## The Papers of Eugene Meyer (mss52019)

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EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
F.R. BANK OF NY - REPORTS
1931-33

Harrison, George L.

April 25, 1931.

Mr. George L. Harrison,
Governor, Federal Reserve Bank,
New York City.

Dear Governor Harrison:

Many thanks for your letter of April 22, with enclosures, concerning the preliminary studies which you have been making about conditions in the mortgage market in the New York district. I have found the studies very interesting and I shall be glad to receive copies of any further information that you may collect.

With cordial regards, I am

Very truly yours,

EUGENE MEYER

Governor

FEDERAL RESERVE BANK OF NEW YORK

April 22, 1931

My dear Mr. Governor:

You may be interested in the enclosed memorandum which more or less summarizes some of the preliinary studies which we have been making about conditions in the mortgage market in this district. As you will notice, the general impression seems to be that while there is an adequate supply of first mortgage money for new building, second mortgage money is difficult to obtain and subject to relatively very high rates. Our studies thus far also seem to indicate that the demand for money for new home building is not very great or relatively less than the demand for mortgage loans on previously constructed buildings. This however, may be partly due to the fact that the impression prevails generally that second mortgage money is not freely obtainable except at advanced rates and that inquiries are reduced on that account. The restricted second mortgage market is perhaps attributable in large part to the fact that the real estate situation does not now make second mortgage loans attractive investments, especially in those sections where the feeling still prevails that there must be a further liquidation in real estate values.

However, I am sending this preliminary memorandum just in case you may be interested in the summary of the information we have been able to collect thus far.

Faithfully yours,

GEORGE L. HARRISON

Hon. Eugene Meyer,

FEDERAL RESERVE BANK OF NEW YORK

April 17, 1931

TO Governor Harrison

Conditions in the financing of residential building.

From H.V. Roelse

During the past few days members of the Reports Department have been sent out to ascertsin conditions in the vicinity of New York and also in several upstate cities, concerning the financing of new residential building. I also wrote to Mr. Treman and Mr. Runkle for information concerning conditions in their localities.

With the single exception of Rochester, we found no place in the district where there was any evidence of a lack of funds for first mortgages, although we found in most localities that great caution was being exercised in the placing of such mortgages. In a majority of localities there is comparatively little ~~xx~~ money available for second mortgages, and that is obtainable only at high cost. There appears to be practically no money available for speculative builders. Mortgage loans are usually made available only on completed buildings, although some mortgage companies will advance money, subject to a small additional fee for inspection of the progress of the building. On the whole, it appears that it would be difficult in many localities in this district for a person having, say, 25 per cent of the cost of a new home in cash to obtain the difference between that amount and the 50 or 60 per cent usually obtainable on a first mortgage. Consequently, that would tend to limit new residential building largely to persons having in cash a substantial part of the cost of the new homes which they propose to build, and an additional supply of first mortgage money would do comparatively little good in this district.

The greater part of the demand for mortgage loans is on previously constructed buildings, rather than for new buildings, and is attributed largely to needs for money arising out of the depression. The caution exhibited in the placing of first mortgages and the lack of funds for second mortgages is also attributed to conditions growing out of the depression - delinquencies in payments of interest and principal, some foreclosures, and a weak market for real estate.

Conditions in various localities in this district are summarized briefly on the following pages:

Newark and vicinity

An ample supply of funds is available for first mortgages in savings banks and title and mortgage companies, and apparently the building & loan associations have more funds available now than was the case a year ago, when many of them were heavily in debt at the banks, due to the withdrawal of deposits. First mortgage loans are usually made for 50 per cent of conservatively appraised valuation by savings banks and mortgage companies, although occasional loans up to 60 per cent are made to responsible applicants. Building and loan associations lend up to 70 or 75 per cent, but their loans must be amortized by regular monthly payments, whereas no payments on principal are required by savings banks. The prevailing interest rate is 6 per cent.

There is a comparatively small supply of second mortgage money available and only a small part of the applications can be accepted. The nominal interest rate is 6 per cent a year, but the second mortgages are bought at a discount, so that the actual total interest cost is about as follows:

| | |
|---|---|
| 1 year | 16 per cent |
| 2 year | 21 " " |
| 3 years | 26 " " |

In addition, there are the usual fees for title searches, etc.

Jamaica, L.I. and vicinity

Here also the supply of first mortgage funds is quite ample, and loans are made on practically the same basis as in Northern New Jersey. Appraisals are very conservative, our investigator being informed that appraisals are usually substantially below actual selling prices even under present market conditions. A large proportion of applications are refused because the amounts requested are too large, or for other reasons.

The supply of second mortgage money is very limited and is available only on completed houses, and, in the case of those erected by buildings, only on houses that are actually sold. Such second mortgages as are placed are subject to a discount of 20 per cent, in addition to the nominal interest charge of 6 per cent, and must be amortized by monthly payments within six years.

Albany, N. Y.

Savings banks are having difficulty employing their funds, but are very conservative in making new mortgage loans, as they have had a number of foreclosures. Practically no second mortgage money is available. One savings bank official estimated that the city was sufficiently overbuilt to take care of additional housing requirements for the next four years, without additional building.

Troy, N. Y.

First mortgages on well located property up to 50 per cent of appraised value are readily obtainable. There is great difficulty in obtaining second mortgage loans, and a person having $2,000 or $3,000 and wishing to build a $10,000 home would have considerable difficulty in obtaining the amount needed above the $5,000 obtainable on a first mortgage.

Ithaca, N. Y.

The building and loan association, which makes loans up to from 60 to 75 per cent of appraised valuation, is well supplied with funds. Other banks make first mortgage loans usually for 50 per cent, but occasionally up to 60 per cent. The banks will advance additional amounts to responsible parties on their notes secured by second mortgages, or having satisfactory endorsements. There should be no difficulty in financing home building in Ithaca.

Utica and Syracuse, N. Y.

Conditions in the two cities are quite similar - there is little inclination toward new residential building, due to prevailing industrial conditions. Ample first mortgage funds are available, and there are also organizations dealing in second mortgages which apparently have access to sufficient funds to meet any probable requirements in the near future.

Rochester, N. Y.

There have been numerous foreclosures and substantial declines in property values, apparently due partly to overbuilding and partly to current industrial conditions. Savings banks are loaned up on mortgages, and, owing to some losses on mortgages previously placed, insurance companies are reluctant to place mortgage loans in Rochester. Practically no second mortgage funds are available. An exception is in the case of housing for employees ofbthe Eastman Kodak Company, which is liberally provided for by the company.

FEDERAL RESERVE BANK OF NEW YORK

July 10, 1931.

Dear Governor Meyer:

I am writing to you to supplement the formal letter of the bank's Secretary to the Federal Reserve Board reporting the schedule of existing rates of this bank, and referring to the action of our Board of Directors relative to the request previously made that the Federal Reserve Board authorize a minimum buying rate of 3/4 of 1% for the purchase of bankers acceptances at this bank.

In considering the Board's letter of July 7, stating that the Board still has this matter under consideration, the Directors discussed at some length the general position of the bill market and recent and prospective changes in our bill portfolio. As you know, the System's holdings of dollar bills have been going down steadily in recent weeks until they are now only 63 million compared with 133 million on June 3. This is no doubt due to many factors, one of which is probably our present purchases of government securities. Another factor of importance, however, is the fact that the present discrepancy between bankers bill rates and the rates on government securities is so great as to encourage banks in this market to sell short term government securities and purchase bankers acceptsnces. This demand for bankers acceptances because of the relatively high rate which they carry, means necessarily that there are fewer bills in the market for presentation to the Federal Reserve Banks as our bills mature. So in part at least, our purchases of government are being offset by a liquidation of our bill holdings. How long this will continue it is difficult to estimate, or to what extent a further reduction in our bill rate would retard the decline in our bill portfolio may at the moment be subject to some doubt.

But our Directors believe that in a period such as this, especially at a time when we are endeavroing through our open market operations to do everything within our power to make gold imports effective rather than to have them sterilized by a proportionate reduction in Federal Reserve earning assets, we should be prepared to take whatever steps may be effective in maintaining our bill portfolio or in checking its present rate of decline. So, although the Directors do not feel that a further reduction in our effective buying rate on bankers bills should be made immediately, they do believe that we should be prepared, if and as soon as the occasion demands, to make such a reduction promptly. It was with that in mind that they reiterated the principle that this bank should always have an operating leeway in the matter of bill rates such as has been generally maintained in the past. This principle they feel to be so important, especially in such times as these, that in considering your letter of July 7 our Directors voted to renewe their earlier request that the Federal Reserve Board authorize a minimum buying rate of 3/4 of 1%.

Faithfully yours,

GEORGE L. HARRISON

Hon. Eugene Meyer

July 13, 1931.

Dear Mr. Sproul:

Your letter of July 9 was presented at the meeting of the Federal Reser e Board today, and, there being no objection, it was noted with approval that the Board of Directors of your bank, at its meeting on that date, made no change in your existing schedule of rates of discount and purchase.

You will be advised later as to the action taken by the Board on the renewed r equest of your directors that the Federal Reserve Board reduce to 3/4% the rate established by it as the minimum buying rate for the purchase of bankers' acceptances by your bank.

Very truly yours,

E. M. McCLELLAND
Assistant Secretary.

Mr. Allan Sproul, Secretary,
Federal Reserve Bank,
New York, N. Y.

FEDERAL RESERVE BANK OF NEW YORK

July 9, 1931.

S i r s :

At the meeting of the Board of directors held today the following schedule of existing rates was presented and no changes were made:

Discount rate - 1 1/2 %

Buying and repurchase agreement rates:

Bankers Acceptances:

Minimum established by the board of directors - 1%

Currently effective minimums -

| | |
|---|---|
| 1 to 90 days | - 1% |
| 91 to 120 days | - 1 1/8% |
| 121 to 180 | - 1 1/4% |
| Repurchase | - 1% |

Trade bills:

Minimum established by the board of directors - 1 1/2%

Currently effective minimum - 1 1/2%

Governments: Repurchase - 1 1/2%

It was noted from your letter of July 7 that the Board still has under consideration the request of the directors of this bank, submitted under date of June 18, that the Board reduce to 3/4 of 1% the rate established by it as the minimum buying rate for the purchase of bankers acceptances at this bank. In view of this letter our directors reconsidered their action of June 18 at today's meeting and after a long discussion which Governor Harrison is reporting in a separate letter, it was voted to renew their request that the Federal Reserve Board authorize a minimum buying rate of

3/4 of 1% for the purchase of bankers acceptances at this bank.

Respectfully,

ALLAN SPROUL

Secretary

Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BANK

OF NEW YORK

June 18, 1931.

S i r s :

At the meeting of the board of directors held today the following schedule of existing rates was presented and no changes were made:

Discount rate - 1 1/2%

Buying and repurchase agreement rates:

Bankers acceptan ces:

Minimum established by the board of directors - 1%

Currently effective minimums-

| | |
|---|---|
| 1 to 90 days | - 1% |
| 91 to 120 days | 1 1/8% |
| 121 to 180 days | 1 1/4% |
| Repurchase | 1% |

Trade bills:

Minimum established by the board of directofs 1 1/2%

Currently effective minimum - 1 1/2%

Governments:

Repurchase - 1 1/2%

It was voted to request the Federal Reserve Board to reduce to three quarters of one per cent the rate established by it as the minimum buying rate for the purchase of bankers acceptances by this bank.

Respectfully,

ALLAN SPOUR.

FEDERAL RESERVE BANK

OF NEW YORK

Strictly Confidential December 8, 1931.

Dear Governor Meyer:

At the meeting of the executive committee of our board of directors yesterday the officers were instructed to prepare a memorandum reviewing in substance the banking situation in this district and outlining in some detail the changes which have taken place in the position of many banks throughout the district, largely as a result of the substantial decline in the market value of bond portfolios during recent weeks.

The enclosed memorandum is, therefore, forwarded to you with the approval of and at the request of our directors in the hope that it will present to the Board in concrete form the general position of the different groups of our member banks. The directors are particularly anxious that this summary of conditions, of which the Board is already generally aware, will impress upon the Board the belief of the directors that the present situation appears to them to be sufficiently serious to justify some temporary emergency action by the Comptroller of the Currency and other examining authorities, pending and only in contemplation of an improvement in fundamental conditions which should of itself tend to make bond market values more truly reflect intrinsic values. This action, it is hoped, would free many member banks from the threat of insolvency and failure and at the same time serve further to restore public confidence in the banking situation generally.

As pointed out in the memorandum, however, the most important factor in this situation at the moment appears to be the depressed condition of the bond market caused largely by the demoralized position of railroad securities. It appears to the directors, therefore, that, apart from any temporary or emergency leniency on the part of the Comptroller of the Currency and the State Superintendents of Banks, it is of prime importance that the recent action of the Interstate Commerce Commission be supplemented by some immediate agreement between the railway executives and the labor unions with a view to increasing railway net earnings to a point which will not only avoid insolvency of some railroads, but which will maintain the bulk of railway securities on the list of legal investments for savings banks, corporate trustees, and individual trustees as well.

Until this is done and until the public is convinced that the fundamental condition of the railroads is such as to justify the investment of corporate and private funds in railway securities, it is impossible to expect any fundamental improvement in the bond market as a whole or to expect any such expansion in bank loans and investments as has always proved in the past to be a necessary prerequisite to a recovery from a severe business depression.

Realizing that the Board will no doubt wish to refer this memorandum to the Comptroller of the Currency in any event, I am taking the liberty of sending a copy to him for his confidential information because of his direct interest in the matter.

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

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

Enc.

STRICTLY
CONFIDENTIAL

December 8, 1931.

## BANKING SITUATION IN THE SECOND DISTRICT

The average bank in the second Federal Reserve District has a bond account which is from two to four times as large as the total capital funds of the bank, and there are more than 150 banks in the district whose bond accounts are considerably more than four times their total capital funds, that is capital, surplus, and undivided profits. Therefore, the decline in bond prices which has taken place since the spring of this year, amounting on the standard indexes to from 20 to 25 per cent, has resulted in a great many cases in a depreciation in the market value of bond holdings equal to or in excess of the total capital funds of the bank. The severe declines in bond prices since the middle of September in particular have brought serious depreciation.

The effects of recent declines in bond prices on the solvency of different groups of banks in the district are shown in the following table in which the banks are classified in five groups according to the quality of the banks as shown by examination reports. Twenty-three New York clearing house banks are omitted.

SHRINKAGE IN CAPITAL FUNDS OF MEMBER BANKS IN THE SECOND FEDERAL RESERVE DISTRICT, CLASSIFIED IN FIVE GROUPS ACCORDING TO QUALITY.

(New York Clearing House Banks Omitted)

(Amounts in Millions of Dollars)

| Class | Number of Banks | Total Resources Amount | Total Resources Per Cent | Deposits | Capital, Surplus & Undivided Profits | Probable Shrinkage at Date of Examination | Total Probable Shrinkage as at Dec. 7. |
|---|---|---|---|---|---|---|---|
| 1 | 245 | $1,491 | 35.6 | $1,192 | $ 226 | $ 26 | $ 125 |
| 2 | 245 | 1,179 | 28.1 | 943 | 167 | 47 | 126 |
| 3 | 174 | 858 | 20.4 | 678 | 123 | 60 | 117 |
| 4 | 89 | 455 | 10.9 | 352 | 60 | 47 | 77 |
| 5 | 83 | 210 | 5.0 | 176 | 22 | 30 | 44 |
| Total | | $4,193 | 100.0% | $3,341 | $598 | $210 | $489 |

Figures shown above, except for the last column, were compiled in the early part of November on the basis of reports of examination on file which were largely made prior to September 1. The last column is an estimate computed by applying the decline of about 16 per cent in bond prices since September 1 to the bond holdings of these banks.

If the banks of this district were all examined to-day and their bonds revalued at to-day's market prices it may be estimated conservatively that close to 300 of them would show losses, largely on bond account, equal or nearly equal to their total capital funds, and that probably 150 to 200 more banks would show some capital impairment. In other words more than half of the member banks in this district have depreciation on their bond accounts at present market prices sufficient to cause capital impairment. While the banks have some losses from other causes their principal difficulty lies in bond depreciation. These figures, as has been indicated, are exclusive of New York City Clearing House banks.

This condition of affairs in the second Federal Reserve District, which is undoubtedly typical of a more widespread situation, raises two questions. First, what steps may be taken as emergency and temporary measures to prevent wholesale closing of banks, and second, what may be done to deal with the basic causes of bond depreciation and restore bond values to more normal levels?

## Method of Valuing Bonds in Bank Examinations

For some months it has been generally recognized that current market quotations no longer represent fairly the intrinsic value of bonds. In view of this situation the Comptroller of the Currency in September adopted a formula for dealing with bond depreciation under which national banks are not required to charge off depreciation in the four highest classes of bonds (according to agency ratings), but are required to charge off 25% of the depreciation in all other bonds except those in default, on which they are required to charge off the total depreciation. This formula appears to have been quite generally observed in the case of banks where the total depreciation has not impaired the capital or has only impaired it slightly. Some cases have been noted where it has been observed even when the bank's capital was seriously impaired, but for the most part it has not been followed in cases where writing off the total depreciation would wipe out or seriously impair a bank's capital.

The New York State Banking Department has in general followed a somewhat similar rule, but on the whole it appears to have been more rigid in requiring chargeoffs and restoration of capital. The New Jersey Department also appears to havd been more rigid as to treatment of bond depreciation and has generally been requiring additional capital contributions in cases where capital is impaired by bond depreciation as determined by market values.

It appears inevitable that large numbers of additional banks will be closed unless supervisory authorities adopt a less rigid procedure in dealing with bond depreciation. If banks continue to be closed by reason of bond depreciation, the situation must inevitably become steadily worse. Each bank that closes causes further withdrawals of deposits from nearby banks, necessitating the further sale of bonds, and thus putting still more pressure on the bond market. Pressure is also being exerted by reason of the sale of bonds held by closed banks. It would therefore appear to be in the interest of the banking situation, bank depositors, and the general public, that as a temporary and emergency measure the Comptroller's formula be followed in all cases regardless of the effect on capital structure, pending such steps or developments as may be necessary to correct the fundamental difficulties in the situation, when it may be expected that market values will again more accurately reflect intrinsic values.

<u>Legal Listing of Bonds</u>

A second influence on the banking situation and on the bond market is the legal classification of bonds by different states to determine their eligibility for holding by savings banks, trust funds, etc. When bonds are threatened with removal from the legal lists, this naturally results in the sale of such bonds by insurance companies, savings banks, trust companies, and particularly private trusts, the corporate or individual trustees of which might be assuming legal liability by holding bonds not on the legal list. Insufficient railroad earnings are now threatening many bonds on the legal list, and in consequence during recent months there have been offerings of large blocks of such bonds, resulting in steadily increasing pressure on market values.

In New York State a committee is now at work on a proposed revision of law relating to the legal classification of bonds. It may be that in this connection a formal presentation by Federal reserve authorities of the importance of proper modifications of these regulations will be desirable. This, like the treatment of bonds in bank examinations, is in the nature of a necessary emergency measure to deal with a temporary situation, and does not attack the heart of the difficulty with the bond market which lies in basic causes.

## Basic Influences on Bond Prices

While the prices of bonds have been influenced by the fears and uncertainties of many phases of the economic depression, they are at the moment influenced particularly by the following:

(1) The Position of the Railroads. Rail bonds constitute more than one fifth of all bonds outstanding, and have been regarded for years as one of the best and most conservative investments. As a consequence savings banks, commercial banks, and trust companies, insurance companies, and corporate and individual trustees throughout the country have invested a large part of the people's savings in railroad bonds. For many months now the railroads have been showing declining earnings and growing deficits to a point where the solvency of a number of roads may be in question. Railroad credit is so impaired that railroads generally are unable to obtain new capital to meet maturing obligations or to finance improvements. This situation acts as a depressing influence on

on the bond market and indirectly on the whole business situation.

The essential step required at the moment for the restoration of railroad credit is a readjustment of railroad gross earnings and railroad costs of operation to a point where railroads can show net earnings which will maintain their bonds on the legal lists and restore railroad securities to reasonable prices. The critical situation of the banks makes it imperative that necessary action to bring about this readjustment be taken immediately.

(2) Foreign Situation. The uncertainty of the present foreign situation is undoubtedly a depressing influence on the bond market, and particularly on foreign bonds of which some banks hold considerable amounts. The most important step to be taken in this field is some definite settlement of the German position, which must now wait for the report of the advisory committee under the Young Plan. It would be a serious mistake, however, to conclude that an adjustment of our immediate difficulties must wait for action abroad. This country is capable of a considerable recovery independent of foreign countries.

(3) Bank Bond Holdings and the Volume of Bank Credit. Since the autumn of 1929 there has been a deflation of bank credit amounting to more than $5,000,000,000, the largest deflation of credit in the history of this country. In the past two months the rate of decline has been accelerated. Since the end of September the reporting member banks alone showed a decline of more than $1,000,000,000 in their total loans and investments. Since the end of April the banks have been steadily liquidating bonds; in this period the reporting member banks have decreased their bond holdings by $400,000,000. As their government securities have remained relatively little changed, this decline has been almost exclusively in the form of securities other than governments, and has constituted a steady pressure upon the bond market. The decline of outright holdings of investments has been accompanied, moreover, by a liquidation of loans on securities

amounting during the course of 1931 to $1,800,000,000, or 24%.

Bond prices could not be expected to remain stable in the face of this steady liquidation of bank credit and of bank holdings of securities. In previous periods revivals of business have generally been preceded by revivals in the bond market, and revivals of the bond market in their turn have accompanied heavy bank purchases of bonds, the availability of surplus credit, and the beginning of credit expansion. The primary problem now appears to be to establish conditions under which banks will cease to be sellers of bonds, and will be prepared to increase their extensions of credit.

Banks, however, cannot be expected to extend credit freely until the principal basic difficulties noted above have been corrected. They cannot be expected to buy railroad bonds while there is a threat of railroad insolvencies and the probability of a continued decline in the prices of these bonds. They cannot be expected to employ their funds freely while there is overhanging them the prospect of many bank failures, which carry with them the threat of currency withdrawals and panic. Until adequate steps have been taken on these points banks will seek constantly to make their positions more liquid rather than put their funds to free employment.

Summary

This country now appears to be at a critical point in the economic movement which has brought the most severe decline in the volume of business ever experienced. Public psychology now appears as greatly depressed as at any time in the past. The question now appears to be whether this will prove a turning point or a breaking point; either is conceivable. A turning point for the better requires a reversal of public psychology, but that cannot be achieved until certain basic ills have been corrected and the most important of these now appears to relate to the procedure of dealing with banks in weakened position and the adjustment of railroad costs and income.

December 11, 1931.

Hon. George L. Harrison,
Federal Reserve Bank,
New York, N. Y.

Dear Governor Harrison:

I received and brought to the attention of the Board your letter of December 8, 1931, with which you enclosed a memorandum reviewing the banking situation in the Second District.

I discussed with the Comptroller the suggestion that "as a temporary and emergency measure the Comptroller's formula be followed in all cases regardless of the effect on capital structure, pending such steps or developments as may be necessary to correct the fundamental difficulties in the situation, when it may be expected that market values will again more accurately reflect intrinsic values." In my talk with him I suggested that it might be well for him to go to New York and canvass the matter fully with you, Mr. Rounds, and the Chief National Bank Examiner, and I understand that he is in New York today for that purpose.

The memorandum states that in New York State a committee is now at work on a proposed revision of law relating to the legal classification of bonds, and suggests that, in this connection, a formal presentation by Federal reserve authorities of the importance of proper modifications of these regulations may be desirable. If, in your opinion, the problem should be taken up with the committee, the Board sees no objection to your doing so, but it occurs to us that perhaps it would be better to handle the matter informally. In this connection, it would be interesting to us to know what modifications you have in mind.

We, of course, fully appreciate the effect of the demoralized position of railroad securities on the bond market and particularly the banking situation. In fact, I have discussed the matter with you on a number of occasions.

As you know, following the recommendation made in the President's message, bills have been introduced in the Senate and the House providing for the creation of a Reconstruction Finance Corporation with a capital of $500,000,000, and with authority to issue bonds or debentures up to $1,500,000,000. These bills contain a specific provision authorizing the Corporation, within certain limitations, to "make loans to or aid in the temporary financing of steam railroads engaged in interstate commerce, when in the opinion of the board of directors of the corporation such railroads are unable to obtain funds upon reasonable terms through banking channels or from the general public and the corporation will be adequately secured."

On December 9 Senator Couzens, Chairman of the Committee on Interstate Commerce, introduced a resolution providing for the establishment of a joint congressional committee, to be composed of the chairmen, the ranking majority members, the ranking minority members, and the next ranking minority members of the Committees on Interstate Commerce of the Senate and House, with authority "to make a general investigation and study of all matters affecting the operations of common carriers by railroad subject to the Interstate Commerce Act, with a particular view to determining to what extent the Federal Government can aid during the present emergency in preserving continuous and efficient transportation service by railroad, in alleviating the financial condition in which many such carriers are involved, in relieving the distress of the unemployed railroad workers, and in preventing further unemployment among such workers." The record this morning indicates that the proposed resolution was favorably reported by the Senate Committee on Interstate Commerce yesterday, with an amendment, but, of course, it will have to be acted upon by the Senate, and also by the House in view of the fact that it is a joint resolution.

Very truly yours,

Governor

cms Cw

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Personal
APM

January 19, 1933.

MEMORANDUM

About 2:45 P. M. this afternoon, Governor Harrison called me on the long distance telephone. He stated that Mr. Morrill had read to him the letter which the Board was sending with reference to the suggestion of the Directors of the New York bank that Governor Harrison make a trip to Europe at this time. He said he was very much distressed that such a letter was being sent, and stated that, if he and I could not continue to talk informally about matters between the bank and the board without them getting into the formal records, it was going to make it extremely difficult for him to keep up that informal contact with me that he had found so helpful to him. I replied that it would not be my fault if he found it necessary to discontinue the informal contacts and stated that, when he said to me yesterday over the phone that he had decided not to sail on Saturday, I naturally assumed that his proposed trip, which was mentioned to me first as a mere possibility, and which I thought was still under consideration, had taken more or less definite shape. In those circumstances, I felt it my duty to inform the Board about it. The members of the Board, I stated, questioned the advisibility of Gov. Harrison making the trip at this time and insisted that the letter, read by Mr. Morrill, be written. Gov. Harrison said that he had planned to come to Washington this afternoon, and that he will discuss the matter with the Board tomorrow.

January 20, 1933.

At 10:30 last night, I talked with the doctor attending my brother-in-law, who is ill with pneumonia in New York. He said that Mr. Ernst was critically ill and I felt, in the circumstances, that the only thing for me to do was to leave on the midnight train for New York, which I did. Immediately after talking with the doctor, I called Gov. Harrison on the phone at Admiral Grayson's and explained the circumstances to him. I suggested that, notwithstanding my absence, he ought to discuss his proposed trip with the Board today. He said he would do so. We then discussed the situation that had arisen and I emphasized his statement to me that he had decided not to sail on Saturday, implying a definite intention to go. He said I had accused him of not being frank with me, which, of course, he was not because he had never informed me that he had reached a definite conclusion about going to Europe. He resented, he stated, the suggestion of lack of frankness, and conversation was terminated in a short while, Governor Harrison saying ~~that he~~ would reply to our letter.

Eugene Meyer

n

February 20, 1933.

MEMORANDUM:

Governor Harrison rang me up this morning about some transactions in bills and short-time Governments which the New York Federal Reserve Bank is considering because of the Michigan situation and of developments in the general situation resulting therefrom. The program involves a purchase of bills, the sale of March maturities of Treasury notes, and the replacement of notes by later maturities. I told Governor Harrison that, in handling these matters, it seemed to me that the bank should exercise every care to see that it does not in any way lay itself open to the possibility of being charged with having conducted special transactions on a special basis with particular institutions.

Governor Harrison stated that he had canvassed the situation with all the member banks that were likely to be interested.

After thinking over our conversation, I rang up Governor Harrison again, and he stated that the bank's bill rates will be for any and all acceptable bills, so that no possibility of special transactions can enter into the situation.

I also expressed to Governor Harrison the view that, in the System's portfolio of Governments, the longer maturities have been increasing at a somewhat too rapid rate, and stated that it seemed to me that it would be possible, perhaps, to restrict purchases at present to maturities of twelve months or less from today, so as not to increase the present amount of maturities in excess of one year. As of today, the total amount maturing later than August 1, 1934, is $536,000,000. I pointed out to Governor Harrison that, in Dr. Burgess' open market purchases and in swaps in the market, such as the replacement of $5,500,000 of Treasury bills due February 15, it appeared to me that almost all the purchases made were in the longer maturities, which I felt was inadvisable under present disturbed conditions because it represented a movement from liquidity to what might be called, for Federal Reserve purposes, investments.

Eugene Meyer

COPY

FEDERAL RESERVE BANK OF NEW YORK

March 15, 1933.

Dear Governor Meyer:

We take pleasure in enclosing herewith for your information copy of a wire which we have sent to the Governors of the other Federal Reserve banks today regarding steps which we have taken to carry out the control of foreign exchange transactions in this district as contemplated by the Executive Order of March 10, 1933.

Very truly yours,

J. E. CRANE
Deputy Governor

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

March 15, 1933.

TO GOVERNORS OF THE OTHER FEDERAL RESERVE BANKS

Referring to our wire of March 12 regarding the control of foreign exchange transactions we are now receiving daily reports from the banks and bankers, stock exchange houses and exporters in this district who carry their own accounts abroad or who carry accounts here on their books for foreigners. These reports when received are divided into three main groups: (1) banks and bankers, (2) stock exchange houses, and (3) exporters. The figures on the individual reports in each group are being consolidated daily upon the same five forms which are used for individual reports and of which we have sent you copies. The figures from these three main groups are in turn consolidated upon the same five forms to show aggregates of all reports received. We shall send daily to the Secretary of the Treasury and the Federal Reserve Board copies of consolidated reports both for groups and totals of groups. We are sending you by mail samples of the loose leaf ledger sheets which we use to consolidate the figures. If you decide to follow a procedure similar to the one outlined in this wire we should appreciate it if you would send us copies of the reports which you send to Washington. In addition to the consolidation of the figures from individual reports as described above we are arranging to have the individual reports examined as they come in by men experienced in foreign exchange with a view to checking up the operations described in the reports. That is one of the steps which we are taking to keep currently informed of transactions in foreign exchange in this district in order that we may report to the Secretary of the Treasury and the Federal Reserve Board any transactions in foreign exchange which are prohibited. Another step which we have taken to carry out the instructions in the Executive Order of March 10, 1933 is the formation of a committee representing the principal banks and bankers in New York, this committee acting as a point of contact with us and a clearing house for the exchange of information between this bank and the principal dealers in foreign exchange.

CRANE

Sample

COPY

FEDERAL RESERVE BANK OF NEW YORK

April 27, 1933

Dear Governor Meyer,

Statements of foreign exchange positions on Forms 200 and 300 as of the close of business April 19, 1933 are enclosed herewith.

On Form 200 increases in the net position in England and France are due to the covering of previous short positions by three institutions and the decrease in Germany to the inclusion of a short position by a large industrial concern not previously reported.

On Form 300 the increase of $10,000,000 is principally due to increases in balances of the Bank of England.

All other changes represent fluctuations that seem entirely in line with the activity of reporting institutions.

Faithfully yours,

(signed)

FRED I. KENT

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

Encs.

Copy

Form No. 300

Strictly Confidential

Daily Report to Federal Reserve Bank

Balances Due to Foreigners

(Time and Demand)

Second Federal Reserve District
Name

Actual figures in thousands of dollars as of close of business April 19, 1933.

| FOREIGN COUNTRIES | 1 NET BALANCES OF FOREIGNERS | | 2 OVERDRAFTS (Net) | | 3 TOTAL BALANCES DUE TO FOREIGNERS | |
|---|---|---|---|---|---|---|
| | millions | thousands | millions | thousands | millions | thousands |
| Europe: | | | | | | |
| England | 74 | 720 | 7 | 919 | 66 | 801 |
| France | 41 | 556 | 8 | 748 | 32 | 808 |
| Switzerland | 22 | 163 | | 385 | 21 | 778 |
| Netherlands | 12 | 677 | 2 | 665 | 10 | 012 |
| Belgium | 4 | 163 | 1 | 039 | 3 | 124 |
| Germany | 25 | 891 | 37 | 296 | 11 | 405 |
| Italy | 17 | 658 | | 768 | 16 | 890 |
| Other European Countries | 34 | 715 | 32 | 198 | 2 | 517 |
| Total Europe | 233 | 543 | 91 | 018 | 142 | 525 |
| Canada | 154 | 645 | 8 | 401 | 146 | 244 |
| Latin America * | 97 | 967 | 60 | 044 | 37 | 923 |
| Far East # | 41 | 095 | 27 | 142 | 13 | 953 |
| All Other | 9 | 646 | 1 | 882 | 7 | 764 |
| Grand Total | 536 | 896 | 188 | 487 | 348 | 409 |

Fred I. Kent

Official Signature

Note:

All those who, whatever their nationality, are physically outside the United States are "Foreigners". Thus for example, foreign branches of American banks should be regarded precisely as if they were separate foreign banks.

* Includes Mexico, Central and South America and the West Indies.
# Includes China, Dutch East Indies, British India, Japan, Straits Settlements and Philippine Islands.

Copy

Strictly Confidential Form No. 200

Daily Report to Federal Reserve Bank

Net Foreign Exchange Position and Forward Contracts

Second Federal Reserve District
Name

Actual figures in U. S. Dollars (000 omitted) as of close of business April 19, 1933.

| FOREIGN COUNTRIES | 1 FORWARD CONTRACTS Purchases | Sales | 2 Net F.X. Position * (Including Forward Contracts: Overdrafts and other Transactions affecting position) | 3 Customers Deposits with foreign corresp. |
|---|---|---|---|---|
| | millions : thou's | millions : thou's | millions : thou's | millions : thou's |
| Europe: | | | | |
| England | 146 507 | 182 315 | 9 092 | 9 371 |
| France | 37 290 | 39 036 | 1 390 | 3 031 |
| Switzerland | 2 157 | 3 067 | 473 | 911 |
| Netherlands | 5 534 | 9 144 | 1 182 | 25 |
| Belgium | 1 002 | 3 308 | 2 241 | 14 |
| Germany | 34 | 346 | 506 | 574 |
| Italy | 2 189 | 2 666 | 1 929 | 8 378 |
| Other European Countries | 2 349 | 2 817 | 663 | 2 214 |
| Total Europe | 197 062 | 242 699 | 5 446 | 24 518 |
| Canada | 26 929 | 28 707 | 4 837 | 3 851 |
| Latin America | 480 | 57 | 23 744 | 1 665 |
| Far East | 8 173 | 9 915 | 3 009 | 456 |
| All Other | 368 | 385 | 174 | 97 |
| Grand Total | 233 012 | 281 763 | 30 844 | 30 587 |

* Indicate Short Position in Red

Fred I. Kent
Official Signature

C O P Y .

FEDERAL RESERVE BANK OF NEW YORK

May 6, 1933.

Dear Governor Meyer:

We are enclosing a statement showing a summary of the shipments and receipts of American currency to and from foreign countries for the month of April by a number of the more important banks in this district.

Respectfully,

(signed)

H. V. ROELSE,
Manager, Reports Department

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

Enc.

SHIPMENTS AND RECEIPTS OF AMERICAN CURRENCY
TO AND FROM FOREIGN COUNTRIES IN MONTH OF APRIL 1933

SHIPMENTS

| | | $5 to $20 Bills | | Over $20 Bills | | |
|---|---|---|---|---|---|---|
| | $1 & $2 Bills | F.R.Notes | Other Notes | F.R.Notes | Other Notes | Total |
| Europe | | | | | | |
| Poland | | $22,500 | | $2,500 | | $25,000 |
| South America | | | | | | |
| Argentina | | | | 34,000 | | 34,000 |
| Canada | | 18,500 | | | | 18,500 |
| Grand Total | | $41,000 | | $36,500 | | $77,500 |

RECEIPTS

| | | | |
|---|---|---|---|
| Europe | | | |
| Austria | $180,400 | | |
| Belgium | 45,700 | | |
| Czechoslovakia | 26,200 | | |
| Danzig | 255,000 | | |
| Denmark | 20,600 | | |
| England | 1,689,500 | | |
| Finland | 76,700 | | |
| France | 912,000 | | |
| Germany | 2,017,000 | | |
| Greece | 301,300 | | |
| Holland | 48,300 | | |
| Hungary | 1,000 | | |
| Ireland | 27,600 | | |
| Italy | 479,100 | | |
| Latvia | 6,000 | | |
| Lithuania | 29,000 | | |
| Madeira Islands | 3,000 | | |
| Monaco | 1,500 | | |
| Norway | 16,500 | | |
| Poland | 890,000 | | |
| Portugal | 13,600 | | |
| Russia | 328,000 | | |
| Scotland | 51,000 | | |
| Spain | 9,600 | | |
| Sweden | 40,400 | | |
| Switzerland | 579,700 | | |
| Total Europe | | $8,048,700 | |
| Caribbean Countries | | | |
| Bermuda | 180,000 | | |
| British West Indies | 148,700 | | |
| Dutch West Indies | 9,000 | | |
| Porto Rico | 530,300 | | |
| Total | | 868,000 | |
| Canada | | 222,000 | |
| Central & South America | | | |
| Chile | 2,100 | | |
| Guatemala | 30,000 | | |
| Mexico | 1,000 | | |
| Panama | 235,000 | | |
| Peru | 3,000 | | |
| Total | | 271,100 | |
| Asia | | | |
| China | 107,100 | | |
| Dutch East Indies | 29,600 | | |
| India | 3,500 | | |
| Japan | 28,800 | | |
| Palestine | 18,700 | | |
| Persia | 3,000 | | |
| Rhodes | 2,000 | | |
| Syria | 11,000 | | |
| Turkey | 8,000 | | |
| Total | | 211,700 | |
| Africa | | | |
| Egypt | | 12,000 | |
| Total Receipts | | | $9,633,500 |
| Total Shipments | | | 77,500 |
| Receipts over Shipments | | | 9,556,000 |

10 Questionnaires sent out
9 Banks had transactions
1 Bank had no transactions