current expenses | | Current net earnings | | Current net earnings | | |
| | Dis-counted bills | Pur-chased bills | U. S. secur-ities | Other sources | Total | Exclusive of cost of F.R.currency | Total | Total | Ratio to paid-in capital | Total | Ratio to paid-in capital | Less accrued dividends and net charges (current) to profit and loss |
| | | | | | | | | Per cent | | Per cent | | |
| Boston | \$32,183 | \$9,092 | \$113,957 | \$3,699 | \$158,931 | \$146,016 | \$155,418 | \$3,513 | .4 | \$16,872 | 1.0 | -\$92,006 |
| New York | 132,291 | 54,407 | 914,490 | 40,070 | 1,141,258 | 504,506 | 510,671 | 630,587 | 14.0 | 1,265,105 | 13.4 | 725,916 |
| Philadelphia | 143,091 | 12,277 | 166,029 | 7,390 | 328,787 | 158,124 | 172,553 | 156,234 | 12.7 | 320,880 | 12.4 | 158,664 |
| Cleveland | 102,324 | 11,164 | 210,720 | 10,038 | 334,246 | 199,451 | 221,766 | 112,480 | 10.5 | 215,205 | 9.5 | 57,820 |
| Richmond | 46,759 | 5,302 | 56,527 | 5,225 | 113,813 | 111,325 | 112,016 | 1,797 | .5 | 5,730 | .7 | -47,793 |
| Atlanta | 53,132 | 5,483 | 56,731 | 6,391 | 121,737 | 94,517 | 99,484 | 22,253 | 6.2 | 50,803 | 6.7 | 3,354 |
| Chicago | 49,339 | 16,373 | 257,491 | 22,104 | 345,307 | 251,954 | 349,262 | -3,955 | -- | 84,390 | 3.2 | -77,195 |
| St. Louis | 15,868 | 4,566 | 79,478 | 7,261 | 107,173 | 105,586 | 112,825 | -5,652 | -- | -14,821 | -- | -62,085 |
| Minneapolis | 27,632 | 3,051 | 76,868 | 3,205 | 110,756 | 76,462 | 80,731 | 30,025 | 13.6 | 66,926 | 14.4 | 36,811 |
| Kansas City | 40,182 | 3,876 | 67,749 | 19,007 | 130,814 | 123,111 | 131,409 | -595 | -- | 6,559 | 1.0 | -34,445 |
| Dallas | 11,156 | 3,118 | 69,543 | 1,402 | 85,219 | 90,823 | 90,984 | -5,765 | -- | -7,779 | -- | -46,763 |
| San Francisco | 109,726 | 8,547 | 147,412 | 12,197 | 277,882 | 185,630 | 197,051 | 80,831 | 10.1 | 154,901 | 9.2 | 42,425 |
| TOTAL | | | | | | | | | | | | |
| February 1933 | 763,683 | 137,256 | 2,216,995 | 137,989 | 3,255,923 | 2,047,505 | 2,234,170 | 1,021,753 | 8.8 | | | |
| January 1932 | 723,173 | 118,741 | 2,350,486 | 122,679 | 3,315,079 | 2,079,403 | *2,172,061 | *1,143,018 | 8.9 | | | |
| February 1932 | 2,377,865 | 463,991 | 1,306,728 | 244,868 | 4,393,452 | 2,072,423 | 2,204,089 | 2,189,363 | 17.5 | | | |
| Jan.-Feb. 1933 | 1,486,857 | 255,996 | 4,567,479 | 260,670 | 6,571,002 | 4,126,908 | 4,406,231 | 2,164,771 | 8.9 | 2,164,771 | 8.9 | 664,703 |
| 1932 | 4,846,269 | 1,138,037 | 2,685,854 | 590,954 | 9,261,114 | 4,196,608 | 4,440,396 | 4,820,718 | 18.5 | 4,820,718 | 18.5 | 3,220,798 |

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS

MARCH 11, 1933.

*Revised.

VOLUME 239

PAGE 16

Mr. Howler

Bank Comments

See Su

COMMENTS ON S. 320.

1. Not necessary because R. F. C. can lend to nonmember banks.
2. Imposes additional burden on Federal Reserve System without making corresponding contribution to resources of System. (Member banks own 80% of assets of Federal reserve banks)
3. Removes major incentive for State banks to join Federal Reserve System.
4. Such paper would not be eligible as collateral security for Federal reserve notes or Federal reserve bank notes.
5. Federal reserve banks have no knowledge of condition of nonmember State banks and would have no authority to examine them - - State examination reports frequently worthless.

218

73d Congress
1st Session.

*Due currency amendments
discussed in Mon. session*
S. 320

(2)

IN THE SENATE OF THE UNITED STATES

March 13, 1933.

Mr. Robinson of Arkansas introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

A BILL

To provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That title IV of the Act entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, is amended by adding at the end thereof the following new section:

"Sec. 404. During the existing emergency in banking, or until this section shall be declared no longer operative by proclamation of the President, but in no event beyond the period of one year from the date this section takes effect, any State bank or trust company not a member of the Federal reserve system may apply to the Federal reserve bank in the district in which it is located and obtain from said Federal reserve bank, IN ITS DISCRETION AND AFTER INSPECTION AND APPROVAL OF THE COLLATERAL AND A THOROUGH EXAMINATION OF THE APPLYING BANK OR TRUST COMPANY, MAY MAKE DIRECT LOANS TO SUCH STATE BANK OR TRUST COMPANY ~~direct-loans~~ under the terms provided in section 10(b) of the Federal reserve act, as amended by section 402 of this act. ~~Provided, That all-~~ ALL applications for such loans shall be accompanied

by the written approval of the State banking department or commission of the State from which the State bank or trust company has received its charter and a statement from the said State banking department or commission that in its judgment said State bank or trust company is in a sound condition. THE NOTES REPRESENTING SUCH LOANS SHALL BE ELIGIBLE AS SECURITY FOR CIRCULATING NOTES ISSUED UNDER THE PROVISIONS OF THE SIXTH PARAGRAPH OF SECTION 18 OF THE FEDERAL RESERVE ACT, AS AMENDED BY SECTION 401 OF THIS ACT, TO THE SAME EXTENT AS NOTES, DRAFTS, BILLS OF EXCHANGE, OR BANKERS' ACCEPTANCES ACQUIRED UNDER THE PROVISIONS OF THE FEDERAL RESERVE ACT."

Sent to Glass
w. letter

Amends suggested by Carbone

AMENDMENT

Intended to be proposed by Mr. Glass of Virginia to the bill (S. 320)

to provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases, viz:

On page 2, line 3 strike out the words "obtain from."

On page 2, line 4, after the word "bank", strike out the words "direct loans" and insert a comma and the words "in its discretion and after inspection and approval of the collateral and a thorough examination of the applying bank or trust company, may make direct loans to such State bank or trust company."

On page 2, line 6, change the colon to a period, strike out the words "Provided, That all" and substitute the word "All".

On page 2, line 12, after the period and before the quotation marks, insert the following new sentence: "The notes representing such loans shall be eligible as security for circulating notes issued under the provisions of the sixth paragraph of Section 18 of the Federal Reserve Act, as amended by Section 401 of this Act, to the same extent as notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of the Federal Reserve Act."

*Sent to Glass is
added*

*Re change - 21000
Collected H. Glass*

(3)

AMENDMENT

Intended to be proposed by Mr. Glass of Virginia to the bill (S. 320) to provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases, viz:

On page 1, line 7, strike out everything after the words "Sec. 404", through and including the word "condition" at the end of line 12, page 2 and insert in lieu thereof the following:

"The Federal Reserve Banks shall have the same powers (1) to discount notes, drafts, and bills of exchange secured by obligations issued by the Reconstruction Finance Corporation, (2) to make advances to member banks on their notes secured by such obligations, (3) to use all paper and obligations so acquired, and (4) to purchase and sell such obligations, as they have with respect to bonds and/or notes of the United States. "

Add a new section to the bill to read as follows:

"Sec. 2. Subsection (b) of Section 201 of the Emergency Relief and Construction Act of 1932 is amended to read as follows:

"(b) The Reconstruction Finance Corporation shall submit monthly to the President and to the Senate and the House of Representatives, (or the Secretary of the Senate and the Clerk of the House of Representatives, if those bodies are not in session) a report of its activities and expenditures under this section and under the Reconstruction Finance Corporation Act. "

and then with him

(4)

It would be advisable to add another sentence at the end of S. 320
reading as follows:

"During the time that such bank or trust company
is indebted in any way to a Federal reserve bank it shall
be required to comply in all respects with the provisions
of the Federal Reserve Act applicable to member State banks
and the regulations of the Federal Reserve Board issued there-
under, Provided, That in lieu of subscribing to stock
in the Federal Reserve Bank, it shall, in addition
to maintaining the reserve balance required by Section 19
of the Federal Reserve Act, maintain on deposit with the
Federal Reserve Bank an amount equal to that which it
would be required to pay on account of its subscription
to such stock if it became a member bank."

CONFIDENTIAL.

March 12, 1933.

The Federal Reserve Board has been advised that the Secretary of Treasury has directed the respective Federal reserve banks, acting as his designated agents, to issue licenses in the form heretofore prescribed by him for the resumption of banking functions beginning Monday morning, March 13, 1933, to the following banks:

Boston, Massachusetts:

| | |
|-----------------------------------|-----------------------------|
| Merchants National Bank | New England Trust Co. |
| Second National Bank | State Street Trust Co. |
| National Shawmut Bank | Day Trust Co. |
| Webster and Atlas National Bank | Old Colony Trust Co. |
| The First National Bank of Boston | United States Trust Company |
| National Rockland Bank | |

New York City, New York:

| | |
|--------------------------------------|---|
| Bankers Trust Company | United States Trust Co. |
| Bank of Manhattan Company | Brooklyn Trust Co. |
| Bank of New York & Trust Co. | Fort Greene National Bank of Brooklyn |
| Bank of Yorktown | National Exchange Bank & Trust Co. |
| Central Hanover Bank & Trust Co. | Bayside National Bank of Bayside |
| Chemical Bank & Trust Co. | College Point National Bank of College Point |
| Clinton Trust Co. | National Bank of Far Rockaway, Far Rockaway |
| Commercial National Bank & Trust Co. | National Bank of Queens County, Flushing |
| Continental Bank & Trust Co. | |

New York City, New York (Cont.):

| | |
|------------------------------------|--|
| Corn Exchange Bank Trust Co. | Forest Hills National Bank, Forest Hills |
| Dunbar National Bank | Springfield Gardens National Bank, Springfield Gardens |
| Fifth Avenue Bank | Woodside National Bank, Woodside |
| First National Bank | Mariner Harbor National Bank, Mariner Harbor |
| Fulton Trust Co. | Staten Island National Bank & Trust Co., Fort Richmond |
| Federation Bank & Trust Co. | National Bronx Bank |
| Grace National Bank | Amalgamated Bank |
| Guaranty Trust Co. | Chase National Bank |
| Irving Trust Co. | Colonial Trust Co. |
| Marine Midland Trust Co. | Harbor State Bank |
| Merchants Bank | Manufacturers Trust Co. |
| National Bank of Yorkville | National City Bank |
| National Safety Bank & Trust Co. | Trade Bank |
| New York Trust Co. | Tottenville National Bank |
| Public National Bank & Trust Co. | Beechhurst National Bank |
| J. Henry Schroeder Trust Co. | Flatbush National Bank |
| Sterling National Bank & Trust Co. | Kingsboro National Bank |
| | Peoples National Bank |

Philadelphia, Pennsylvania:

| | |
|---|---|
| Central Penn National Bank | National Bank of Germantown and Trust Co. |
| City National Bank | Ninth Bank and Trust Co. |
| Corn Exchange National Bank & Trust Co. | North Broad National Bank |
| Erie National Bank | Northeast National Bank |

Philadelphia, Pennsylvania (Cont.):

| | |
|--|---|
| Fidelity Philadelphia Trust Co. | Pennsylvania Company for Insurances on Lives and Granting Annuities |
| First Camden National Bank and Trust Co. | |
| First National Bank | Philadelphia National Bank |
| Girard Trust Co. | Provident Trust Co. |
| Integrity Trust Co. | Second National Bank |
| Kensington National Bank | Tioga National Bank and Trust Co. |
| Market Street National Bank | Tradesmens National Bank |

Cleveland, Ohio:

| | |
|------------------------------|--------------------|
| Cleveland Trust Co. | National City Bank |
| Central United National Bank | |

Richmond, Virginia:

| | |
|-----------------------------|-----------------------------------|
| Bank of Commerce and Trusts | First and Merchants National Bank |
| Central National Bank | State-Planters Bank and Trust Co. |

Atlanta, Georgia:

| | |
|--------------------------------|---|
| First National Bank of Atlanta | Citizens and Southern National Bank, Atlanta |
| Fulton National Bank | Trust Company of Georgia |

Chicago, Illinois:

| | |
|---|--------------------------|
| City National Bank and Trust Co. | The Mutual National Bank |
| Continental Illinois National Bank and Trust Co. | Metropolitan State Bank |
| Continental National Bank and Trust Co. | National Builders Bank |
| First National Bank of Chicago | The Upper Avenue Bank |
| Harris Trust and Savings Bank | Drovers National Bank |
| The Northern Trust Co. | State State Bank |

Chicago, Illinois (Cont.):

| | |
|--|--|
| American National Bank and Trust Company of Chicago | The Terminal National Bank of Chicago |
| First National Bank of Englewood | Lakeview Trust and Savings Bank |
| Liberty Bank of Chicago | Halsted Exchange National Bank |
| Mercantile Trust and Savings Bank | Uptown State Bank |
| Merchandise Bank and Trust Company | |

St. Louis, Missouri:

| | |
|--|--|
| Boatmen's National Bank | Jefferson Gravois Bank |
| First National Bank | Mound City Trust Co. |
| Mercantile Commerce Bank and Trust Co. | Radon Bank |
| Mercantile Commerce National Bank | Cass Bank and Trust Co. |
| Mississippi Valley Trust Co. | Northwestern Trust Co. |
| United Bank and Trust Co. | Security National Bank, Savings and Trust Co. |
| Brown Bank and Trust Co. | Southern Commercial and Savings Bank |
| Lindell Trust Co. | Telegraphers National Bank |
| Towergrove Bank and Trust Co. | Gravois Bank, St. Louis County |
| Easton Taylor Trust Co. | |

Minneapolis, Minnesota:

| | |
|-----------------------------------|-------------------------------------|
| Bloomington Lake National Bank | Marquette National Bank |
| Central National Bank | Midland National Bank and Trust Co. |
| Fifth Northwestern National Bank | Minnehaha National Bank |
| First National Bank and Trust Co. | Northwestern National Bank |
| Fourth Northwestern National Bank | Third Northwestern National Bank |

Kansas City, Missouri:

Columbia National Bank

Stock Yards National Bank

Drovers National Bank

Traders Gate City National Bank

First National Bank

Commerce Trust Co.

Interstate National Bank

Merchants Bank

Park National Bank

Dallas, Texas:

First National Bank

Mercantile Bank and Trust Co. of
Texas

National Bank of Commerce

Dallas Bank and Trust Co.

Republic National Bank and Trust Co.

San Francisco, California:

American Trust Company

Pacific National Bank

Bank of California, N.A.

Wells Fargo Bank and Union Trust
Company

Bank of Montreal "San Francisco"

Anglo-California National Bank

Grocker First National Bank

Bank of America National Trust
and Savings Assn.

See 121

COMMENTS ON SENATE BILL 320

A bill to provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases.

^{affirmative}
The members of the Federal Reserve Board are unanimously opposed to the enactment of this bill; because it is not necessary, it would confer upon the Federal reserve banks functions which they are not equipped to perform, and it would make membership in the Federal Reserve System much less attractive.

The Board is sympathetic with the view that, during the present emergency, sound State banks which are not members of the Federal Reserve System should be afforded such reasonable credit facilities as may be necessary to enable them to meet unusual demands of their depositors, should any develop; but, the Federal Government has already provided an agency for that purpose -- the Reconstruction Finance Corporation, which has been functioning for more than a year and is far better equipped to handle such advances than the Federal reserve banks. It is believed that the Reconstruction Finance Corporation can perform this function in a more simple and satisfactory manner than could the Federal reserve banks, which are accustomed, and are equipped, to deal only with their member banks. A duplication of agencies for this purpose seems very undesirable.

The Federal reserve banks have been invested with many added responsibilities in dealing with member banks during the existing emergency; and it seems inadvisable to add further to their responsibil-

329

ities by conferring upon them the function of providing credit facilities for nonmember State banks with which they have no relations and about which they have no information and no machinery for obtaining information.

The Federal reserve banks do not examine nonmember State banks and this bill would not authorize them to do so. They would have no reliable information regarding the condition of such banks or the quality of their assets. They could not obtain such information nearly as readily nor as quickly as the Reconstruction Finance Corporation, which was created for the purpose of making advances to nonmember banks and other financial institutions.

While the bill requires that all applications by nonmember State banks for such advances must be approved by the State banking authorities and that such authorities must certify to the Federal reserve bank that the applicant bank is in a sound condition, past experience has demonstrated that in many instances such approval and certification would not afford the Federal reserve bank any reliable assurance as to the condition of nonmember State banks.

It should be borne in mind that all of the capital stock of Federal reserve banks is provided by the subscriptions of their member banks and a large portion of their other funds consists of the reserve balances deposited with them by their member banks. From these sources, plus their surplus funds which are derived from the earnings on their capital stock, the Federal reserve banks have de-

rived approximately 80 per cent. of their total resources. It does not seem proper for the Federal reserve banks to use these resources in making loans to nonmember State banks, inasmuch as such banks have contributed nothing to the resources of the Federal Reserve System and the extension of credit by Federal reserve banks to nonmember banks in large amounts might render it impossible for the Federal reserve banks to extend adequate credit accommodations to their own member banks. In this connection, attention is invited to the fact that section 4 of the Federal Reserve Act provides that the board of directors of each Federal reserve bank shall "extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

This bill would add tremendously to the demands made upon the Federal reserve banks for credit accommodations and would not add one cent to their resources or their power to issue currency. The paper acquired under this bill would not be eligible as security either for Federal reserve notes or for Federal reserve bank notes issued under the provisions of section 18 of the Federal Reserve Act, as amended by section 401 of the emergency banking act of March 9, 1933.

The Federal Reserve Board has already authorized Federal reserve banks, until further notice, to rediscount for member banks eligible paper acquired from nonmember banks and, under the Act of March 9, 1933, to make advances to member banks, which are without adequate amounts of assets eligible and acceptable for rediscount, on the security of paper acquired from nonmember banks, regardless of whether or not such paper is eligible for rediscount, when such action is advisable in the judgment of the Federal reserve bank and not in conflict with the President's proclamations or executive orders and the regulations issued thereunder.

Furthermore, under the provisions of Section 13 of the Federal Reserve Act as amended by Section 403 of the Act of March 9, 1933, any Federal reserve bank may make advances to nonmember banks on their promissory notes secured by direct obligations of the United States for periods not exceeding 90 days.

Methods have thus been provided during the emergency period by which nonmember banks may obtain credit accommodations from member banks upon the basis of security satisfactory to the member banks and by which the latter may obtain advances from the Federal reserve banks on the basis of the security provided by the nonmember banks, whether or not such security consists of paper eligible for rediscount; and in addition nonmember banks may, upon the security of Government obligations, obtain credit directly from the Federal reserve banks.

Many State banks are now applying for membership in the Federal Reserve System and the Federal Reserve Board is acting promptly upon such applications. It has been the policy of the Federal Government to encourage sound State banks to become members of the Federal Reserve System and this is believed to be a sound policy, since it is not only in the public interest but also in the interest of the State banks. This bill, however, would remove all incentive for State banks to become members of the Federal Reserve System, since they would be able to obtain all of the advantages of membership without assuming any of the burdens or obligations. This would be unfair to the member banks, and especially to national banks, whose membership in the Federal Reserve System is compulsory. It might result in many State banks withdrawing from membership in the Federal Reserve System, thus weakening the System at a time when the demands made upon it are the greatest in its history.

*Discussed by Bd
Not adopted although all members
were present*

AMENDMENT

Intended to be proposed by Mr. Glass of Virginia to the bill (S.320)
to provide for direct loans by Federal reserve banks to State
banks and trust companies in certain cases, viz:

On page 1, line 7, strike out everything after the words
"Sec. 404", through and including the word "condition" at the
end of line 12, on page 2 and insert in lieu thereof the
following:

"Any State bank or trust company which is not a member bank of
the Federal Reserve System but desires to obtain loans from a
Federal reserve bank, shall apply for membership in the Federal
Reserve System in the manner prescribed by Sec. 9 of the Federal
Reserve Act and, immediately upon filing such application shall
be entitled to all of the privileges of member banks and shall be
subject to all the provisions of the Federal Reserve Act applicable
to member banks; Provided, however, That, if such bank is not
admitted to membership in the Federal Reserve System within six
months from the date of the filing of such application, it shall
no longer be entitled to any of the privileges of a member bank
and shall no longer be subject to the provisions of the Federal
Reserve Act regarding member banks; Provided, further, That
this section shall become inoperative when the President by
proclamation shall declare the termination of the present emergency
and in no event later than one year from the date this section
takes effect."

Supplement

See 124

AMENDMENT

Intended to be proposed by Mr. Glass of Virginia to the bill (S.320) to provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases, viz:

On page 2, line 3 strike out the words "obtain from".

On page 2, line 4, after the word "bank", strike out the words "direct loans" and insert a comma and the words "in its discretion and after inspection and approval of the collateral and a thorough examination of the applying bank or trust company, may make direct loans to such State bank or trust company".

On page 2, line 6, change the colon to a period, strike out the words "Provided, That all" and substitute the word "All".

On page 2, line 12, after the period and before the quotation marks, insert the following new sentence: "The notes representing such loans shall be eligible as security for circulating notes issued under the provisions of the sixth paragraph of Section 18 of the Federal Reserve Act, as amended by Section 401 of this Act, to the same extent as notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of the Federal Reserve Act."

G34

See SA

with 4 exhibits sent.

March 14, 1933.

Honorable Carter Glass,

United States Senate.

Dear Senator Glass:

Following the discussion this afternoon, the Bill S. 320 introduced by Senator Robinson of Arkansas, entitled "A Bill to provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases", was considered by the appointive members of the Federal Reserve Board, and we are unanimously of the opinion that such a law, even with the changes suggested during the discussion, would be highly inadvisable and prejudicial to the best interests of the Federal Reserve System and to the financial structure of the nation. We feel strongly that the System and the country should not be subjected to the hazards involved in the passage of the proposed legislation.

Sincerely yours,

Governor.

4 exhibits sent with letter

Mr. Hamlin *See Am*

Received Washington, D. C.

Richmond 9:30 A Mar 15

Board - Washington

It would of course be deplorable to pass Senate Bill 320 permitting direct loans to non-members even for one year as to which banks we have and can obtain very little information in this district, since we do not believe state banking departments are equal to standard requirements. That would be the one piece of legislation to mar an otherwise reasonable program up to the present, although, as Senator Glass says, there are many things being done which could not be thought of except for a grave emergency. We could not do much for these state banks even if the law were passed.

Seay

9:51 P

P 36

Supt

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 8, 1933.

| | | | |
|------------------------|----------------------|----------------------|--------------------------|
| Young Boston | Fancher Cleveland | McDougal Chicago | Hamilton Kansas City |
| Harrison New York | Seay Richmond | Martin St. Louis | McKinney Dallas |
| Norris Philadelphia | Black Atlanta | Geery Minneapolis | Calkins San Francisco |

TRANS. NO. 1580

Effective March 1, 1933, the Federal Reserve Board has amended Paragraph numbered Ten of its Regulation O, Series of 1915, establishing a graduated tax on deficiencies in the gold reserves required to be held against Federal reserve notes in actual circulation, to read as follows:

QUOTE (10) If at any time the gold reserves required by law to be held by a Federal Reserve Bank against Federal reserve notes issued to it fall below forty per cent (including therein the gold redemption fund required to be maintained on deposit in the Treasury of the United States) the Federal Reserve Agent shall at once notify the Federal Reserve Board, and thereupon until otherwise directed by the Federal Reserve Board, a graduated tax upon such deficiency as required by subsection (c) of section eleven of the Federal Reserve Act shall be established and shall be computed as follows:

When such reserves fall below forty per cent but are not less than thirty-two and one-half per cent, the tax upon the deficiency shall be at the rate of one tenth of one per cent per annum;

When such reserves fall below thirty-two and one-half per cent but are not less than thirty per cent, the tax

C-37

-2-

upon the entire deficiency below forty per cent shall be at the rate of one and six-tenths per cent per annum:

When such reserves fall below thirty per cent but are not less than twenty-seven and one-half per cent, the tax upon the entire deficiency below forty per cent shall be at the rate of three and one-tenth per cent per annum; and so on, increasing the tax at the rate of one and one-half per cent per annum with each further deficiency in such reserves amounting to two and one-half per cent or any fraction thereof. UNQUOTE.

In connection with the Board's letter of April 3, 1920, (X-1880), you are advised that, in lieu of the tax prescribed therein on deficiencies in reserves against deposits received by a Federal reserve bank, the Board has prescribed, effective March 1, 1933, a tax of one-tenth of one per cent per annum upon the amount of such deficiencies, provided, however, that whenever reserves against deposits fall below thirty per cent, the tax upon the amount by which they have fallen below that limit shall be increased by one-tenth of one per cent per annum upon each five per cent or fraction thereof that such reserves fall below thirty per cent.

In this connection, attention is called to the opinion of Counsel transmitted with Board's letter of April 10, 1920 (X-1894) that under provisions of Section 11(c) of Federal Reserve Act, an amount equal to the tax paid by the Federal reserve bank on deficiencies in reserves against Federal reserve notes shall be added to rates of interest and discount fixed by Federal Reserve Board, but that an amount equal to the tax paid

-3-

by the Federal reserve bank on deficiencies in reserves against deposits is not to be added to rates of interest and discount fixed by the Federal Reserve Board.

MORRILL

TELEGRAM

X-7360

FEDERAL RESERVE BOARD

WASHINGTON

March 10, 1933.

Young - Boston
Harrison - New York
Norris - Philadelphia
Fancher - Cleveland

Seay - Richmond
Black - Atlanta
McDougal - Chicago
Martin - St. Louis

Geery - Minneapolis
Hamilton - Kansas City
McKinney - Dallas
Calkins - San Francisco

TRANS NO. 1613 Section 403 of the Act of March 9, 1933, amends section 13 of the Federal Reserve Act as amended by adding at the end thereof the following new paragraph: QUOTE Subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe, any Federal reserve bank may make advances to any individual, partnership, or corporation on the promissory notes of such individual, partnership, or corporation secured by direct obligations of the United States. Such advances shall be made for periods not exceeding 90 days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Federal Reserve Board. UNQUOTE Pursuant to a regulation issued by the Secretary of the Treasury under the President's proclamations of March 6 and March 9, 1933, any Federal reserve bank may make advances complying with the foregoing amendment in order to enable individuals, partnerships and corporations to meet their immediate payroll requirements. It will be observed that all such advances must be secured by direct obligations of the United States; that they may not be made for periods longer than ninety days and that the interest rate thereon is subject to review and determination of the Federal Reserve Board. Pending further action the Board approves a discount rate of 5% per annum upon advances made under this section to individuals, partnerships or corporations.

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 10, 1933.

| | | |
|-----------------------|--------------------|-------------------------|
| Young - Boston | Seay - Richmond | Geery - Minneapolis |
| Harrison - New York | Black - Atlanta | Hamilton - Kansas City |
| Norris - Philadelphia | McDougal - Chicago | McKinney - Dallas |
| Fancher - Cleveland | Martin - St. Louis | Calkins - San Francisco |

TRANS. 1611 Section 10(b) of the Federal Reserve Act was amended by the Act of March 9, 1933, to read as follows: QUOTE: In exceptional and exigent circumstances, and when any member bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10(a), any Federal reserve bank, under rules and regulations prescribed by the Federal Reserve Board, may make advances to such member bank on its time or demand notes secured to the satisfaction of such Federal reserve bank. Each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note. No advance shall be made under this section after March 3, 1934, or after the expiration of such additional period not exceeding one year as the President may prescribe. UNQUOTE. You will note from the foregoing quotation that the authority to make an advance to a member bank under section 10(b) is no longer subject to the condition that such bank have a capital not exceeding \$5,000,000 nor to the requirement of consent to such advance by affirmative action by not less than five members of the Federal Reserve Board but that no change has been made in the provision that such advance may be made only in exceptional and exigent circumstances and only when the member bank has no further eligible or

-2-

acceptable assets available to enable it to obtain adequate credit accommodations from the Federal reserve bank through rediscounts or any other method provided by the Federal Reserve Act other than that provided by section 10(a). Likewise there is no change in the requirement that all such advances be secured to the satisfaction of the Federal reserve bank. Your attention is also directed to the fact that obligations of member banks acquired by Federal reserve banks under section 10(b) are not eligible for use as collateral for Federal reserve notes but that under section 401 of the Act of March 9, 1933, they may be used as security for the new issues of Federal reserve bank notes to an extent not more than 90% of the estimated value of such obligations deposited as security. Pending further action the Federal Reserve Board approves a discount rate of 5% per annum upon advances made under this section except where such rate would be less than 1 per centum per annum higher than the highest discount rate in effect at the Federal reserve bank, in which case the Federal Reserve Board approves a discount rate 1 per centum in excess of such highest rate. Until further action by the Board Federal reserve banks may make advances in accordance with section 10(b) under the conditions hereinbefore set out for such purposes as have been or hereafter may be authorized by regulations of the Secretary of the Treasury pursuant to the President's Proclamations of March 6 and March 9, 1933, and the Board's circular letter of March 10, 1932, (X-7115), as far as it relates to section 10(b) is hereby canceled. Reports on Schedule B D four of loans under section 10(b) of the Federal Reserve Act, as amended, should be continued in accordance with the Board's telegram of June 23, 1932 (Trans. No. 1478) and telegraphic advice of such advances should be made in accordance with the Board's letter of March 21, 1932 (B-721).

B3A

Morrill.

NOT FOR PUBLICATION

Treasury Department
Office of the Secretary
Washington, March 11, 1933.

Confidential

TO THE TREASURER OF THE UNITED STATES:
THE COMPTROLLER OF THE CURRENCY:
THE FEDERAL RESERVE AGENTS:
THE FEDERAL RESERVE BANKS, and others concerned.

Pursuant to the authority vested in the Secretary of the Treasury by the sixth paragraph of Section 18 of the Federal Reserve Act, as amended by Section 401 of the Act of March 9, 1933, to prescribe regulations which shall govern the issuance, redemption, replacement, retirement and destruction of circulating notes, which notes are hereinafter referred to as Federal reserve bank notes, authorized to be issued to Federal reserve banks under the provisions of such sixth paragraph of Section 18, as amended, and the release and substitution of security therefor, the following regulations are hereby prescribed:

1. The Federal Reserve Agent accredited to each Federal reserve bank is hereby authorized and required to act as the agent of the Treasurer of the United States or of the Comptroller of the Currency, or both, for the performance of any of the functions which the Treasurer or the Comptroller may be called upon to perform in carrying out the provisions of such sixth paragraph of Section 18, as amended. The term "Federal Reserve Agent" as used in this regulation shall be construed to mean the Federal Reserve Agent as Agent of the

Treasurer of the United States or of the Comptroller of the Currency, or both, as the case may be.

2. In order to furnish suitable notes for circulation as provided in such sixth paragraph of Section 18, as amended, the Comptroller of the Currency is hereby authorized and directed to cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations and to have printed therefrom and numbered such quantities of Federal reserve bank notes in the denominations of \$5, \$10, \$20, \$50, and \$100 as may be necessary.

3. When such Federal reserve bank notes have been prepared they shall be deposited in the Treasury and held for the use of the Federal reserve banks subject to the order of the Comptroller of the Currency for their delivery, with the approval of the Federal Reserve Board, to the respective Federal Reserve Agents. The procedure shall be similar to that in effect with respect to Federal reserve notes.

4. Upon deposit with the Federal Reserve Agent of the security required by such sixth paragraph of Section 18, as amended, the Federal Reserve Agent may deliver Federal reserve bank notes to the Federal reserve bank to which he is accredited.

5. The Federal Reserve Agent shall require the Federal reserve bank at all times to maintain the full amount of collateral, as required by such sixth paragraph of Section 18,

- 3 -

as amended, as security for Federal reserve bank notes issued to such Federal reserve bank.

6. Each Federal Reserve Agent shall hold in joint custody with the Federal reserve bank to which he is accredited all Federal reserve bank notes received by him and all collateral deposited by the Federal reserve bank to secure the Federal reserve bank notes issued under the provisions of such sixth paragraph of Section 18, as amended.

7. Each Federal Reserve Agent shall daily make a report to the Treasurer of the United States, the Comptroller of the Currency and the Federal Reserve Board, of the amount of Federal reserve bank notes issued to the Federal reserve bank and the collateral deposited as security therefor, classifying such collateral so as to show the amounts included therein of (1) direct obligations of the United States, and (2) notes, drafts, bills of exchange and bankers' acceptances, or in such other manner as may be required (a) by the Treasurer of the United States with the approval of the Secretary of the Treasury, or (b) by the Federal Reserve Board.

8. Any Federal reserve bank may at its discretion withdraw collateral deposited with the Federal Reserve Agent under the provisions of this regulation for the security of Federal reserve bank notes issued to it and substitute

- 4 -

therefor other collateral of the kinds described in such sixth paragraph of Section 18, as amended; Provided, however, that the aggregate acceptable value of the collateral held by the Federal Reserve Agent shall not at any time be less than the amount required by such sixth paragraph of Section 18, as amended.

9. Each Federal Reserve Agent may at any time require the Federal reserve bank to which he is accredited to deposit additional security to the extent required to comply with the provisions of such sixth paragraph of Section 18, as amended; and if any Federal reserve bank shall fail to make such deposit of additional security, or if any such bank shall fail to redeem its Federal reserve bank notes on demand, the Federal Reserve Agent, when required by the Secretary of the Treasury, shall liquidate, in such manner as the Secretary of the Treasury may prescribe, the security, or any part thereof, which he holds under the provisions of such sixth paragraph of Section 18, as amended, and deposit the proceeds with the Treasurer of the United States for the redemption of Federal reserve bank notes issued to such bank.

10. Each Federal reserve bank shall at all times maintain on deposit in the Treasury of the United States, in lawful money of the United States, a sum equal to five per cent of its liability on Federal reserve bank notes

- 5 -

in actual circulation or such other amount as may from time to time be required by the Treasurer of the United States, with the approval of the Secretary of the Treasury, to be held and used for the redemption of such notes.

These regulations shall become effective immediately and shall be subject to such changes or amendments as may from time to time be deemed advisable by the Secretary of the Treasury, and will be supplemented by other regulations specifically governing redemption, replacement, retirement and destruction of Federal reserve bank notes.

(Signed) W. H. WOODIN

Secretary of the Treasury.

B41

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

March 13, 1933.

| | | |
|-----------------------|--------------------|-------------------------|
| Young - Boston | Seay - Richmond | Geery - Minneapolis |
| Harrison - New York | Black - Atlanta | Hamilton - Kansas City |
| Norris - Philadelphia | McDougal - Chicago | McKinney - Dallas |
| Fancher - Cleveland | Martin - St. Louis | Calkins - San Francisco |

TRANS 1650. Refer to trans. 1580, relating to penalties for deficiencies in reserves of Federal reserve banks. In the first sentence of the amended paragraph 10 of Regulation "0", Series of 1915, quoted therein, change the words "Federal reserve notes issued to it" to read "Federal reserve notes in actual circulation." In the sentence which refers to the penalties on deficiencies in deposit reserves strike out all after the words "provided, however," down to the end of that sentence and substitute therefor the following: "That, whenever such reserves fall below 30 per cent but are not less than 25 per cent, the tax upon the deficiency below 30 per cent shall be at the rate of 2/10 of 1 per cent per annum, and when such reserves fall below 25 per cent but are not less than 20 per cent the tax upon the deficiency below 25 per cent shall be at the rate of 3/10 of 1 per cent per annum; and so on, increasing the tax at the rate of 1/10 of 1 per cent per annum with each further deficiency in such reserves amounting to 5 per cent of deposits or any fraction thereof.

Morrill.

4
H. Hamilton sent
Richmond 5:30 PM
March 15

Morrill - Washington

Twill 1672 I am heartily in accord with terms of Governor
Meyer's letter to Senator Glass dated March fourteenth regard-
ing bill S 320. I hope bill will be killed

Hoxton

5:41

Richmond 5:45 PM
March 15

Board - Washington

Trans 1672. I believe that there has been indiscriminate open-
ing of state banks, at least in some states in this district,
which fact strongly fortifies the board's letter to Senator
Glass relating to Senate Bill 320. The hazard is indeed great
and the political pressure to make these loans would be tremendous.
The reserve system would indeed be in politics. The danger cannot
be exaggerated.

Seay

5:47

Y. H. Franklin

serma

Washington, D. C.,

Los Angeles Calif 4:49 P

March 15 1933

Chester Morrill, Secretary,
Federal Reserve Board, Treasury Bldg.,
Washington, D. C.

I have wired Senators Fletcher, Norbeck, Townsend, Walcott, Glass, Wagner, Bulkley, Johnson and Kean following: "Referring to Bill S. 320 passed Senate fourteenth my opinion is that this country badly needs an adequate banking structure built around the Federal reserve system through membership in that system of all sound banks both national and State. At this time a forward step could be taken if banks not members of Federal reserve desiring to use facilities of system under terms of section 10(b) as amended by section 402 should only be able to avail themselves of such privilege by becoming members of system. This would be of benefit to banking structure and to such new members as join. There appears to be no good reason why a bank which claims to be sound should avoid the responsibility of a connection with the system which provides such bank with its needs. Sincerely hope your view will be in accordance with mine."

HENRY M. ROBINSON

CH5

See Bu

Amended by Act on June 16, 33

AMENDMENT

Intended to be proposed by Mr. Glass of Virginia to the bill
(S.320) to provide for direct loans by Federal reserve
banks to State banks and trust companies in certain
cases, viz:

On page 1, line 6, strike out the word "section"
and insert in lieu thereof the word "sections".

On page 1, line 7, strike out everything commencing
with the words "sec. 404", through and including the word
"condition" at the end of line 12, on page 2 and insert in
lieu thereof the following:

"Sec. 404. During the existing emergency in banking,
or until this section shall be declared no longer operative by
proclamation of the President, but in no event beyond the period
of one year from the date this section takes effect, any State
bank or trust company which desires to discount with or obtain
advances from a Federal reserve bank but which is not a member
of the Federal Reserve System, shall apply for membership in
the Federal Reserve System in the manner prescribed by Section
9 of the Federal Reserve Act, as amended, and, pending final
action upon such application, the Federal reserve bank, subject
to regulations prescribed by the Federal Reserve Board, may
discount paper for and make advances to such bank or trust
company on the same terms and conditions as it is authorized

Bu 7

to discount paper for and make advances to member banks. Before any such discount or advance is made, the applying bank or trust company shall deposit with the Federal reserve bank in a special account the amount which it would be required to pay on account of its subscription to the capital stock thereof upon admission to membership in the Federal Reserve System; and, during the time that such bank is indebted in any way to the Federal reserve bank, it shall be subject to the provisions of the Federal Reserve Act and the regulations thereunder applicable to member banks. If the application of such State bank or trust company for membership be approved and it shall fail to complete its membership within the time prescribed therefor by the Federal Reserve Board, or if such application be disapproved, such bank or trust company shall not thereafter be entitled to any further privileges under this section; but, in either event, when all its indebtedness to the Federal reserve bank shall have been paid or provided for, such bank or trust company shall be entitled to the return of the amount deposited on account of its subscription to capital stock and to the return of all other moneys, securities and other property due to it or held for it by the Federal reserve bank. Under such regulations as the Federal Reserve Board may prescribe, the privileges afforded under this section to State

banks and trust companies applying for membership in the Federal Reserve System may be made available to State banks and trust companies applying for conversion into national banking associations. Notes, drafts, bills of exchange and bankers' acceptances acquired by a Federal reserve bank under the provisions of this section shall be eligible as security for circulating notes issued under the provisions of the sixth paragraph of Section 18 of the Federal Reserve Act, as amended by Section 401 of this Act, to the same extent as notes, drafts, bills of exchange or bankers' acceptances acquired under the provisions of the Federal Reserve Act.

"Sec. 405. With the view of facilitating the operations of the Reconstruction Finance Corporation, including the making of loans to State banks and trust companies which are not members of the Federal Reserve System, by increasing the marketability of the notes, debentures, bonds, and other such obligations of that corporation, which are unconditionally guaranteed by the United States, the Federal reserve banks shall have the same powers (1) to discount notes, drafts, and bills of exchange secured by such obligations, (2) to make advances to member banks on their notes secured by such obligations, (3) to purchase and sell such obligations,

and (4) to use all paper and obligations so acquired, as they have with respect to bonds and notes of the United States.

"Sec. 406. Subsection (b) of Section 201 of the Emergency Relief and Construction Act of 1932 is amended by adding at the end thereof a new sentence reading as follows:

"The statement showing the names of borrowers shall be made available to the Committees on Banking and Currency of the Senate and House of Representatives, respectively, for their confidential information, and shall not be made public."

B47

COPY

THE
FIRST NATIONAL BANK
CHICAGO

March fifteenth, 1933

Dear Mr. Morrill:

Thank you very much for your night letter with reference to Senate Bill 320, which passed that body yesterday.

If you would care to express my feeling in confidence to the members of the Board, it would seem to me that while in many respects the passage of such a provision would bring relief to State banks not members of the System, it does tend to weaken the policy which I hope will be that of the Administration - that is, to force all banks into the System while we are at it, and build a strong nationally controlled banking structure, where the banks remain under State or Federal charter.

This is just my personal reaction and represents something of a revision of previous opinion. The new circumstances, however, I believe justify moving for a strongly centralized, Federally controlled banking system.

Sincerely,

(Signed) M. A. Traylor

Mr. Chester Morrill, Sec'y.,
Federal Reserve Board,
Washington, D. C.

83-11

RESERVE PERCENTAGES OF MARCH 15, AND MARCH 8, 1933

| Federal Reserve Bank | Ratio of total reserves to deposit and F.R. note liabilities combined | | Ratio of reserves in vault and in Gold Settlement Fund to deposits | | Ratio of gold with F.R. Agent and in gold redemption fund to F.R. notes in actual circulation | | Ratio of gold reserves to F. R. notes in actual circulation after setting aside a 35% reserve against deposits | |
|----------------------|---|--------|--|--------|---|--------|--|--------|
| | Mar. 15 | Mar. 8 | Mar. 15 | Mar. 8 | Mar. 15 | Mar. 8 | Mar. 15 | Mar. 8 |
| Boston | 52.9 | 47.0 | 35.4 | 36.4 | 61.2 | 52.6 | 61.3 | 53.3 |
| New York | 43.6 | 41.4 | 35.1 | 35.6 | 51.1 | 46.3 | 51.1 | 46.7 |
| Philadelphia | 39.3 | 41.0 | 39.3 | 43.2 | 39.3 | 40.2 | 41.0 | 43.2 |
| Cleveland | 45.3 | 40.9 | 42.7 | 36.2 | 46.9 | 42.5 | 49.7 | 42.9 |
| Richmond | 62.1 | 54.2 | 39.6 | 47.2 | 69.9 | 56.0 | 71.5 | 59.2 |
| Atlanta | 45.9 | 44.0 | 52.8 | 38.7 | 43.1 | 46.2 | 50.4 | 47.7 |
| Chicago | 50.6 | 45.7 | 35.2 | 38.3 | 54.4 | 47.3 | 54.5 | 48.0 |
| St. Louis | 64.7 | 54.9 | 49.8 | 44.5 | 71.6 | 59.2 | 78.5 | 63.3 |
| Minneapolis | 49.9 | 45.8 | 40.3 | 41.3 | 53.5 | 47.3 | 55.6 | 49.6 |
| Kansas City | 59.6 | 58.5 | 40.0 | 40.1 | 71.5 | 67.5 | 74.6 | 70.0 |
| Dallas | 60.8 | 65.3 | 35.9 | 41.9 | 94.6 | 97.9 | 95.8 | 107.5 |
| San Francisco | 51.8 | 48.8 | 35.0 | 37.8 | 59.5 | 53.9 | 59.5 | 55.2 |
| SYSTEM | 49.1 | 45.6 | 37.6 | 37.9 | 54.8 | 49.1 | 56.0 | 50.4 |

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
MARCH 17, 1933.

Mr. Hamlin ^{Sec. Pen}

Washington, D. C.

Richmond Va 4:25 PM Mar 17

Morrill - Washington

Twill 1693. Revised Senate bill 320 appears to eliminate the conspicuous dangers in the original bill and can hardly be objected to, under the circumstances.

Seay

4:31 pm

656

-I-

There are now two vacancies on the Federal Reserve Board:

1. Term of Governor Young who resigned August 31, 1930.
His ten year term would have expired on
August 9, 1932, and the new term begun
August 10, 1932. This vacancy has existed
in fact since August 31, 1930, when
Governor Young resigned.
2. Term of W. W. Magee, Dirt farmer.
Appointed May 18, 1931.
Term expired January 24, 1933.
Renominated by Hoover but not confirmed.

-II-

Since the beginning of the Federal Reserve System, the following appointments (including appointments to fill vacancies) have been made by the respective Presidents:

| | |
|---------------------|-----------------------------|
| President Wilson: | |
| 5 Democrats. | 4 Republicans. |
| President Harding: | |
| 1 Democrat. | 4 Republicans. |
| President Coolidge: | |
| 2 Democrats. | 2 Republicans. |
| President Hoover: | |
| 1 Democrat. | 1 Republican. |
| | 1 Republican not confirmed. |

-III-

Of the present Democrats on Federal Reserve Board - Miller, Hamlin and James - each one was reappointed by a Republican President, and confirmed by a Republican Senate.

-IV-

Wayland W. Magee:
Appointed by Federal Reserve Board:
Director of Omaha Branch. Sept. 17, 1927.

Class C Director of Federal Reserve Bank
of Kansas City, May 14, 1930.

267

Wayland W. Magee (Cont'd.)

Appointed by President Hoover:
Member of Federal Reserve Board, May 18, 1931.

Reappointed by President Hoover.
Not confirmed.
Term expired January 24, 1933.

-V-

The Federal Reserve Board terms were originally staggered into terms of 2, 4, 6, 8 and 10 years.

The reason was that Congress intended that no President should appoint more than two members of the Board during his term of office.

Resignations, deaths, and the creation of an additional member - the dirt farmer - have interfered with this plan, but during the term of President Hoover, he had two appointments to make (the dirt farmer made 3.)

President Roosevelt has now two vacancies to fill, and during his term two more will fall in, making four in all.

Adding the ex-officio members, he will have during his present term six appointments to make.

B67

Wm Hamilton

C O P Y .

See Mr

Pittsburgh Penn 1135A 18

Hon Eugene Meyer

Washn DC

I desire to call your attention to a serious situation that has arisen in the Cleveland Reserve District Seriously affecting many national banks in Western Pennsylvania STOP Undoubtedly partiality is being shown to the Mell Bank Group of banks as they have all been permitted to open on the verbal assurance that their capital structure would be reverse before the end of nineteen thirty three while the other national banks who are in opposition to the Mell bank are required to immediately adjust their capital structure STOP Would respectfully urge that an immediate investigation be made of these conditions as drastic action is threatened by Chief Examiner Taylor against all these banks by next Tuesday or else you will have a banking scandal of the first magnitude in this district STOP Proof of these charges is easily obtainable

Joseph F. Guffey

RECEIPT ACKNOWLEDGED AND ORIGINAL FORWARDED TO

SECRETARY WOODIN - March 18, 1933.

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PAGE 70

370

Sen Mr

Mr. Hamilton

It occurred to me that
this might interest you. You
may keep it if you so desire.

Walter Lygatt

C O P Y

FEDERAL RESERVE BANK OF RICHMOND

to
WYAST

March 11, 1933

Dear Walter:

I have of course read with some care the new banking law; and, of course, it is obvious that title 2 et seq. were not drawn on the spur of the moment. The policy expressed in the act is I believe the best which could be devised; but I refer chiefly to the technical work of the draftsman which is as good as anything I have ever seen. The opening of Title 2, of course, disclosed that this was the first section of the original bill. Remembering your allusions to legislation to establish a unified banking system, I have jumped to the conclusion that you or at least your assistants drew the bill after long and careful study, and if I am right I wish to congratulate you on a fine piece of work which is likely to be one of the mile stones in our banking history.

Many of the best non-member banks appear to accept the thesis that no commercial bank can hereafter exist out of the Federal Reserve System and to welcome the condition. I believe that a national banking system under one controll is now assured, and I feel much more hopeful about the general situation that I have felt for two years. I called at your office last week to leave a copy of the Maryland bill, and to tell you that from what I had seen in Baltimore I was convinced that the banking system of the country could not stand a week unless autocratic methods were used to controll the situation. After talking to Vest I saw that you and he evidently knew better than I how close we were to collapse.

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B77

Tonight at supper one of our bank relations men was joking me about my long face on the train, when I was coming back from Washington. I had made up my mind that the gold reserve would be gone in a week or less, and the government forced to attempt to feed the many thousands of the cities dependent on relief funds would be obliged to seize all means of production and distribution, or else go into completely uncontrolled inflation with revolution at its end. Tonight I feel more cheerful than I have felt in some time. The response of the people in Richmond has been wonderful. Everyone inside and outside of the bank has taken a new lease on life. I am not so foolish of course as to believe that we will win without a long hard fight; but I do believe that we are on the way to recovery and will recover at last.

Incidentally I am of course waiting for a wire of the Secretary of the Treasury telling me when I can go home, a novelty for a Jeffersonian Democrat; but still when I do get to bed it will be with some assurance that I and my posterity will enjoy the blessing of Liberty which was more than I had last week.

Cordially yours,

M. G. Wallace

I have just been shown a frantic telegram for application blanks for membership by a state bank.

Mar 21, 1933.

Sum

(Suggested for consideration by
C. S. Hamlin.)

1. Issue the order at once.
2. Provide in the new order:
 - (a) That gold will be licensed for legitimate export transactions not involving hoarding or speculation.
 - (b) Licenses will be issued to obtain gold from Federal reserve banks for meeting any gold obligation maturing within three months, when gold is demanded, whether the obligee is at home or abroad.
 - (c) Point out that any citizen or foreigner residing in the United States demanding and receiving gold, is subject to the proclamation requiring its immediate return.
 - (d) Announce that this order is temporary only, and that the Treasury hopes shortly to remove all restrictions on gold.

386

Letter draft

Not accepted

The Federal Reserve Board stated that there has been a gratifying return of gold to the Federal reserve banks following the announced request of the Federal Reserve Board on March 8th to Federal reserve and other banks to supply a list of names of persons who have withdrawn gold beginning February first of this year and who have not returned it by March 27th. To date about \$500,000,000 of gold and gold certificates have been turned in to the Federal reserve banks. After reports have been received from Federal reserve banks on March 27th, the Board will decide whether to ask the President or the Secretary of the Treasury to invoke the emergency powers possessed by them in order to bring back any gold withdrawn for hoarding which has not been returned.

March 14, 1933.

Honorable Carter Glass,

United States Senate.

Dear Senator Glass:

Following the discussion this afternoon, the Bill S. 320 introduced by Senator Robinson of Arkansas, entitled "A bill to provide for direct loans by Federal reserve banks to state banks and trust companies in certain cases", was considered by the appointive members of the Federal Reserve Board, and we are unanimously of the opinion that such a law, even with the changes suggested during the discussion, would be highly inadvisable and prejudicial to the best interests of the Federal Reserve System and to the financial structure of the nation. We feel strongly that the System and the country should not be subjected to the hazards involved in the passage of the proposed legislation.

Sincerely yours,

Governor.

*Amendment Number suggested to them*AMENDMENT

Intended to be proposed by Mr. Glass of Virginia to the bill
(S.320) to provide for direct loans by Federal reserve
banks to State banks and trust companies in certain
cases, viz:

On page 1, line 6, strike out the word "section"
and insert in lieu thereof the word "sections".

On page 1, line 7, strike out everything commencing
with the words "sec. 404", through and including the word
"condition" at the end of line 12, on page 2 and insert in
lieu thereof the following:

"Sec. 404. During the existing emergency in banking,
or until this section shall be declared no longer operative by
proclamation of the President, but in no event beyond the period
of one year from the date this section takes effect, any State
bank or trust company which desires to discount with or obtain
advances from a Federal reserve bank but which is not a member
of the Federal Reserve System, shall apply for membership in
the Federal Reserve System in the manner prescribed by Section
9 of the Federal Reserve Act, as amended, and, pending final
action upon such application, the Federal reserve bank, subject
to regulations prescribed by the Federal Reserve Board, may
discount paper for and make advances to such bank or trust
company on the same terms and conditions as it is authorized

to discount paper for and make advances to member banks. Before any such discount or advance is made, the applying bank or trust company shall deposit with the Federal reserve bank in a special account the amount which it would be required to pay on account of its subscription to the capital stock thereof upon admission to membership in the Federal Reserve System; and, during the time that such bank is indebted in any way to the Federal reserve bank, it shall be subject to the provisions of the Federal Reserve Act and the regulations thereunder applicable to member banks. If the application of such State bank or trust company for membership be approved and it shall fail to complete its membership within the time prescribed therefor by the Federal Reserve Board, or if such application be disapproved, such bank or trust company shall not thereafter be entitled to any further privileges under this section; but, in either event, when all its indebtedness to the Federal reserve bank shall have been paid or provided for, such bank or trust company shall be entitled to the return of the amount deposited on account of its subscription to capital stock and to the return of all other moneys, securities and other property due to it or held for it by the Federal reserve bank. Under such regulations as the Federal Reserve Board may prescribe, the privileges afforded under this section to State

banks and trust companies applying for membership in the Federal Reserve System may be made available to State banks and trust companies applying for conversion into national banking associations. Notes, drafts, bills of exchange and bankers' acceptances acquired by a Federal reserve bank under the provisions of this section shall be eligible as security for circulating notes issued under the provisions of the sixth paragraph of Section 18 of the Federal Reserve Act, as amended by Section 401 of this Act, to the same extent as notes, drafts, bills of exchange or bankers' acceptances acquired under the provisions of the Federal Reserve Act.

"Sec. 405. With the view of facilitating the operations of the Reconstruction Finance Corporation, including the making of loans to State banks and trust companies which are not members of the Federal Reserve System, by increasing the marketability of the notes, debentures, bonds, and other such obligations of that corporation, which are unconditionally guaranteed by the United States, the Federal reserve banks shall have the same powers (1) to discount notes, drafts, and bills of exchange secured by such obligations, (2) to make advances to member banks on their notes secured by such obligations, (3) to purchase and sell such obligations,

and (4) to use all paper and obligations so acquired, as they have with respect to bonds and notes of the United States.

"Sec. 406. Subsection (b) of Section 201 of the Emergency Relief and Construction Act of 1932 is amended by adding at the end thereof a new sentence reading as follows:

"The statement showing the names of borrowers shall be made available to the Committees on Banking and Currency of the Senate and House of Representatives, respectively, for their confidential information, and shall not be made public."

See Mr

March 15, 1933

| | | | |
|------------------------|-----------------------|----------------------|-------------------------|
| Curtiss Boston | Williams Cleveland | Stevens Chicago | McClure Kansas City |
| Case New York | Horton Richmond | Wood St. Louis | Walsh Dallas |
| Austin Philadelphia | Newton Atlanta | Clark Minneapolis | Newton San Francisco |

TRANS _____ For the confidential information of board of directors and Governor of your bank there is quoted below a copy of a selfexplanatory letter from Governor Meyer to Senator Carter Glass, dated March 14, in regard to bill S. 320 which was set out in my wire to you March 14: QUOTE Following the discussion this afternoon, the Bill S. 320 introduced by Senator Robinson of Arkansas, entitled 'A Bill to provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases', was considered by the appointive members of the Federal Reserve Board, and we are unanimously of the opinion that such a law, even with the changes suggested during the discussion, would be highly inadvisable and prejudicial to the best interests of the Federal Reserve System and to the financial structure of the nation. We feel strongly that the System and the country should not be subjected to the hazards involved in the passage of the proposed legislation. UNQUOTE

Morrill

3102

see 124

March 14, 1933

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Morris - Philadelphia
DeCamp - Fancher - Cleveland
Horton - Seay - Richmond
Newton - Black - Atlanta

Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geary - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

TRANS _____

The following bill, S. 320, passed the Senate today but transmittal to the House of Representatives has been withheld by unanimous consent pending a motion to reconsider: Quote A Bill To provide for direct loans by Federal reserve banks to State banks and trust companies in certain cases.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title IV of the Act entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, is amended by adding at the end thereof the following new section:

"Sec. 404. During the existing emergency in banking or until this section shall be declared no longer operative by proclamation of the President, but in no event beyond the period of one year from the date this section takes effect, any State bank or trust company not a member of the Federal reserve system may apply to the Federal reserve bank in the district in which it is located and obtain from said Federal reserve bank direct loans under the terms provided in section 10(b) of the Federal Reserve Act, as amended by section 402 of this Act: Provided, That all applications

8105

- 2 -

for such loans shall be accompanied by the written approval of the State banking department or commission of the State from which the State bank or trust company has received its charter and a statement from the said State banking department or commission that in its judgment said State bank or trust company is in a sound condition." Unquote.

Horrill

(Signed) Chester Horrill

FMH-fac

C O P Y

Sumu

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

March 17, 1933.

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
Williams - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta

Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

TRANS _____ Referring Trans. 1667 and Trans 1672 the Secretary of the Treasury has submitted to Federal Reserve Board following proposed revision of S. 320:

QUOTE A BILL To provide for direct loans by Federal reserve banks to state banks and trust companies in certain cases. Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Title IV of the Act entitled 'An act to provide relief in the existing national emergency in banking, and for other purposes', approved March 9, 1933, is amended by adding at the end thereof the following new section:

'Section 404. During the existing emergency in banking or until this section shall be declared no longer operative by proclamation of the President, but in no event beyond the period of one year from the date this section takes effect, any state bank or trust company not a member of the Federal Reserve System may apply to the Federal reserve bank in the district in which it is located and said Federal reserve bank in its discretion and after inspection and approval of the collateral and a thorough examination of the applying bank or trust

3107

company, may make direct loans to such state bank or trust company under the terms provided in section 10 (b) of the Federal Reserve Act, as amended by section 402 of this Act: Provided, that loans may be made to any applying non-member state bank or trust company upon eligible security. All applications for such loans shall be accompanied by the written approval of the state banking department or commission of the state from which the state bank or trust company has received its charter and a statement from the said state banking department or commission that in its judgment said state bank or trust company is in a sound condition. The notes representing such loans shall be eligible as security for circulating notes issued under the provisions of the sixth paragraph of Section 18 of the Federal Reserve Act, as amended by section 401 of this Act, to the same extent as notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of the Federal Reserve Act.'

During the time that such bank or trust company is indebted in any way to a Federal reserve bank it shall be required to comply in all respects to the provisions of the Federal Reserve Act applicable to member state banks and the regulations of the Federal Reserve Board issued thereunder; Provided that in lieu of subscribing to stock in the Federal reserve bank it shall maintain the reserve balance required by section 29 of the Federal Reserve Act during the existence of such indebtedness.

NOTE: Attention has been called to the fact that where section 29 of the Federal Reserve Act is referred to in the bill, reference was probably intended to section 19 of the Federal Reserve Act UNQUOTE

In the light of circumstances explained to the Board by the Secretary of the Treasury in connection with the present status of the proposed legislation the Board voted that it is prepared to accept and approve the bill as presented by the Secretary.

Morrill.

See Na

COPY

TELEGRAM

229gb

San Francisco Mar 21 1152 am

McClelland

Washn

Re telephonic conversation please refer to cookseys wires March 13th and 15th to loan agencies, the first commencing "under the provisions of section 401" etc and the other "In connection with loan applications of all National Banks" etc.

Clerk

317 p

Bill

COPY

RF March 13 710pm

Loan agency manager:

| | | |
|------------------|-----------------|-------------------|
| B19 Boston | B29 Nashville | B38 Denver |
| B20 New York | B30 Chicago | B39 OklaCity |
| B21 Phila | B31 Detroit | B40 Dallas |
| B22 Cleveland | B32 StLouis | B41 Elpaso |
| B23 Richmond | B33 Littlerock | B42 Houston |
| B24 Charlotte | B34 Louisville | B43 San Antonio |
| B25 Atlanta | B35 Minneapolis | B44 San Francisco |
| B26 New Orleans | B36 Kansas City | B45 Los Angeles |
| B27 Jacksonville | B37 Omaha | B46 Portland |
| B28 Birmingham | | B47 Salt Lake |
| | | B48 Seattle |
| | | B49 Spokane |

Under the provisions of section 401 et seq of the banking act of March nine nineteen thirty three comma a method is provided for national banking associations comma or state banks which are members of the federal reserve system licensed under the provisions of the executive order of March ten nineteen thirty three comma to obtain currency through the federal reserve banks stop this corporation is desirous of facilitating operations under the new banking act and is anxious to give prompt consideration to applications of borrowers to withdraw their collateral for the purpose of obtaining credit and currency at reserve banks comma repaying this corporation in part and

-2- rf.

conducting their banking operations through normal channels. Where obligations to reconstruction finance corporation are to be paid in full no application to us is necessary. To accomplish this our borrowers will need your assistance. It will probably be necessary for them first to contact the federal reserve bank of their district to determine comma which of their assets comma will be acceptable to the federal reserve bank for discount or pledge. Our custodians will be authorized on application comma approved by the reconstruction finance corporation comma to release collateral for transfer to themselves in their capacity comma as a federal reserve bank comma for the account of our borrower comma upon credit to our account of the proceeds for the liquidation of reconstruction finance corporation loans in part. In making recommendations for the release of collateral loan agency managers comma members of their advisory committees and agency examiners should bear in mind the effect of such release upon the unpaid balance of any indebtedness and be assured that the position of corporation is not impaired.

Cooksey

72lp

COPY

REMB

Mar 15 815PM

LOAN AGENCY MANAGER:

| | | |
|---------------|-------------|---------------|
| 63 BOSTON | 74 CHGO | 86 HOUSTON |
| 64 NEWYORK | 75 DETROIT | 87 SANANTONE |
| 65 PHILA | 76 STLOUIS | 88 SANFRAN |
| 66 CLEVELAND | 77 LITROK | 89 LOSANGELES |
| 67 RICHMOND | 78 LVILLE | 90 PORTLAND |
| 68 CHARLOTTE | 79 MPLS | 91 SALTFLAKE |
| 69 ATLANTA | 80 KAS CITY | 92 SEATTLE |
| 70 NEWORLEANS | 81 OMAHA | 93 SPOKANE |
| 71 JAXVILLE | 82 DENVER | |
| 72 BHAM | 83 OKLACITY | |
| 73 NASHVILLE | 84 DALLAS | |
| | 85 ELPASO | |

IN CONNECTION WITH LOAN APPLICATIONS OF ALL NATIONAL BANKS AND STATE BANKS WHICH ARE MEMBERS OF THE FEDERAL RESERVE SYSTEM,

PLEASE OBTAIN FROM SUCH APPLICANTS A STATEMENT AS TO WHETHER THEY HAVE APPLIED TO THE FEDERAL RESERVE BANKS OF THEIR RESPECTIVE DISTRICTS FOR LOANS IN LIEU OF LOANS FROM THIS CORPORATION. THEY SHOULD BE ENCOURAGED TO OBTAIN THE NECESSARY CREDIT AND CURRENCY FROM THE FEDERAL RESERVE BANKS STOP IN SUCH CASES WHERE CREDIT AND CURRENCY CANNOT BE OBTAINED FROM THE FEDERAL RESERVE BANKS YOU SHOULD REPORT ALL THE FACTS TO THE CORPORATION IN CONNECTION WITH YOUR RECOMMENDATIONS INCLUDING THE REASONS FOR THE INABILITY TO OBTAIN CREDIT AND CURRENCY FROM THE FEDERAL RESERVE BANKS STOP ALSO PLEASE TAKE UP THIS QUESTION WITH ALL MEMBER BANK APPLICANTS WHOSE APPLICATIONS ARE PENDING OR WHOSE LOANS HAVE NOT BEEN DISBURSED STOP IN EVENT OF WITHDRAWAL OF ANY SUCH PENDING APPLICATIONS OR LOANS PLEASE ADVISE PROMPTLY BY TELEGRAPH.

COOKSEY.

624P

Office Correspondence

FEDERAL RESERVE
BOARD

See Bu

Date March 24, 1933To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser *zelle*

GPO 2-8405

The attached memorandum on the decline in the cost of living,
prepared by Miss Joy of this office, may be of interest to you.

VOLUME 239
PAGE 113

B.13

Office Correspondence

FEDERAL RESERVE
BOARD

Date March 18, 1933

To Mr. Goldenweiser

Subject: Decline in the Cost of Living

From Miss Joy

a.1.

2-8495

The Economy Act just passed by Congress provides for the reduction of salaries of employees in the Government service in proportion to the decline in the cost of living from the first six months of 1928 to the last six months of 1932, and for changes in succeeding six-month periods, with a maximum reduction of 15 per cent.

In judging the decline in the cost of living

"The President is authorized to investigate through established agencies of the Government the facts relating to the cost of living in the United States during the six months period ending June 30, 1928, to be known as the base period, and upon the basis of such facts and the application thereto of such principles as he may find proper, determine an index figure of the cost of living during such period. The President is further authorized to make a similar investigation and determination of an index figure of the cost of living during the six months period ending December 31, 1932, and each six months period thereafter." (Title II, Sec. 3. (a))

The only existing reports from a Government agency on cost of living are those of the United States Bureau of Labor Statistics which show a decline in excess of 15 per cent, as follows:

| | United States (Index nos. 1913=100) | Washington, D. C. (Index nos. Dec. 1914=100) |
|-----------------|--|---|
| June, 1928 | 170.0 | 159.7 |
| December, 1932 | 132.1 | 125.8 |
| Per cent change | -22.3 | -21.2 |

These figures are for single months rather than for six-month periods, but in all probability there would be comparatively little difference in a more comprehensive index. Any index is likely to show a greater decline than 15 per cent.

Nevertheless, when cost of living indexes become the legal standard for wage fixing, it cannot be too strongly urged that the Government make a modern inquiry into the cost of living and construct an index based upon the buying habits of 1933, rather than of 1918.

The present index of the Bureau of Labor Statistics represents the cost of living for workingmen's families, while most Government employees are clerical workers and professional people rather than skilled workmen, and their mode of living is ^{often quite} ~~entirely~~ different. Any adequate cost of living inquiry would show costs of different standards for different income groups. The principal difference among income groups is that as income increases, the proportion spent for food and other subsistence items declines, and the proportion allotted to education, insurance and other savings, recreation, and other miscellaneous items, increases. The Bureau's index assumes that food expenditures form 38 per cent of the total, which, for any but the very low income groups, is absurdly high. The National Industrial Conference Board, for example, gives food a weight of 33 per cent in its cost of living index for workingmen's families.

The Bureau's present index is based upon an antiquated budget study made 15 years ago--in 1918. Since that time the things we buy have changed enormously, yet the list of commodities on which prices are collected has changed only when market conditions made particular commodities obsolete. There is no better evidence of the obsolete character of the budget of 1918 than the list of articles for which the Bureau collected prices as late as 1923. They include two quotations on men's high shoes, and for

the ladies, prices for nine different kinds of muslin underwear--which surely cannot be bought at any price today--cotton stockings only, two quotations on high shoes, and one on serge by the yard. It is to be hoped that these items have been replaced by modern low shoes and the silk stockings and silk and rayon underwear of 1933, and it is probable that most of them have been.

However, this is nothing but a guess, for the items that now make up the index are not known, except for the food items, since the last published description of the index was in 1923, and the acting director of the Bureau reports that no current list is available.

More serious than out-moded quotations are the omissions from the index. Conspicuous among these are automobiles, automobile repairs, gasoline, tires, radios, and all the electrical devices which came into vogue ~~since~~ ^{after} 1918. Their omission cannot be defended on the ground that they are luxuries, for in fact they are an accepted part of the standard of living for most American families. Moreover, in determining the cost of living the Government could hardly defend a position of insisting on salary changes for everyone from the charwomen to the President based on the cost of mere subsistence.

We understand from Mr. Baldwin, Acting Chief of the Bureau of Labor Statistics, that no new investigation into the cost of living is in contemplation, notwithstanding the fact that the act is worded "The President is authorized to investigate". An early publication of the list of

articles on which quotations are obtained, and the weights given each article, is due the public, at least, in view of the current interest in the subject.

MR. HAMLIN

See Bk

C O P Y .

FEDERAL RESERVE BANK OF PHILADELPHIA

925 Chestnut Street

March 21st, 1933.

My dear Governor Meyer:-

Mr. William P. Gest, Chairman of the Board of the Fidelity-Philadelphia Trust Company, of this city, called on me this afternoon and handed me a letter, copy of which I enclose herewith. He stated that he had addressed the letter to me as a personal one from himself as an individual, rather than as a bank officer.

Mr. Gest was trained as a lawyer, and is a very thoughtful and conscientious man. I venture to think that it is worth while to forward a copy of his letter to you, for such consideration as you or the Secretary of the Treasury may deem proper. I am,

Very truly yours,

GEO. W. NORRIS

Governor

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

B115

COPY

135 South Broad Street,
Philadelphia, Pa.
March 21, 1933.

George W. Norris, Esq.,
Philadelphia,
Pennsylvania.

Dear Governor Norris:-

I venture to write to you as one close to the counsels of the Government and the Federal Reserve Board, a few suggestions about the hoarding of gold and the allied questions arising under the Emergency Finance Act.

First: It is most important if any new thing is made a crime by statute that the crime should be clearly defined. Hoarding is not defined in the Act, and a great many people have been much disturbed by the fear that they, having no wrong intent, may be prosecuted for acts of no great moment. In the present rather tense state of mind, a prosecution might have unfortunate reaction. Some people have brought in household gold pieces on which their children have cut their teeth, and others also pieces of no great value except for sentiment. I have, myself, a One Dollar gold piece given me in childhood, which I forgot all about till I started to write this letter.

There is also a prevalent belief that the Act, in spite of its terms, does not include, or cannot reach currency; so unless the public is further enlightened, there may be considerable hoarding of currency - which is so much more easily collected than gold.

Second: The Act is in the nature of an ex post facto law, which may be held unconstitutional as to past offences. In this view it is unfortunate that the severe penalties fixed in an act in war time should be transferred to an act in time of peace.

Third: The Reserve Board has recently requested the Reserve Banks to ask member banks to report gold taken since a certain date and not returned.

It has been the practice for banks to regard their transactions with their clients as confidential and to decline to give such information unless required to do so by subpoena issued from a court of law. This confidence is essential to the conduct of such business. The due course of law presumes notice to a defendant, who then is not taken unaware by information which may be incorrect, and to which he may have a legitimate defense. To require a bank to give information

at the demand of an administrative officer or of the reserve banks, transforms a bank or banking official to a government informer. Information so given may put an innocent person in an ignominious position, and in case of error, might subject the bank to damages for an action outside of its proper functions.

If the Government desires to enquire into such affairs, it has the power to address the requisite questionnaire to such citizen or class of citizens as it may select. This is the method contemplated by the bill now pending in the Legislature of Pennsylvania, which provides for a questionnaire to be sent to safe renters. While this may be condemned as inquisitorial, it has not the serious fault of condemning the accused unheard. Such a questionnaire could put the matter both as to gold and currency clearly before citizens who have great difficulty in understanding the successive laws and regulations. Indeed, no one can tell what the Banking Law is now without a radio at his side. I cannot find any passage in the Act granting the Reserve Banks the authority to require this information asked - but of course members are subject to examination, though such examination is provided for a different purpose.

Fourth: Hoarding is not confined to safe renters or clients of banks, and the hunt for offenders, exclusively through the banks, may produce a reaction against those institutions which will depend partly on the extent to which they may be required to turn informers.

Fifth: I should perhaps have mentioned first the indubitable fact that to require a citizen to give up his gold or currency is clearly in derogation of the right of property. Property under the constitutional provision should not be taken without due process of law. The Act of Congress and the Proclamation of the President provides no process of law. Under these circumstances it is important that a regular, general, and impartial method should be adopted of supplying the Government's necessities. I do not deny that gold may be affected with a public interest, but that interest should be protected by a legislative sanction and a judicial process.

In conclusion, we all know that a great change has fallen on our constitutional system. The original principle, indeed in the words of Professor Burgess, the adamant principle was that the individual citizen and person in these United States was exempt from any power or control by the United States Government, except when such power or control was expressly vested by the Constitution of the United States in said Government, or reasonably and necessarily implied in such expressly vested power or control. (Changes in Constitutional Theory, p. 18). In another place (p.2) "The Government of the United States is now in principle autocratic".

In the extraordinary crisis which the breakdown of representative government has brought upon us, it is most important that those clothed

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with extraordinary and ultra constitutional powers should exercise them with perfect equality and by impartial and judicial methods.

Very truly yours,

(signed)

WM. P. GERT

Mr. Hamlin. Sec Bu

(Letterhead of)

RECONSTRUCTION FINANCE CORPORATION

Washington

March 23, 1933.

Mr. Chester Morrill, Secretary
Federal Reserve Board,
Treasury Building,
Washington, D. C.

Dear Mr. Morrill:

In compliance with your telephone request,
I take pleasure in inclosing a copy of the telegram
sent to all Loan Agency Managers today revoking certain
previous telegraphic instructions to them.

Sincerely yours,
(Signed) G. R. Cooksey
Secretary.

Incl.

Mar 23 1933

To all Loan Agency Managers: ,

Instructions contained in previous wires that national banks and member state banks which have obtained loans from the corporation or which are applying to the corporation for loans be encouraged to obtain credit and currency from the Federal reserve banks in lieu of loans from the corporation are revoked until further notice

Cooksey

Via leased wire