

## The Papers of Eugene Meyer (mss52019)

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Subject File, Federal Reserve Board, Minutes of Agents' Conference, 1932

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD  
MINUTES OF AGENTS' CONFERENCE  
1932

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of Minutes of  
Federal Reserve Agents' Conference  
Washington, November, 1932.

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(CONFIDENTIAL)  
MINUTES OF  
FEDERAL RESERVE AGENTS' CONFERENCE  
WASHINGTON, NOVEMBER, 1932.

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(1)

Pursuant to its letters of October 11, X-7269, and November 3, X-7284, the Federal Reserve Board held a joint conference with the Federal Reserve Agents and Governors on November 14 and 17, and the Agents held a separate conference on November 15 and 16, 1932. These minutes cover the latter.

Copies of said letters are appended as Exhibit A.

(2)

Present: Federal Reserve Agents Curtiss, Case, Austin, DeCamp, Hoxton, Newton (Atlanta), Stevens, Wood, Mitchell, McClure, Walsh, and Newton (San Francisco).

Governor Meyer and members of the Board's staff visited the conference, as hereinafter indicated.

Frederic H. Curtiss, Chairman of the Conference, presided, and C. M. Stewart acted as Secretary.

The Secretary reported that fifteen copies of the minutes of the last conference, September, 1930, had been furnished to the Federal Reserve Board, and that a copy had been mailed to each Federal Reserve Agent.

(3)

At the beginning four committees were appointed for the purpose of referring to them, after discussion, topics on which reports might be desired to express the opinion of the conference. These committees were composed as follows: No. 1, Messrs. Newton (San Francisco, Chairman), Austin and McClure; No. 2, Messrs. Stevens (Chairman), Curtiss and Hoxton; No. 3, Messrs. Case (Chairman), DeCamp and Walsh; and No. 4, Messrs. Wood (Chairman), Newton (Atlanta) and Mitchell.

(4)

As requested at the joint conference on November 14, the following topics were added to the Agents' program: 1-A, Question of extension of authority beyond March 3, 1933, for Government securities as collateral to Federal Reserve notes under Section 16 as amended by the Act of February 27, 1932; 1-B, Question of extension of authority beyond March 3, 1933, for loans by Federal reserve banks under Section 10(b) of the Federal Reserve Act as amended by the Act of February 27, 1932; 1-C, Question of amendment so as to require endorsement or other security, rather than both, in connection with discounts for individuals, partnerships, and corporations, under Section 13 of the Federal Reserve Act as amended by the Act of July 21, 1932; 1-D, Finance company paper, and 1-E, Policy and procedure in granting permits under the provisions of the Clayton Act relating to interlocking directorates.

A revised copy of the program is furnished herewith as Exhibit B.

(5)

Written reports were made to the Federal Reserve Board each morning of

the action taken by the conference requiring the Board's attention. These reports covered topics 1-A, 1-B, 1-C, 1-D, 1-E, and 3-F.

In the following minutes the entire action in regard to each matter is stated under its heading, irrespective of date taken, and the topics appear in the same order as on the program.

#### TOPICS PROPOSED BY FEDERAL RESERVE BOARD.

(6)

Topics 1-A, 1-B, 1-C, and 1-D, were referred to a committee consisting of Messrs. Newton (San Francisco, Chairman), Wood and DeCamp, for consideration with the Governors' committee, consisting of Messrs. Harrison, McDougal and Norris. The Agents' committee held a joint meeting with the Governors' committee and submitted a report which was adopted. The action taken in regard to each topic is given below.

(7)

Topic 1-A. Question of extension of authority beyond March 3, 1933, for Government securities as collateral to Federal Reserve notes under Section 16 as amended by the Act of February 27, 1932.

It was considered advisable to recommend to the Federal Reserve Board that, at the appropriate time and in the appropriate way, it recommend to Congress that the authority mentioned in this topic be extended for at least one year.

(8)

Topic 1-B. Question of extension of authority beyond March 3, 1933, for loans by Federal Reserve Banks under Section 10(b) of the Federal Reserve Act as amended by the Act of February 27, 1932.

It was the sense of the conference that it is advisable to recommend to the Federal Reserve Board that, at the appropriate time and in the appropriate manner, it recommend to Congress that the authority mentioned in this topic be extended for at least one year.

(9)

Topic 1-C. Question of amendment so as to require endorsement or other security, rather than both, in connection with discounts for individuals, partnerships, and corporations, under Section 13 of the Federal Reserve Act as amended by the Act of July 21, 1932.

It was decided to recommend that no change be made at this time in the provision requiring both.

(10)

Topic 1-D. Finance company paper.

It was agreed that each Chairman, upon his return home, should write to the Federal Reserve Board, giving his reasons in favor of or against making such paper eligible for discount.

(11)

Topic 1-E. Policy and procedure in granting permits under the provisions of the Clayton Act relating to interlocking directorates. (See Board's letter of October 29, 1932, X-7278).

After discussion, this topic was referred to a committee consisting of Messrs. Stevens (Chairman), Austin, Hoxton and Curtiss. It submitted the following report, which was adopted:

"With reference to the question suggested by the Federal Reserve Board with regard to the policy and procedure in granting permits under the provisions of the Clayton Act relating to interlocking directorates, your Committee has to report as follows:

"We understand that under the present operation of the Kern Amendment to the Clayton Act, as amended, the question of approval of permits for interlocking directorates in banks is subject to two major considerations. The first is the factor of lessening competition or restricting credit, and the second is the question of public interest involved.

"We consider, therefore, that the Federal Reserve Board may properly weigh against the question of competition the factor of public interest involved, and this we believe to be recognized in the present regulations of the Federal Reserve Board.

"We are of the opinion that the final determination by the Federal Reserve Board must necessarily be on the evidence presented in each individual case rather than by general rule. To this end we respectfully suggest:

"One. That Section IV, subsection (d)-(3) of Regulation 'L' be amended to read as follows:

'Purpose for which services are sought, nature of proposed influence and activity, relationships, competency, and any other facts having a bearing upon the interest of the public in such banks as affected by their having the same directors, officers, or employees.'

"Two. In order to comply with this suggested amendment to Regulation 'L', it is recommended that, as a matter of procedure, the applicant for a permit and the banks which he is serving and proposing to serve, be required to furnish in writing such information and reasons as they may, in support of their contention that the granting of the permit will not be against the public interest, and thereupon the application follow the usual course of review and recommendation by the Federal Reserve Agent before submission to the Federal Reserve Board."

#### REPORTS OF STANDING COMMITTEES.

(12)

Topic 2-A. Report of Executive Committee.

Mr. Curtiss, Chairman, stated that after receiving suggested topics from the Federal Reserve Agents, and after consulting the Federal Reserve Board, the program was prepared and a copy mailed to each Agent.

(13)

Topic 2-B. Report of Committee on Reserves.

Mr. Curtiss, Chairman, said that no matters had been taken up with the Committee since the last conference and, consequently, no meeting had been held. He called attention to the report of the System's Committee on Bank Reserves, which was released for publication on November 25, 1931. There appearing to be no further need for the Agents' Committee, it was discharged.

(14)

Topic 2-C. Report of Bank and Public Relations Committee.

Mr. Newton (Atlanta), Chairman, submitted the report of the Committee,

which was read and duly adopted. It stated in part:

"The work appears to have been carried on by the different banks along the same general lines as in preceding years, but with some increase in the scope of the bank relations work in the latter year of the period due to the unusual problems facing the member banks.

"Contacts with banks have been maintained in the various districts through regular visits to member banks, and, to some extent, to nonmember banks, attendance of Federal Reserve Bank officers at conventions and other gatherings, and meetings held at the Federal Reserve Banks. The public has been kept informed as to the System and its policies through contacts of officials of the Federal Reserve Board and the Federal Reserve Banks with journalists and writers, speeches made at conventions and other meetings by Federal Reserve officials and the distribution of literature to the public, including the Federal Reserve Bulletin and the monthly reviews of business conditions.

"It is probably true that the problems facing member banks are more numerous and more acute than ever before and it is the opinion of your Committee that real assistance can be rendered them by the right type of bank relations men. Furthermore, nonmember banks are being brought to a realization of the advantages of membership and there is an unusual opportunity to strengthen the membership of the System by developing and keeping alive their interest in membership through periodic visits of representatives from the Federal Reserve Banks. Your Committee therefore suggests the desirability of giving greater attention to bank relations work from now on and the exercise of unusual care in the selection of men for this service."

A copy of the full report of the Committee, which gives for each district the number of banks visited, speeches made, conventions attended, etc., is furnished as Exhibit C.

(15)

Topic 2-D. Report of Committee on National Summary of Business Conditions.

Mr. Austin, Chairman, read the following report, which was adopted:

"The Division of Research and Statistics of the Federal Reserve Board has continued the preparation of the National Summary of Business Conditions, submitting the draft for the consideration and review of the Committee, as heretofore, before releasing it.

"Several improvements were made in the statistical data during the previous year, improving the summary by introducing more up-to-date information, and in other ways making it more complete and comprehensive. Indexes of factory employment, industrial production, and building, either were enlarged in scope or so refined as to measure more accurately changes in business conditions. Greater use of the employment and payroll indexes has been made in discussing the industrial situation. The section on bank credit has been improved in the presentation of facts and comments. The Division of Research and Statistics is to be complimented on the improvements in the report, particularly in the presentation of the current data, which is freer and less stereotyped than heretofore. The Committee makes due acknowledgment of its appreciation of the Division's valuable services.

"The summary has continued to receive publicity in the press throughout the country, largely through the Associated Press. With the National Summary, the Board's Division of Research and Statistics, during the previous year, began releasing through the press its preliminary business indexes. Leading financial papers and magazines have made generous use of this information, either by printing the summary and the indicators as they are released or in an abbreviated form. In some instances the information has provided material for editorial or other comment.

"Just now the Division is revising its seasonal adjustments in employment in industrial production indexes.

"All Federal Reserve Banks use the summary in their monthly bulletins, Atlanta and Philadelphia using the summary and charts on the first page. San Francisco and New York reprint it on a detached page. Chicago, Cleveland, Boston, Minneapolis and St. Louis print it on the last page with all the charts, while Dallas, Kansas City and Richmond print it on the last page without the charts.

"The National Summary appears to be well received by the public, as well as the member banks, and is regarded as an authoritative statement of facts on current business conditions in the country. In view of the great number of reports that are published currently by various agencies, carrying divergent and often contradictory comments, it seems most fortunate that we have each month so reliable a summary of trade and industrial conditions.

"In the interest of giving more comprehensive information, it is offered for the consideration of the conference, that a paragraph be added to the present summary, at least quarterly, discussing current developments in our foreign trade, or information on such other matters in connection with the leading nations of the world which might have a bearing on our own business situation. Reliable information on matters of this character are becoming available from authoritative sources, and it might be advisable to give a brief summary of these developments to our banks and the business community in general. Events of the last few years have demonstrated the fact that our contact with other countries affects our domestic situation, and it would seem desirable to have at least periodically a brief statement of such facts."

The Chairman of the Committee was requested to take up with the Federal Reserve Board the suggestion contained in said report that a paragraph be added to the summary, at least quarterly, in regard to foreign developments affecting our business.

(16)

Topic 2-E, Report of Committee on Bank Examinations and Reports.

Mr. Hoxton, Chairman, stated that since the last conference no matters had been referred to the Committee, it had held no meeting, and consequently had taken no action. There appearing to be no further need for the Committee, it was discharged.

#### GENERAL TOPICS.

(17)

Topic 3-A. Reclassification of member banks by electoral groups. (See Federal Reserve Board's telegram, September 10, 1932.)  
- Mr. Walsh.

The Board's telegram above mentioned suggested that each Chairman canvass the situation in his district with a view of submitting recommendations as to changes, if any, in group classifications before the election next year.

Mr. Walsh read a statement in which he suggested that the member banks be reclassified according to their contributions to the capital stock of the Federal reserve bank, Group 1 to consist of the banks with the largest capital holdings, Group 2 the next largest, and Group 3 the smallest, and the aggregate holdings of each group to be as nearly equal as practicable. Some of the Federal Reserve Agents expressed the opinion that if this plan were adopted in their districts, it would make the number of banks in each group more

disproportionate, especially in Group 1, which would be too small. Most of them desired no change in their present classifications.

(18)

Topic 3-B. Cancellation of Federal reserve bank stock held by member banks which have discontinued operations, and for which receivers have not been appointed. - Mr. Walsh.

Mr. Walsh reviewed the provisions of the Federal Reserve Act and the Board's regulations in regard to this subject, and the matter was discussed. The Secretary read an office memorandum dated November 9, prepared by B. M. Wingfield, Assistant Counsel of the Federal Reserve Board, which had just been furnished him. It stated in part as follows:

"When Congress was considering the Board's recommendation that the law be amended so that the Federal reserve bank stock held by national banks which had discontinued banking operations might be more promptly effected, it was suggested that the law should be amended so as to authorize the cancellation of the Federal reserve bank stock held by such a national bank without requiring that it be placed in receivership. However, both the Federal Reserve Board and the Comptroller of the Currency disapproved of this suggestion and advised the Chairman of the Committee on Banking and Currency of the House of Representatives that they preferred the Federal reserve bank stock held by a national bank should not be canceled unless the bank was placed in liquidation or in receivership."

The Assistant Counsel's memorandum is appended as Exhibit D.

(19)

Topic 3-C. Activities of the Bank Relations Departments. In view of the present low earnings of reserve banks, is it not desirable to reduce, at least temporarily, the activities and expenses of the Bank Relations Departments? - Mr. Walsh.

Mr. Walsh called attention to the Bank Relations expenses of each Federal reserve bank for the year 1931, and explained the present status of his department. Several of the Agents mentioned that during the past two years it had been necessary for their field men temporarily to assist other departments, which had reduced the activities and expenses of their Bank Relations Departments. It was moved, seconded and carried, that it is the sense of this meeting that, while this is a matter for each district to determine, the service is valuable and should be continued.

(20)

Topic 3-D. Should active officers of Federal reserve banks borrow money from member banks in the same Federal reserve district? - Mr. Wood.

This topic, after discussion, was passed without action.

(21)

Topic 3-E. A discussion of the benefits derived from meetings of stockholders of Federal reserve banks. - Mr. Wood.

Mr. Wood stated that he had suggested this topic in order to obtain information on the subject.

The Chairmen of the Federal Reserve Banks of Boston, Richmond and Dallas, the only banks which have had stockholders' meetings, reported as to their experiences. Boston has had ten annual meetings and Richmond eight. Dallas had no meeting this year. The Richmond bank pays only for the dinner for

member bank representatives, while Boston for several years has arranged to reimburse member banks represented at the meeting for the railroad fare and pullman accommodation of not more than one representative from each member bank, and has served a luncheon to the member bank representatives on the day of the meeting. Dallas had paid for hotel bills as well as for transportation of member bank representatives.

It was pointed out that such meetings afforded an opportunity to inform bankers with regard to legislation and other matters of current importance and to obtain their views on the same. They also give bankers an occasion when they can discuss in person with officers of the bank matters of routine operation and any causes of complaint, and to consider as a body such matters as interest on reserve deposits, increase in their share of the earnings of the Federal reserve bank, petitions to Congress, etc.

The experience of Boston with the meetings has been quite satisfactory, as all of the meetings have been well attended and all of the matters brought before the meetings have been of a constructive character. The Boston meetings have been helpful in promoting and maintaining a spirit of cooperation between the member banks and the reserve bank. At some of the meetings held in the other banks the attendance has been relatively small, and the opinion was expressed by officers of those banks that the real objective of the meetings has not been entirely gained and that there may be some doubt whether the meetings are justified.

(22)

Topic 3-F. The exhibit of the Federal Reserve System at "A Century of Progress" to be held in Chicago in 1933. - Mr. Stevens.

Mr. Stevens called attention to the second report dated November 5, 1932, of the Executive Committee designated by the Federal Reserve Board to consider the System's participation in the Chicago Exposition, copies of which report have been furnished to the Federal Reserve Board and to each Federal Reserve Agent and Governor. The committee recommended that floor space approximating 3,000 square feet be taken in a building immediately adjacent to the Federal Building, in the Social Science Group, and that the exhibit consist of a presentation, general and specific, of the functions of the reserve system, together with information booth, literature, etc. Mr. Stevens stated that over 40 million people are expected to attend the exposition, and that it affords an unusual opportunity to attract a great mass of individuals from all walks of life and from all parts of the country, many of whom have little or no conception of the System's functions. He said that the exhibit is estimated to cost about \$75,000, which, divided among the twelve reserve banks, would not be onerous to any one of them.

After discussion, it was decided that, subject to approval of the Federal Reserve Board, an appropriation of not exceeding \$75,000 be made by the twelve reserve banks for said exhibit, to be prorated in the usual manner.

(23)

Topic 3-G. Facilitating information on real estate loans from State member banks. (Outline of plan which has been adopted in the Richmond district.) - Mr. Hoxton.

At the suggestion of Mr. Hoxton, this topic was passed without discussion.

(24)

Topic 3-H. An amendment to the Federal Reserve Act and/or Regulations of the Federal Reserve Board providing that "funds received and held in the trust department of a State member bank

awaiting investment or distribution may be deposited in the commercial department or savings department of the bank to the credit of the trust department, provided that the bank first delivers collateral security to the trust department." - Mr. Oscar Newton.

Mr. Newton (Atlanta) stated that only one of the six States in his district required that uninvested trust funds deposited in the commercial department of a bank be secured by pledge of collateral security. However, several of the State member banks have voluntarily pledged securities with their trust departments or with independent agents for the protection of uninvested trust funds which are mingled with the general assets of the bank. State supervisory authorities and bankers' associations in some cases have suggested that this be done. He suggested an amendment to the Federal Reserve Act and/or regulations of the Federal Reserve Board to enforce this protection to trust funds in State member banks as well as in national banks. The Secretary read an office memorandum dated November 10, 1932, from George B. Vest, Assistant Counsel of the Federal Reserve Board, regarding this subject, which had just been furnished him. It stated in part as follows:

"The Board's Regulation F contains a provision applicable to national banks similar to that which has been suggested by Mr. Newton for application to State member banks....A condition of membership to this effect was imposed by the Federal Reserve Board upon one State member bank, the State Planters Bank and Trust Company of Richmond, Virginia, which became a member in 1922; but the Board has not adopted a requirement of this kind as a general policy in admitting State member banks. A uniform provision of this kind in the law or in the Board's regulations or conditions of membership might in some cases be somewhat inconsistent with State law, because in some jurisdictions the law does not permit a debtor to give a lien upon assets which remain in his possession and under his control and State statutes sometimes prohibit banks from giving preferences by pledging the bank's assets."

Mr. Newton was asked to take the matter up with Mr. R. N. Sims, Secretary of the National Association of Supervisors of State Banks, New Orleans, with a view of having it consider the question at its next annual convention.

A copy of the Assistant Counsel's memorandum is attached as Exhibit E.

(25)

Topic 3-I. What can we do to increase the demand by investors and improve the market for farm real estate mortgages? (Owners of unencumbered farms in the Kansas City Federal reserve district are not able to borrow on them, and mortgages that are maturing in many cases cannot be renewed.) - Mr. McClure.

Mr. McClure stated that owners of farms who do not reside on them, although the land is clear of encumbrance, are unable at this time to borrow on them because the Federal Land Banks will lend only to owners living on their farms, and the insurance companies, joint stock land banks, and farm loan companies, are not making such loans. On account of the low price of farm commodities, etc., many owners of such lands have been unable to pay their debts to banks and others, even though their land is entirely clear. If such loans were available, the owners would borrow, pay their debts, and thereby help the country banks get in a more liquid condition.

The question was discussed, but no action taken.

(26)

Topic 3-J. Desirability of amending the law so that when there is only one person nominated for the office of director of the

Federal reserve bank, the Federal Reserve Agent may be authorized to cast the vote in his favor, thus saving considerable expense and loss of time in conducting the election. - Mr. Isaac Newton.

Mr. Newton (San Francisco) reviewed the present requirements of Section 4 of the Federal Reserve Act in regard to voting, and the topic was discussed. While the proposed amendment would save time and expense, it was felt by some that it is desirable to send out the ballot and go through the usual procedure even though there is only one candidate, because it emphasizes the part played by the member banks and promotes their interest in the election. No action was taken.

#### CURRENT PROBLEMS IN RELATION TO MEMBER BANKS.

(27)

Topic 4-A. Uniform policy to be followed by State and National examiners in the handling of the various types of bank assets including the classification of bond depreciation in State banks. - Messrs. Case, Wood and Stevens.

Attention was called to the Federal Reserve Board's letter of January 14, 1932, which, in keeping with the Comptroller's instructions of December 18, 1931, to national bank examiners, stated in part as follows:

"The Board believes that, in making examinations of State member banks and in analyzing reports of examinations of these institutions made by State authorities, it would be desirable for the Federal reserve banks to set forth the entire amounts of depreciation on securities, grouped according to the ratings or issues. The amounts of depreciation on stocks and on defaulted bonds only should be shown as losses."

Inquiries of those present revealed that some of the State banking departments are not following the Comptroller's classification. However, the Federal Reserve Agents are endeavoring to effect uniformity.

(28)

Topic 4-B. Capital position of the banks in the country, as it refers to both impairment and inadequate capital. - Messrs. Case and Curtiss.

After discussion, this topic was passed without action, it being understood that the Chairman, Mr. Curtiss, would discuss the matter with Governor Meyer.

(29)

Topic 4-C. Consideration of the unusual amount of reserve deficiencies under existing circumstances, and the Federal Reserve Agents' responsibilities and methods of discharging them in connection therewith. - Messrs. Walsh and Stevens.

Mr. Stevens read the following statement:

"We have complied with the Board's regulations and have in each case conferred with the State Banking Commissioner or the Chief National Bank Examiner. In a few cases we have written the individual directors, calling attention to the reserve record of the bank and to the law and regulations.

"Owing to the extraordinary conditions prevailing and the lowered morale of many of the bankers and their directors, in numerous instances the Commissioners and the Comptroller's department have suggested that we do not

take this matter up with the individual directors excepting where there is a wilful disregard of the law. In some cases where this has been done, there has been an unfavorable reaction on the part of the directors and loss in deposits has resulted.

"It has been impossible for many of the banks to maintain their required reserves continuously, due to steady declines in deposits and their inability under present conditions to make like reductions in their loans. Many of them are doing everything possible. We are inclined to think that except for wilful disregard or other remediable reasons, we should not press the situation at this time."

Some of the other Chairmen expressed similar sentiments. In the discussion, attention was called to the fact that in its letter of January 18, 1928, X-5039, the Federal Reserve Board stated that Section IV(b) of its Regulation D, requiring the Agent to write to the directors, was purposely phrased so as to admit of some flexibility and to permit the Agents to exercise a reasonable discretion in its administration.

(30)

Topic 4-D. Moratoria on the payment of bank deposits. - Mr. Stevens.

Mr. Stevens called attention to the fact that in the Seventh District approximately 130 national banks, 49 State bank members, and 650 nonmember banks are known to be on some kind of moratorium, such as temporary public holidays declared by local authorities, refusals to pay (announced by public proclamation often signed by the banks in the county or the local clearing house), restrictions on payment of deposits, signed waivers obtained from depositors, refusal to pay in individual cases without any public announcement, etc. Official notices of these moratoria are not received, because they are not recognized by the supervising authorities unless there are laws covering them.

He stated that Michigan and Wisconsin have recently enacted legislation in regard to moratoria. Under the law of Michigan, the Bank Commissioner is authorized to appoint a custodian in lieu of a receiver in such cases as he thinks may work out. During the custodianship, the bank continues open, but does not pay out deposits. It proceeds to eliminate the undesirable assets and to eliminate a corresponding amount of the deposits. These assets are put in a trust fund and the depositors are given a certificate of interest therein. This requires the written consent of 85% of the deposit liability of the bank. Thereafter the stockholders' liability is assessed to provide new capital, and if the plan is consummated the bank is permitted to reopen with its reduced amount of deposits and even to convert them into long-time certificates. If the reorganization is not effected within reasonable time, a receiver is appointed and the bank is definitely closed. This plan keeps the bank open for certain necessary purposes of the community, and establishes a legal method by which a reorganization can be effected without the appointment of a receiver. The Wisconsin law is along the same general lines.

Other Agents stated that various forms of bank moratoria had also developed in their districts. Mr. Smead, Chief of the Board's Division of Bank Operations, called attention to the Board's letter of November 18, 1929, St. 6386, which stated: "The term 'bank suspension' should, as in the past, be taken to mean a bank closed to the public either temporarily or permanently by supervisory authorities or by the bank's board of directors, on account of financial difficulties, regardless of whether or not the bank is ultimately classed as a failure by the supervisory authorities." He stated that this definition was not being applied uniformly in all of the districts, especially with regard to banks on a moratorium basis. One State department may classify them as suspensions, while another does not. To assist in formulating a

definite procedure, he asked that the Agents submit to him any suggestions they may have to offer.

(31)

Topic 4-E. Granting of trust powers, particularly to small banks in small communities. - Mr. Stevens.

Mr. Stevens called attention to the fact that the administration of a trust department is a specialized undertaking, requiring legal and investment knowledge and experience frequently not possessed by bankers who are competent to manage the affairs of a commercial bank. He expressed the opinion that the institution which is given trust powers should have a sufficient demand for that kind of business to warrant the expense of having highly trained men to give it their attention. He stated that this is obviously impossible in the average small bank in the small community, and that in such cases the trust business should find lodgment in some other institution which provides proper experience and facilities.

In the discussion of the subject, Mr. DeCamp mentioned that a similar topic had been suggested by the Federal Reserve Board and considered at the Federal Reserve Agents' Conference in November, 1926, at which it was suggested that "the conference would prefer to defer a definite recommendation as to whether the Board should require a higher capital requirement than \$25,000 of banks applying for trust powers until correction of existing violations of law and regulations have proceeded further and until some knowledge can be gained of the character of investments in the fiduciary departments of banks of various sizes; that from information at hand there is no reason to believe that banks with very small capital are not conducting their trust departments as satisfactorily as banks with larger capital." Mr. McClure expressed the opinion that if the small national bank is denied trust powers, no doubt the trust business would be handled by the local banker in an individual capacity or by local lawyers and business men. Some might be without much financial responsibility or experience, and doubtless they would deposit the funds in the very bank which was denied the powers. Moreover, if small national banks are refused trust powers, it would place them at more of a disadvantage with State institutions that have them and would be another incentive for their conversion.

In this connection, attention was called to the Federal Reserve Board's letter of April 12, 1931, X-6870, stating that thereafter besides detailed information regarding the condition of the applicant bank and the need of the community for trust powers, it desires information as to the qualifications and experience of the person or persons selected to discharge the duties of trust officer. At the request of the conference, Mr. Chester Morrill, Secretary of the Board, entered the room and discussed the present practice in passing on applications for fiduciary powers, etc. (It was suggested to him that if the furnishing of application blanks to the banks were left entirely to the Federal Reserve Agents, it would save some of the banks the embarrassment and trouble of passing the resolution and having the application later declined.)

Upon motion duly made and seconded, a standing committee on fiduciary powers, consisting of Messrs. Stevens (Chairman), Case, DeCamp and McClure, was appointed to study this matter in cooperation with the Federal Reserve Board.

(32)

Topic 4-F. Relations between Federal reserve banks and national and State examining departments. - Mr. Stevens.

Topic 4-G. Examinations by Federal reserve bank examiners vs. subsequent continuing personal calls by such representatives of the Federal reserve bank in the nature of assistance in

adjusting unsatisfactory conditions and endeavoring to correct errors of management. - Mr. Stevens.

The above two topics were considered together. Mr. Stevens made the following comments:

"It is obvious that the Federal reserve banks, occupying a position of sponsorship for their members, should maintain close and friendly relations with the supervising authorities, both State and national, under whose auspices the examinations of these banks are made. We have tried not to put ourselves in a position where we could be criticized for overriding the authority of the supervising departments and our first approach as to corrective measures is always through the department itself. We have found that the departments are ready and willing to give us information as to what measures they are taking and to welcome our cooperation. In certain States they seem to be willing for us to go direct to the banks urging our views as to what should be done in many instances.

"By its very nature an examination is critical in its essence. Indeed, under present day conditions, an examination and report to the management and to the board of directors in the nature of criticisms too often may lead to their discouragement and loss of morale, at a time when they are waging a hard fight to exist. It seems to me that it is important that we in the Federal reserve banks should follow up corrective measures in a constructive and helpful way. We should show that the sponsorship of the Federal reserve bank means friendly and helpful interest in their difficulties, rather than merely a criticism of their actions.

"I have instructed our examiners from time to time between examinations to make personal calls on banks in unsatisfactory condition, and if advisable to call in the officers and directors from time to time with a view of helping them work out their problems."

In the discussion of these subjects, attention was called to the Federal Reserve Board's Regulation H, which indicates that Federal reserve examiners shall act with the examination staff of the State, and to the Board's letter of July 26, 1930, X-6665, which stated among other things: "If this supervision is not conducted by State authorities, the Federal Reserve Agent is directed to take such action as in his opinion will discharge the responsibilities of the Board."

(33)

Fee for copies of examination reports.

At the suggestion of Acting Comptroller of the Currency Awalt, he spoke to the Federal Reserve Agents and Governors in joint session on November 15 at 11:40 a.m., all being present. He called attention to the banking situation and to the policy pursued by his office, which were discussed. He also stated that as the surplus funds of his department are being rapidly reduced, he desires to increase the basic fee charged national banks for examinations and to increase the charge to the Federal reserve banks for copies of the reports furnished them.

In discussing the matter, Mr. DeCamp called attention to the Federal Reserve Board's letter of July 15, 1924, X-4116, stating that it had adopted the following resolution: "Counsel having advised the Board that there is no law requiring the Comptroller of the Currency to furnish copies of examination reports to Federal reserve banks and that Federal reserve banks may lawfully purchase such copies from the Comptroller, Be It Resolved That the Federal Reserve Board has no objection to the purchase of such copies by Federal reserve banks at prices to be agreed upon from time to time between the banks and the comptroller." It was mentioned that the cost of such copies had been changed from time to time, and has ranged from \$4.50 to \$10, the present fee being \$5.

Whereupon, it was moved, seconded and carried, that until the end of 1933 each Federal reserve bank pay a fee of \$10 for each of said reports.

#### NATIONAL AND STATE BANKING SYSTEMS OF THE COUNTRY.

(A discussion of the weaknesses that have developed in the systems during the present period and what can be done to strengthen these systems.)

(34)

At the invitation of the conference, Messrs. McClelland, Goldenweiser, Smead, Parry, Riefler, and Riddle were present when topics 5-A, B, C, D, and E were discussed. The Secretary was asked to mail Dr. Goldenweiser copies of the memoranda prepared by the Chairmen on these subjects.

(35)

Topic 5-A. Desirability of a unified banking system and what might be done toward working for such a system. Possibility of working away from the idea of the forty-eight different varieties of State banking institutions, operating under various State laws, and having all commercial banks consist of one type and come under one classification, namely, that of the National banking system. - Mr. Case.

In the discussion of this topic there were pointed out the competition between the State and national banks, the increase in their number and the enlargement of their powers, and the experiences of the recent past. Mr. Case expressed the opinion that these developments clearly indicated the desirability of a unified banking system. He suggested that if it is impossible to secure legislation which would eliminate at one time the dual system, indirect methods might be used, such as the securing of legislation extending branch banking, etc.

(36)

Topic 5-B. General subject of membership in the Federal Reserve System and what can be done to bring in more eligible nonmember banks. - Mr. Case.

It was mentioned that between July 31, 1922, and 1933, the number of member banks has decreased from 9,930 to 6,947, but the ratio of members to all incorporated banks has increased from 32.9 to 37.5 per cent. At the end of 1931 the resources of the member banks represented approximately 75% of the resources of all incorporated banks in the United States.

Mr. Case expressed the opinion that it is desirable, as and when possible, to increase the membership of the Federal Reserve System. He felt that a nonmember institution whose management is well regarded, which has a favorable record, and whose condition indicates it will weather the present depression, ought to be encouraged to apply.

During the discussion, attention was called to the Federal Reserve Board's letter of June 19, 1931, X-6914, which requires that at the time of admission of a State bank or trust company, it shall be free from all known losses and depreciation, so that its statement will reflect as nearly as possible the value of its assets. Several of the Agents stated that on account of the bond depreciation and other unsatisfactory conditions, very few of the nonmember banks could qualify for membership at the present time. *modified*

(37)

Topic 5-C. Experiences of various districts in connection with group banking. - Mr. Stevens.

Mr. Stevens stated:

"I think it may be said that while this system may have had some considerable effect in lessening the number of bank failures, it has not been satisfactory from an operating or an earning standpoint. I am quite sure that all of these groups would welcome a branch banking law which would enable them to convert their group banks into branches. The group banks under local management and with local boards have not always been amenable to the suggestions of the parent institution and have had their own ideas about how the banks in their own communities should be run, and it has been difficult to bring the various banks into common policy and practice. In numerous cases the parent institution has been called upon for very substantial sums to save these banks from closing, and on the other hand the benefits to the parent institution have been comparatively negligible."

Mr. Case stated that from his observation of the operations of group banks, several conclusions seemed to be obvious: "(1) For successful operation a group of banks requires management of a quality higher than that necessary for successful management of individual banks. (2) In the majority of cases, but not in all cases, group management has improved the standards of the group members. (3) Considerable advantages in the way of economies and lessened losses can be obtained by group management. (4) Group banks are quite successful in holding deposits and competing on favorable terms with independent institutions. (5) Banking dangers which may result from losses due to poor loans, bad assets, etc., or from bank runs, are greater where they occur in groups than for individual banks, for the reason that if one member of a group loses the confidence of the public, the entire group is likely to be affected. (6) Group banks offer to some extent the advantages which accrue from branch banking operations, but the group banks do not obtain a like degree of flexibility or safety."

(38)

Topic 5-D. Weaknesses that have developed in national and State banks during the last few years, with possible suggestions in reference to improving laws that govern member banks. - Mr. Curtiss.

Mr. Curtiss submitted a statement enumerating weaknesses that have developed in national and State banks during the present period, and suggesting certain remedies, which was followed by a general discussion of the subject.

(39)

Topic 5-E. Contacts with State Bank Commissioners for the purpose of influencing desirable changes in the State Banking Law. - Mr. Curtiss.

A number of the Federal Reserve Agents stated that on account of the close contacts maintained by them with the State Bank Commissioners through joint examinations, correspondence, and visits, they have had little difficulty in getting their support on desirable new legislation or reasonable changes in existing laws.

(40)

Report of Committee on Branch, Group and Chain Banking.

At the conclusion of the discussions of these topics regarding the

banking systems, Dr. Goldenweiser was asked to speak on the report of the System's Committee on Branch, Group and Chain Banking. A copy of the summary report had been handed to each Federal Reserve Agent for his confidential information at the joint conference on Monday. He stated that the full report would consist of eleven volumes in addition to the summary, and that all had been completed except two volumes which are still in the hands of the staff. He said that the report presents facts rather than makes recommendations. He called attention to certain sections of the summary report and to the conclusions of the Committee on page 14, after which a general discussion took place.

(41)

Topic 6. - Discount rates and open market operations.

Topic 7. - Discussion of general credit and financial situation.

As the subjects of discounts, open market operations, and general conditions were discussed at the joint conference of the Federal Reserve Agents and Governors with the Federal Reserve Board, no further discussion of these topics took place.

There were furnished to those present copies of a confidential memorandum dated November 12, 1932 (R. & S. Cr. 1), in regard to the banking and credit situation, which had been prepared by the Federal Reserve Board's Division of Analysis and Research. Attached thereto were advance pages 679-83 of the November Federal Reserve Bulletin.

A copy of the memorandum, without the charts and Bulletin pages, is appended as Exhibit F.

#### OTHER MATTERS.

(42)

After hearing the report of the Nominating Committee, consisting of Messrs. Austin (Chairman), DeCamp and McClure, on motion duly made and seconded, Mr. Stevens was elected Chairman of the Conference, and Mr. Case, Vice-Chairman. The appointment of a Secretary was left to the discretion of the Chairman.

(43)

Chairman Stevens announced that the standing committees are as follows:

Executive Committee: Messrs. Stevens (Chairman), Curtiss, Case, Austin, Mitchell and Newton (San Francisco).

Bank and Public Relations Committee: Messrs. DeCamp (Chairman), Hoxton, Newton (Atlanta) and Wood.

Committee on National Summary of Business Conditions: Messrs. Austin (Chairman), Curtiss, Case and Walsh.

Committee on Fiduciary Powers: Messrs. Stevens (Chairman), Case, DeCamp and McClure.

(44)

On Wednesday afternoon, November 16, Governor Meyer introduced to the conferees Mr. Harrison, Assistant to the Governor, Mr. Morrill, Secretary, and Mr. Paulger, Chief of the Division of Examinations, who have been added to the Board's staff since the last conference. The Governor emphasized the responsibilities of the Federal Reserve Board and the Federal Reserve Agents, and their duties in the discharge of same. During the discussion it was suggested that a meeting be held in Washington of the heads of the examination divisions of the

reserve banks.

(45)

Following the conference with the Federal Reserve Board on November 17, the Federal Reserve Agents and Governors met in joint session at 12:45 p.m., all being present except Chairman McClure and Governor Hamilton. Upon motion of Governor Black, the following statement was adopted:

"The question of salary reductions of officers of reserve banks and the possible reductions of wages of their employees having arisen in a joint conference of the Federal Reserve Board and the Governors and Chairmen of the respective banks, and this joint conference of Governors and Chairmen having been called to consider this question, and discussion having been had thereon, it is moved that it is the sense of this joint conference that such salaries and wages should not be reduced at this time, reasons for such conclusion to be furnished the Board. By reason of a delicacy involved in considering officers' salaries since those of the members of this conference are involved, the question of our salaries is not included in this motion. In expressing our views on this question, we do so with all deference to the right of our directors to fix and the Federal Reserve Board to approve all salaries."

Governors Young, Harrison, McKinney and Calkins, and Federal Reserve Agents Curtiss, Newton (Atlanta), Walsh and Newton (San Francisco) voted "No."

Respectfully submitted,

(Signed) C. M. STEWART,

Secretary.

Exhibit A  
See (1)

FEDERAL RESERVE BOARD

WASHINGTON

X-7269

October 11, 1932.

SUBJECT: Meeting of Governors and Federal Reserve Agents.

Dear Sir:

A meeting of the Federal Reserve Agents and Governors of the Federal reserve banks with the Federal Reserve Board, in Washington, is hereby called, beginning on Monday, November 14, 1932, and extending over such period as may be deemed necessary at the time.

It is understood that the Chairmen of the Governors' Conference and the Conference of Federal Reserve Agents will submit suggestions as to the program for this meeting, after consultation with the various Governors and Federal Reserve Agents, and the Federal Reserve Board will supplement the program by any topics that it may desire to bring up for discussion at the meeting. An effort will be made to have the complete program in the hands of the Governors and Federal Reserve Agents sufficiently in advance of the conference date to enable them to give advance consideration to the several matters which will come up for consideration.

Very truly yours,

Chester Morrill,  
Secretary.

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

FEDERAL RESERVE BOARD

WASHINGTON

X-7284

November 3, 1932.

SUBJECT: Program for Meeting on November 14, 1932.

Dear Sir:

The Board has received from the Chairman of the Federal Reserve Agents' Conference and the Secretary of the Governors' Conference lists of all the topics suggested by the Federal reserve agents and the Governors for consideration at the meeting of the Federal Reserve Board with the Federal reserve agents and Governors which will be held beginning on Monday, November 14, 1932, at 10:30 a.m. Careful consideration has been given to all of these suggestions, and a copy of the program which has been adopted by the Federal Reserve Board for this meeting is inclosed herewith for your information.

While it was not practicable to include all of the suggested topics in the Board's program, which it is hoped will be completed on November 14, it is understood, of course, that at the conclusion of the Board's program, and during the day on November 15, the Federal reserve agents and Governors may, if they so desire, discuss any other subjects in which they are interested, and the members of the Board will be glad, as far as possible, to hear such discussions. At a session on November 15 or 16, following such discussions, the Board will receive any recommendations which the Federal reserve agents or the Governors may have formulated for its consideration.

In this connection, while a general discussion of open market policy will take place on November 14, as a part of the Board's program, the Board desires that a meeting of the Open Market Policy Conference be held while the members of the conference are in Washington.

Very truly yours,

Chester Morrill,  
Secretary.

Inclosure.

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

PROGRAM

CONFERENCE OF THE FEDERAL RESERVE BOARD  
with the  
FEDERAL RESERVE AGENTS AND GOVERNORS  
OF THE FEDERAL RESERVE BANKS  
November 14, 1932.

- I. Open market policy.
- II. Government securities as collateral to Federal reserve notes under section 16, as amended by the Act of February 27, 1932.
  - (a) Policy.
  - (b) Question of extension of authority beyond March 3, 1933.
- III. Activities of Banking and Industrial Committees.
- IV. Proposals for changes in banking laws and for reorganization of banking system.
- V. Status of report of System Committee on Branch, Group and Chain Banking.
- VI. Status of report of System Committee on Reserves.
- VII. Policy and procedure in granting permits under the provisions of the Clayton Act relating to interlocking directorates.
- VIII. Loans by Federal reserve banks under sections 10(a) and 10(b) of the Federal Reserve Act, as amended by the Act of February 27, 1932.
  - (a) Experience and policy.
  - (b) Question of extension of authority under section 10(b) beyond March 3, 1933.
- IX. Discounts for individuals, partnerships and corporations under section 13, as amended by the Act of July 21, 1932.
  - (a) Experience and policy.
  - (b) Question of amendment so as to require indorsement or other security in connection with such paper rather than both.
- X. Proposed study of acceptance practice.
- XI. Finance company paper.

PROGRAM  
OF  
FEDERAL RESERVE AGENTS' CONFERENCE  
WASHINGTON, D. C.

Beginning November 14, 1932.

I. TOPICS PROPOSED BY FEDERAL RESERVE BOARD.

- (a) Question of extension of authority beyond March 3, 1933, for Government securities as collateral to Federal Reserve notes under Section 16 as amended by the Act of February 27, 1932.
- (b) Question of extension of authority beyond March 3, 1933, for loans by Federal Reserve Banks under Section 10(b) of the Federal Reserve Act as amended by the Act of February 27, 1932.
- (c) Question of amendment so as to require endorsement or other security, rather than both, in connection with discounts for individuals, partnerships, and corporations, under Section 13 of the Federal Reserve Act as amended by the Act of July 21, 1932.
- (d) Finance company paper.
- (e) Policy and procedure in granting permits under the provisions of the Clayton Act relating to interlocking directorates.

II. REPORTS OF STANDING COMMITTEES OF THE CONFERENCE:

- (a) Executive Committee - Mr. Curtiss, Chairman.
- (b) Committee on Reserves - Mr. Curtiss, Chairman.
- (c) Bank and Public Relations Committee - Mr. Oscar Newton,  
Chairman.
- (d) Committee on National Summary of Business Conditions -  
Mr. Austin, Chairman.
- (e) Committee on Bank Examinations and Reports -  
Mr. Hoxton, Chairman.

III. GENERAL TOPICS:

- (a) Re-classification of member banks by electoral groups -  
(See Federal Reserve Board's telegram, September 10, 1932).  
Mr. Walsh.
- (b) Cancellation of Federal reserve bank stock held by member banks which have discontinued operations, and for which receivers have not been appointed. Mr. Walsh.
- (c) Activities of the Bank Relations Departments. In view of the present low earnings of reserve banks, is it not desirable to reduce, at least temporarily, the activities and expenses of the Bank Relations departments? Mr. Walsh.

- (d) Should active officers of Federal reserve banks borrow money from member banks in the same Federal reserve district?  
Mr. Wood.
- (e) A discussion of the benefits derived from meetings of stockholders of Federal reserve banks. Mr. Wood.
- (f) The exhibit of the Federal Reserve System at "A Century of Progress" to be held in Chicago in 1933. Mr. Stevens.
- (g) Facilitating information on real estate loans from State member banks. (Outline of plan which has been adopted in the Richmond district.) Mr. Hoxton.
- (h) An amendment to the Federal Reserve Act and/or Regulations of the Federal Reserve Board providing that "funds received and held in the trust department of a State member bank awaiting investment or distribution may be deposited in the commercial department or savings department of the bank to the credit of the trust department, provided that the bank first delivers collateral security to the trust department".  
Mr. Oscar Newton.
- (i) What can we do to increase the demand by investors and improve the market for farm real estate mortgages? (Owners of unincumbered farms in the Kansas City Federal reserve district are not able to borrow on them, and mortgages that are maturing in many cases cannot be renewed).  
Mr. McClure.
- (j) Desirability of amending the law so that when there is only one person nominated for the office of director of the Federal reserve bank, the Federal Reserve Agent may be authorized to cast the vote in his favor, thus saving considerable expense and loss of time in conducting the election.  
Mr. Isaac Newton.

IV. CURRENT PROBLEMS IN RELATION TO MEMBER BANKS:

- (a) Uniform policy to be followed by State and National Examiners in the handling of the various types of bank assets including the classification of bond depreciation in State banks.  
Mr. Case-Mr. Wood-Mr. Stevens.
- (b) Capital position of the banks in the country, as it refers to both impairment and inadequate capital.  
Mr. Case - Mr. Curtiss.
- (c) Consideration of the unusual amount of reserve deficiencies under existing circumstances, and the Federal Reserve Agents' responsibilities, and methods of discharging them in connection therewith.  
Mr. Walsh-Mr. Stevens.
- (d) Moratoria on the payment of bank deposits. Mr. Stevens.
- (e) Granting of trust powers, particularly to small banks in small communities.  
Mr. Stevens.

- (f) Relations between Federal reserve banks and National and State Examining departments. Mr. Stevens.
- (g) Examinations by Federal reserve bank examiners vs. subsequent continuing personal calls by such representatives of the Federal reserve bank in the nature of assistance in adjusting unsatisfactory conditions and endeavoring to correct errors of management. Mr. Stevens.

V. NATIONAL AND STATE BANKING SYSTEMS OF THE COUNTRY:

(A discussion of the weaknesses that have developed in the systems during the present period and what can be done to strengthen these systems.)

- (a) Desirability of a unified banking system and what might be done toward working for such a system. Possibility of working away from the idea of the forty-eight different varieties of State banking institutions, operating under various State laws, and having all commercial banks consist of one type and come under one classification, namely, that of the National banking system. Mr. Case.
- (b) General subject of membership in the Federal Reserve System and what can be done to bring in more eligible non-member banks. Mr. Case.
- (c) Experiences of various districts in connection with group banking. Mr. Stevens.
- (d) Weaknesses that have developed in National and State banks during the last few years, with possible suggestions in reference to improving laws that govern member banks. Mr. Curtiss.
- (e) Contacts with State Bank Commissioners for the purpose of influencing desirable changes in the State Banking Law. Mr. Curtiss.

(It is hoped that when this subject is discussed some of the members of the System's Committee on Branch, Group and Chain Banking will attend and take part in the discussion.)

VI. DISCOUNT RATES AND OPEN MARKET OPERATIONS.

VII. DISCUSSION OF GENERAL CREDIT AND FINANCIAL SITUATION.

VIII. OTHER MATTERS, SUCH AS CONFERENCE ORGANIZATION, ETC.

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At previous conferences members have prepared in advance papers on the different subjects to be discussed. It is hoped that each Federal Reserve Agent will follow this procedure.

REPORT OF THE COMMITTEE ON BANK AND PUBLIC RELATIONS  
TO THE AGENTS' CONFERENCE - 1932

As no agents' conference was held during 1931, this report of your committee on bank and public relations activities of the twelve Federal reserve banks covers the two-year period ending August 31, 1932.

The work appears to have been carried on by the different banks along the same general lines as in preceding years but with some increase in the scope of the bank relations work in the latter year of the period due to the unusual problems facing the member banks.

Contacts with banks have been maintained in the various districts through regular visits to member banks, and, to some extent, to nonmember banks, attendance of Federal reserve bank officers at conventions and other gatherings, and meetings held at the Federal reserve banks. The public has been kept informed as to the System and its policies through contacts of officials of the Federal Reserve Board and the Federal reserve banks with journalists and writers, speeches made at conventions and other meetings by Federal reserve officials and the distribution of literature to the public, including The Federal Reserve Bulletin and the monthly reviews of business conditions.

As a result of the difficult conditions facing the member banks during the second year of the period under review, the bank relations departments of some of the Federal reserve banks were called on to render special services in addition to their regular work.

At the Dallas bank, the three representatives were used for two months almost exclusively in the collection of paper for the Insolvent Banks Department, and in the presentation of cash letters for the transit department.

At the New York and Philadelphia banks, the bank relations department men were used by the officers of the loan function to keep them informed closely as to the situation with banks that were in a difficult position. Many member banks had had little experience in borrowing on eligible paper and bank relations men were called on to make a great number of emergency visits to assist them in selecting eligible paper or other collateral with which to borrow at the Federal Reserve Bank and also to advise with them on other methods of strengthening their position.

At the St. Louis bank, the two bank relations representatives were temporarily transferred to the credit and discount department for a period of five months, beginning with December, 1931.

Visits to Banks

Visits were made for the most part by bank relations department men. In some districts, however, officers from the main office or branch did some of this work. In the Kansas City district, during 1931, visits were made to member banks in Tulsa, and Oklahoma City by the directors of the Federal

## Reserve Bank of Kansas City.

In the Cleveland district, during August 1932, various banks in 21 counties in Ohio were visited by a director of the Federal Reserve Bank of Cleveland in company with a special representative, in making a survey for the purpose of ascertaining live stock conditions in those sections.

Member Banks: The figures in the tabulation below, giving the number of visits to member banks, show that in the twelve-month period ending August 31, 1931, approximately 500 more visits were made than in the preceding period, whereas in the 1932 period, the number of visits dropped approximately 3,000 below the number made the twelve months before. This drop is accounted for partly by the lesser number of member banks in existence in 1932 compared with 1931 (approximately 800 less, as of June 30) and partly because the bank relations men in several of the banks were used for special work over the latter period. Comparing the 1932 with the 1931 period, all the Federal reserve banks, excepting Philadelphia, made fewer visits; only three, however, namely Boston, Minneapolis and Kansas City showing a marked decrease. During the 1932 period it appears that six of the Federal reserve banks, namely New York, Philadelphia, Cleveland, Richmond, Atlanta, and Chicago have made one or more visits to each member bank during the period.

	<u>VISITS TO MEMBER BANKS:</u>		<u>Number of Visits to Member Banks</u>		
	<u>Number of Member Banks</u>		<u>Sept. 1, 1929</u>	<u>Sept. 1, 1930</u>	<u>Sept. 1, 1931</u>
	<u>June 30, 1931</u>	<u>June 30, 1932</u>	<u>to</u>	<u>to</u>	<u>to</u>
			<u>Aug. 31, 1930</u>	<u>Aug. 31, 1931</u>	<u>Aug. 31, 1932</u>
Boston	387	367	801	813	156
New York	901	824	1,674	1,589	1,351
Philadelphia	744	708	1,190	1,288	1,429
Cleveland	723	639	1,715	1,668	1,206
Richmond	458	387	581	584	422
Atlanta	371	338	299	760	560
Chicago	1,010	828	784	1,097	1,025
St. Louis	505	443	423	187	157
Minneapolis	617	563	48	239	52
Kansas City	855	798	929	745	179
Dallas	658	599	772	645	408
San Francisco	559	483	480	598	353
	<u>7,788</u>	<u>6,977</u>	<u>9,696</u>	<u>10,213</u>	<u>7,298</u>

Nonmember Banks: The tabulation which follows shows the number of nonmember banks in existence as of June 30, 1931 and June 30, 1932; also the number of visits made to nonmember banks in the two twelve-month periods under review, and, for comparative purposes, the number of visits made in the preceding twelve-month period. The total number of such visits made in the 1930 and 1931 periods were approximately the same. In the 1932 period only 1,656 visits were made compared with 2,705 in the preceding period. Two of the Federal reserve banks, namely Philadelphia and New York, have adopted the policy of calling regularly on nonmembers. In the Richmond district, nonmember banks are called on only when they can be conveniently reached in connection with a regular visit to a member bank, or when it is necessary to take up some special matter. Most of the banks appear to make only occasional visits to nonmembers, Kansas City having made none in the past year, Boston only three, and Minneapolis fifteen.

The New York bank reports favorable results from these visits, the friendly relations thus established with officers of nonmember banks tending to promote a better understanding of Federal Reserve policies and a closer

cooperation in handling banking difficulties which have recently developed in different sections of the district. The problems many nonmember banks have faced in the past year, have aroused their interest in membership and some of these would no doubt be inclined to apply when their affairs have been put in suitable condition. It is thought that frequent visits by representatives of the Federal reserve bank will maintain this interest and furnish further information about membership which will eventually lead to an increase in members.

VISITS TO NONMEMBER BANKS

	<u>Number of Visits to Nonmember Banks</u>				
	<u>* Number of Nonmember Banks</u>		<u>Sept. 1, 1929</u>		<u>Sept. 1, 1931</u>
	<u>June 30, 1931</u>	<u>June 30, 1932</u>	<u>to</u>	<u>to</u>	<u>to</u>
			<u>Aug. 31, 1930</u>	<u>Aug. 31, 1931</u>	<u>Aug. 31, 1932</u>
Boston	255	223	116	96	3
New York	387	335	689	673#	470¢
Philadelphia	428	314	446	602	408
Cleveland	896	772	97	35	28
Richmond	929	802	242	149	88
Atlanta	1,005	869	28	99	113
Chicago	3,218	2,638	312	445	282
St. Louis	1,803	1,564	303	133	55
Minneapolis	1,427	1,223	19	83	15
Kansas City	2,015	1,749	-	-	-
Dallas	747	662	259	210	95
San Francisco	654	525	213	180	99
	<u>13,764</u>	<u>11,676</u>	<u>2,724</u>	<u>2,705</u>	<u>1,656</u>

\* Figures include all incorporated banks  
(other than mutual savings banks)

# Includes 70 visits to mutual savings banks

¢ Includes 50 visits to mutual savings banks

Speeches, Meetings, Conventions

The following tabulation shows the number of speeches made, and of meetings and conventions attended during each of the two periods under review.

	<u>SPEECHES MADE</u>		<u>MEETINGS ATTENDED</u>		<u>CONVENTIONS ATTENDED</u>	
	<u>Sept. 1930</u>	<u>Sept. 1931</u>	<u>Sept. 1930</u>	<u>Sept. 1931</u>	<u>Sept. 1930</u>	<u>Sept. 1931</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>	<u>to</u>
	<u>Aug. 1931</u>	<u>Aug. 1932</u>	<u>Aug. 1931</u>	<u>Aug. 1932</u>	<u>Aug. 1931</u>	<u>Aug. 1932</u>
Boston	28	46	3	2	5	3
New York	54	17	31	14	4	5
Philadelphia	15	13	11	9	3	4
Cleveland	16	32	18	10	5	4
Richmond	6	4	7	8	6	5
Atlanta	8	-	7	3	6	6
Chicago	13	3	35	27	7	7
St. Louis	48	13	25	17	8	10
Minneapolis	27	46	3	5	-	1
Kansas City	16	34	24	15	5	6
Dallas	50	24	12	10	6	6
San Francisco	51	43	57	35	6	6
	<u>332</u>	<u>275</u>	<u>233</u>	<u>155</u>	<u>61</u>	<u>63</u>

During the first year under review, 14 radio addresses were made; one by Governor Norris of Philadelphia on the subject, "The Federal Reserve Bank of Philadelphia"; one by Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, on the subject, "Can the American Farmers Survive?"; one by Mr. Stewart of St. Louis, on the Federal Reserve System; one by Mr. Sayles and ten by Mr. Betts of the Dallas bank, on general banking topics.

During the second year, two radio addresses have been reported to us, one on November 23, 1931, by Director Harding of the Federal Reserve Bank of Dallas, on the subject of the Federal Reserve System, and one, July 6, 1932, by Mr. Phillips of the Omaha branch of the Federal Reserve Bank of Kansas City, on Trade Acceptances.

On November 8, 1930, the Minneapolis bank arranged an informal conference between officers of the Federal Reserve Bank and representatives of member banks, the conference being held in connection with the Tri-State Bank Management Conference of all banks in North and South Dakota and Minnesota. The afternoon was devoted to a discussion of matters of interest to member bankers, followed by questions and answers, after which the visiting members were entertained at luncheon.

The eighth annual stockholders' meeting of the Federal Reserve Bank of Boston was held on November 21, 1930, in the bank building, with 354 present, addresses being made by Governor Young and Mr. Hamlin of the Federal Reserve Board. The ninth annual meeting was held November 20, 1931, with an attendance of over 300. Addresses were made by Mr. Hamlin, Mr. Curtiss, chairman, and Governor Young.

On November 10, 1930, the Federal Reserve Bank of New York entertained at dinner in the bank building, the officials and examiners of the National and State banking departments of the district. The dinner was followed by a meeting in the auditorium which was addressed by the heads of the various banking departments and by Mr. Case and Dr. Burgess. About 200 were present.

On January 22, 1931, the New York State Bankers Association held its annual mid-winter meeting in the auditorium of the Federal Reserve Bank of New York at which addresses were made by Mr. Owen D. Young and Dr. Burgess. Preceding the meeting a luncheon was tendered the visiting bankers by the Federal Reserve Bank. A similar meeting was held on January 8, 1932, the delegates being welcomed on this occasion by Governor Harrison who spoke at the afternoon session on several matters of current banking interest.

At the Philadelphia bank, the annual meeting of the committee on Federal Reserve relations was held on December 15, 1930. The meeting was comprised of committees representing the various groups of the Pennsylvania Bankers Association, the Delaware Bankers Association, and the Federal Reserve Bank of Philadelphia. These meetings had been held annually for three years for the special consideration of matters pertaining to the functioning of the Federal Reserve System and the Federal Reserve Bank. No meeting was held during 1931 or 1932.

The stockholders' association of the Richmond bank held its annual meeting in Richmond in April, 1931, the meeting being preceded by a luncheon tendered the visiting bankers by the Federal reserve bank. The eighth annual meeting was held on April 15, 1932.

On June 3, 1931, the directors of the Federal Reserve Bank of Kansas

City and its Omaha branch met with bankers at Omaha, and with the bankers of Lincoln, Nebraska, at Lincoln on the following day. Similar meetings were held as follows: on September 3, 1931, with Denver bankers at Denver; on November 6, 1931, with Oklahoma City bankers at Oklahoma City; and on November 19, 1931, with Kansas City bankers at Kansas City.

The annual convention of the National Association of Supervisors of State Banks, held September 28 to 30, 1931, at New Orleans, La., was attended by representatives of six Federal reserve banks, namely Atlanta, Boston, Dallas, New York, Philadelphia, and St. Louis.

At the annual convention of the same association, held at Philadelphia, July 27 to 29, 1932, seven Federal reserve banks were represented, namely Boston, Chicago, Cleveland, Minneapolis, New York, Philadelphia, and St. Louis, four of these banks being represented by their respective Federal Reserve Agents.

#### Special Activities

The Federal Reserve film is being used by the Federal Reserve Bank of New York at meetings in the bank building and elsewhere in the district, and also through copies lodged with two outside agencies for general distribution. Copies of the film are also owned by the Federal reserve banks of Chicago and San Francisco but we are not advised as to whether the film is still being exhibited by those banks.

In August, 1932, the Federal Reserve Board designated a committee of eleven men connected with the Federal reserve banks or the Federal Reserve Board, to serve on a "System Committee" to arrange for a Federal Reserve Exhibit at the "Century of Progress" fair at Chicago in 1933, and selected as a working Executive Committee Mr. Pett of the Federal Reserve Bank of Chicago, Mr. Powell, Minneapolis, Mr. Post, Philadelphia, and Mr. Rhodes representing the Federal Reserve Board.

The Executive Committee filed a preliminary report October 3 last, which outlined the probable cost of floor space and of preparing an exhibit, the general nature of the proposed System Exhibit, and described the efforts being made to prevail on the fair officials to provide a special building to be devoted exclusively to money and banking, in which the Federal Reserve Exhibit could be housed. The report explains that the recommendation of the Executive Committee to the full Committee and to the Federal Reserve Board as to the character and details of our exhibit and, in fact, as to the actual participation by the System in the exposition, will depend largely on the outcome of their negotiations with the fair officials for a suitable building and space.

It was indicated that this preliminary report would be followed shortly by definite recommendations for the consideration of the Federal Reserve Board.

#### Future Opportunities in Bank Relations Work

It is probably true that the problems facing member banks are more numerous and more acute than ever before and it is the opinion of your committee that real assistance can be rendered them by the right type of bank relations men. Furthermore, nonmember banks are being brought to a realization of the advantages of membership and there is an unusual opportunity to strengthen the membership of the System by developing and keeping alive their interest in membership through periodic visits of representatives from the

Federal reserve banks. Your committee therefore suggests the desirability of giving greater attention to bank relations work from now on and the exercise of unusual care in the selection of men for this service.

J. Herbert Case,

George De Camp,

Oscar Newton, Chairman.

November 9, 1932.

Federal Reserve Board.

Mr. Wingfield, Assistant Counsel.

Topic suggested for consideration by forthcoming Conference of Federal Reserve Agents and Governors--  
Cancellation of Federal Reserve Bank Stock held by member banks which have discontinued business.

The Federal Reserve Agent at the Federal Reserve Bank of Dallas has suggested for consideration by the Federal Reserve Agents and Governors of the Federal reserve banks at their Conference on November 14, 1932, the topic "Cancellation of Federal reserve bank stock held by member banks which have discontinued operations and for which receivers have not been appointed", and the pertinent provisions of the law with regard to this matter will be briefly described for the Board's information.

There are some differences between the provisions of the law with regard to the cancellation of Federal reserve bank stock held by national banks which have discontinued banking operations and the provisions with regard to stock held by State member banks which have discontinued banking operations, and, for convenience, the facts involved as to these two classes of banks will be discussed separately.

#### NATIONAL BANKS

Under the provisions of the Federal Reserve Act national banks are required to become members of the Federal Reserve System and to subscribe for stock in a Federal reserve bank and the Federal Reserve Act does not authorize the termination of the membership of a national bank and the cancellation of its Federal reserve bank stock except when it is placed in voluntary liquidation or when a receiver is appointed for such a bank. Federal reserve bank stock held by a national bank which has discontinued banking operations may not, therefore, lawfully be cancelled under the present provisions of the Federal Reserve Act unless such bank is placed in liquidation or in receivership. An amendment to the Federal Reserve Act would be necessary in order to accomplish this result prior to the placing of the bank in liquidation or in receivership.

Neither the Federal Reserve Act as originally enacted nor the National Bank Act contained any provisions authorizing the Comptroller of the Currency to appoint a receiver for a national bank on the ground that it had discontinued its banking operations. In view of this fact difficulty was often experienced in effecting the cancellation of Federal reserve bank stock held by a national bank which had discontinued its banking operations and disposed of all of its assets without being placed in voluntary liquidation by its stockholders or in the hands of a receiver by the Comptroller of the Currency for some cause authorized by the National Bank Act. Accordingly the Federal Reserve Board recommended in its Annual Reports to Congress for 1927 and 1928 that the law be amended so that the cancellation of the Federal reserve bank stock involved in cases of this kind might lawfully be effected. Pursuant to this recommendation, Section 6 of the Federal Reserve Act was amended on April 23, 1930, so as to authorize the Comptroller of the Currency,

if he deems it advisable, to appoint a receiver for a national bank which has discontinued its banking operations for a period of sixty days without having been placed in liquidation and for which a receiver has not already been appointed for other lawful cause.

It is the practice of the Federal reserve agents, under the provisions of the amendment of April 23, 1930, to report to the Federal Reserve Board national banks which have discontinued their banking operations for a period of sixty days without having been placed in liquidation or in the hands of a receiver and, if the circumstances warrant, recommend that the Comptroller of the Currency appoint a receiver for such national banks. The Board submits these recommendations to the Comptroller, and, if he deems it advisable, he is authorized to appoint a receiver, as suggested. In view of existing conditions and the unfavorable publicity which might be caused by the appointment of a receiver for a national bank which ceased its operations, and which had been taken over by a new bank with a similar name, the Comptroller has in a few cases delayed the appointment of a receiver. It is assumed, however, that when conditions become more normal, these difficulties in connection with the cancellation of Federal reserve bank stock held by national banks which have discontinued banking operations will not be encountered.

When Congress was considering the Board's recommendation that the law be amended so that the Federal reserve bank stock held by national banks which had discontinued banking operations might be more promptly effected, it was suggested that the law should be amended so as to authorize the cancellation of the Federal reserve bank stock held by such a national bank without requiring that it be placed in receivership. However, both the Federal Reserve Board and the Comptroller of the Currency disapproved of this suggestion and advised the Chairman of the Committee on Banking and Currency of the House of Representatives that they preferred the Federal reserve bank stock held by a national bank should not be canceled unless the bank was placed in liquidation or in receivership. It was felt that where a national bank sold or transferred all of its assets to another bank, or for any other reason ceased to transact a banking business, its charter should be extinguished, either by a vote to place the bank in voluntary liquidation or by the appointment of a receiver by the Comptroller, before its Federal reserve bank stock was canceled. In this connection, it may be noted that, if the cancellation of Federal reserve bank stock held by a national bank should be authorized without requiring the termination of the corporate existence of the national bank, such an amendment would be contrary to the theory upon which the Federal Reserve System has been established to the effect that all national banks shall be members of the Federal Reserve System.

It may be noted that, since the enactment of the Act of April 23, 1930, and upon the recommendation of various Federal reserve agents, eleven national banks which have discontinued banking operations without being placed in liquidation or receivership have been reported to the Comptroller of the Currency for consideration of the question whether he deems it advisable to appoint a receiver. Eight of such banks have been placed in receivership or in liquidation and their Federal reserve bank stock has been canceled and the remaining three are still under consideration by the Comptroller's Office.

#### STATE MEMBER BANKS

State banks are not required to become members of the Federal Reserve System but such banks as are eligible may, with the Board's approval, become members. State member banks may voluntarily withdraw from the System and have their Federal reserve bank stock thereupon canceled, or the Federal

reserve bank stock held by such a bank may be canceled when it is placed in voluntary liquidation or in the hands of a receiver. Section 9 of the Federal Reserve Act, as amended by the Act of April 23, 1930, referred to above, also provides that, if at any time it shall appear to the Federal Reserve Board that a State member bank has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it shall be within the power of the Board, after a hearing, to require such bank to surrender its stock in the Federal reserve bank. In view of this provision the Board can, after a hearing, expel any State member bank which has ceased banking operations without a receiver or liquidating agent being appointed for it and effect a cancellation of its Federal reserve bank stock. It is not believed that these cases present any difficulties and it is assumed that the Federal Reserve Agent at Dallas did not have such cases in mind when he suggested the topic quoted in the first paragraph of this memorandum for consideration by the Conference of Federal Reserve Agents and Governors of the Federal reserve banks.

Respectfully,

B. Magruder Wingfield,  
Assistant Counsel.

BMW/mw/sad

Federal Reserve  
Board

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OFFICE CORRESPONDENCE

Date November 10, 1932

To Federal Reserve Board  
From Mr. Vest, Assistant Counsel.

Subject: Topic for Federal Reserve Agents' Conference re condition of membership as to operation of trust department.

Mr. Oscar Newton, Federal Reserve Agent at Atlanta, has suggested as a topic for the forthcoming Conference of the Federal Reserve Agents, an amendment to the Federal Reserve Act and/or regulations of the Federal Reserve Board providing that

"Funds received and held in the trust department of a State member bank awaiting investment or distribution may be deposited in the commercial department or savings department of the bank to the credit of the trust department, provided that the bank first delivers collateral security to the trust department."

Merely for the Board's information, the following facts are submitted in this connection:

The apparent purpose of this proposal is to place State member banks on the same basis with national banks with respect to the use of trust funds by a bank in the conduct of its business. It is provided in Sec. 11(k) of the Federal Reserve Act, with respect to the exercise of trust powers by national banks, that funds deposited or held in trust by a bank awaiting investment shall not be used by it in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board; and the owners of the trust funds are given a lien upon the bonds or securities thus set apart. In accordance with this provision of the law, the Board's Regulation F contains a provision applicable to national banks similar to that which has been suggested by Mr. Newton for application to State member banks, and the regulation sets forth the classes of securities which may be used for the purpose in question.

The proposed provision in the form suggested would appear to be an authorization to a State member bank to deposit trust funds in its commercial or savings department; but apparently the intention is, not to authorize such deposits, but merely to require collateral security when such deposits of trust funds in the commercial or savings departments are made. A condition of membership to this effect was imposed by the Federal Reserve Board upon one State member bank, the State Planters Bank and Trust Company of Richmond, Virginia, which became a member in 1922; but the Board has not adopted a requirement of this kind as a general policy in admitting State member banks.

A uniform provision of this kind in the law or in the Board's regulations or conditions of membership might in some cases be somewhat inconsistent with State law, because in some jurisdictions the law does not permit a debtor to give a lien upon assets which remain in his possession and under his control and State statutes sometimes prohibit banks from giving preferences by

pledging the bank's assets. There is such a statute in the State of Virginia and in 1930 the State Planters Bank and Trust Company of Richmond took this matter up informally with the Counsel for the Federal Reserve Bank of Richmond, with a view to determining whether under the State law it would be possible to deposit trust funds in its commercial department in accordance with the requirement of the condition of membership. The bank later advised that it planned to ask the State legislature to adopt measures to correct the situation, but the Board has not been informed whether this was done.

Where there are State laws of the kind indicated, a requirement that deposits of trust funds in the commercial department be secured would in many cases be equivalent in practical effect to forbidding the use of trust funds in the commercial department under any circumstances. While the requirement suggested would appear to be a salutary one, this is one factor for consideration in determining whether such a requirement should be uniformly applied to State banks becoming members of the Federal Reserve System.

Respectfully,

(S) George B. Vest  
Assistant Counsel

CONFIDENTIAL

November 12, 1932

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BANKING AND CREDIT SITUATION

Growth of excess reserves since last summer

Considerable improvement in the financial situation since the middle of July is clearly indicated. The figure which epitomizes these developments and presents the background for a discussion of credit conditions and credit policies at the present time is the figure of excess reserves of member banks, which on November 9 stood at \$450,000,000, and showed an increase of \$200,000,000 since the middle of July.

That date marks a definite turn in financial conditions. Since that time the monetary gold stock of the country has increased by \$320,000,000, both through imports and through releases from earmark. During the same period money in circulation decreased by \$85,000,000 at a time when seasonably it would have been expected to increase by about \$160,000,000. Broadly speaking, this amount of about \$250,000,000 represents a return from hoarding. In addition, about \$150,000,000 of national bank notes have been issued under the provisions of the law which increased the classes of bonds having the circulation privilege. All of these developments placed additional reserve funds at the disposal of member banks. About \$230,000,000 of these funds was used to reduce further the indebtedness of member banks to the reserve banks, about \$100,000,000 to meet an increase in reserve requirements resulting from a growth of member bank deposits, and about \$200,000,000 remained as additional excess reserves.

The course of gold movements, money in circulation, member bank balances, and reserve bank credit for a series of years is shown on the following chart.

(See Original)

Decline in hoarding

Hoarding was at its maximum in mid-July. Since that time a definite decrease in bank suspensions throughout the country has been reflected in release of currency from hoards both by the public and the banks. Up to the first of October the return flow was particularly rapid, amounting to about \$250,000,000. Since that time there has been comparatively little change.

The charts show estimates of demand for currency in excess of usual seasonal requirements in each Federal reserve district since October of 1930. These figures are not an accurate measure of hoarding, strictly speaking, since, on the one hand, they make no allowance for reduced use of cash for business purposes during the depression, nor, on the other hand, for larger demand as a result of the tax on checks and the imposition of service charges on small accounts, or for additions to circulation in localities where there are no longer any banking facilities.

(See Original)

The charts indicate that, while the greater part of the nonseasonal increase in currency outstanding during the summer was in Chicago, almost all of the districts experienced some added demand. Since mid-July the decline, after allowance for seasonal factors, has been largest in Chicago and New York --where the volume of hoarded currency was largest. All districts have had some return of currency, except San Francisco, where recent banking difficulties have occasioned withdrawals, and certain agricultural districts-- Minneapolis, Kansas City, and Dallas in particular--in which there has been little net change in circulation.

#### Decrease in member bank indebtedness

The decrease of member bank indebtedness since the middle of July has brought the total for all member banks down to \$311,000,000, a figure not far above the level prevailing before the outward movement of gold began last autumn. The chart shows the course of discounts by Federal reserve districts -- and brings out the fact that the decline has been general throughout the country.

(See Original)

A figure that has a bearing on the volume of member bank indebtedness is the extent of borrowing from the Reconstruction Finance Corporation, which at the end of September, the latest available date, amounted for member banks to \$245,000,000. Indebtedness to the corporation, however, differs from indebtedness to the reserve banks in two respects. First, it does not represent the same degree of pressure on the member bank, even though the rate paid is higher; and, secondly, taking the banks in the aggregate, debt to the corporation can be paid off by a transfer of deposits and does not require reserve funds, as does a repayment to the reserve banks.

#### Prospects of demands to the end of the year

On the basis of existing information, it would seem likely that between now and Christmas there may be a seasonal demand for currency for holiday purposes of about \$250,000,000, compared with \$300,000,000 in ordinary years. To what extent this amount is likely to be met by further return flow from hoarding, it is impossible to estimate. During the past month there has been practically no change in the amount of hoarded money.

It is also impossible to estimate how much longer gold imports shall continue at their recent volume. The increase of \$350,000,000 in the gold stock of the country, which has taken place since June, is larger than can be accounted for by ordinary remittances due this country on trade balance or ordinary invisible items in the balance of payments, and undoubtedly reflects in some part extraordinary movements such as capital investments and the fact that minimum foreign balances were reduced below working requirements during the outflow of gold in the first half of the year. If the recent large rate of gold inflow should continue for the immediate future, however, and amount to between \$50,000,000 and \$100,000,000 between now and the end of the year, a considerable part of the holiday demand for currency would be met by this movement, as well as by additional issues of national bank notes. The drain on member bank reserve balances in this case would not be large, probably not in excess of \$100,000,000, which, in their present position, they would be able to meet without creating any tightness in credit conditions.

After the first of the year, when the seasonal return flow of currency begins, the volume of member bank excess reserves is likely to increase at a rapid rate.

Open-market operations since 1929

Reserve bank holdings of United States Government securities have been increasing since the autumn of 1929, when the speculative boom came to an end. The chart shows United States security holdings of the Federal reserve banks from 1929 to date, distinguishing between securities held by the individual reserve banks and those held in the system investment account. Holdings of the individual reserve banks, after an increase of \$100,000,000 during the stock market panic in 1929, have remained relatively constant, while the system's holdings increased by \$1,700,000,000. This increase continued until August of this year; since that time the investment account has been at a constant level.

(See Original)

The table below shows changes in the important factors in the credit situation between the end of September, 1929 and the middle of July, 1932, and since that time. It brings out the fact that during the period of 33 months prior to July 20 of this year the reserve banks had bought \$1,684,000,000 of United States Government securities. The funds released by these purchases

Banking Developments, 1929-1932  
(In millions of dollars)

Changes in--	Sept. 25, 1929 to July 20, 1932	July 20, 1932 to Nov. 9, 1932
Reserve bank holdings of United States Government securities.....	+1,684	+15
Discounts for member banks.....	-406	-227
Gold stock.....	-423	+318
Money in circulation.....	+991	-84
Reserve balances.....	-328	+306

were largely absorbed, however, by increases of almost a billion dollars in money in circulation and by over four hundred millions of gold exports. Nevertheless, member banks, as the result of the system's security purchases and a decrease in their reserve requirements, reflecting a decline in their deposit liabilities, were able to reduce their discounts by over \$400,000,000 and to accumulate by mid-July of this year about \$250,000,000 of excess reserves. During this long period, therefore, open-market purchases by the reserve banks enabled the member banks to meet an external drain on their gold reserves, an internal drain of currency for hoarding, and at the same time to reduce their indebtedness, and to increase their reserves.

Since the middle of July Federal reserve bank holdings of United States Government securities have continued at a practically constant level, but other factors, already mentioned, have been adding to members' reserves, with the consequence that member bank indebtedness has declined further and their excess reserves have advanced to a level of \$450,000,000.

Money rates

Increased ease in the credit situation, as indicated both by the low volume of member bank discounts and by the increase in their excess reserves, has been reflected in easier money rates in the short-term open money market, the course of which for a period of years is shown on the chart. The rate on short-time Governments has become nominal and the rate on acceptances and

open-market commercial paper has fallen to a low level. Rates to customers, however, outside of New York have shown relatively little decline since the beginning of the year. They advanced sharply at the time of the gold export movement last autumn and have remained at a fairly high level since that time. This relatively high level of money rates reflects the fact that the monetary ease has not been distributed throughout the country, nor to all classes of borrowers.

(See Original)

In the bond market prices are well above the low levels of the summer, but except for governmental issues there have been few flotations of new securities. So far a condition of great ease in the short-term markets has not worked its way into the long-term markets for industrial issues.

#### Member bank credit

The fact that excess reserves and credit ease have not been distributed throughout the country and have not resulted in material expansion of member bank credit is reflected in the course of member bank loans and investments, which is shown in the two following charts. They indicate that the decline in total loans and investments, which was rapid from the early part of 1931 to the middle of 1932, came to a stop at that time. Since then the level has been fairly well maintained at banks outside of New York, while at the New York banks there has been in the last three months a considerable increase. This increase in New York practically comprises the entire increase for the system, and, as is shown by the second chart, consists almost entirely of an increase in United States Government securities. Other securities have remained at a fairly constant level, while loans have continued to decline, although not at as rapid a rate as earlier in the year.

(See Original)

For all reporting member banks, the increase in total loans and investments between July 20 and November 2 amounted to \$700,000,000. At the same time, the United States Government deposits of these banks increased by \$450,000,000, indicating that all but \$250,000,000 of the net increase in loans and investments, which took the form of increased holdings of United States Government securities, is still represented by deposit credits to the account of the United States Government on the books of these banks. The increase of \$725,000,000 in net demand deposits and \$175,000,000 in time deposits during the same period reflects in part the disbursement of Treasury funds, in part, a growth in inter-bank balances, and in part the deposit of currency and gold at the member banks.

Correspondent balances at reporting member banks have grown steadily since the end of February and are now back to the levels prevailing in August, 1931, before the withdrawals that accompanied and followed the credit crisis of last autumn. Interior banks as a whole, therefore, are again in possession of a large volume of liquid assets in the form of balance due from banks, although their total volume of liquid open-market assets, including also call loans, open-market commercial paper, and short-term securities, is still small as compared with other years. The recent growth in correspondent balances reflects the disbursements of the Treasury and of the Reconstruction Finance Corporation which made available to interior banks reserve funds accruing to the central money markets from Federal reserve bank purchases of United States securities and from deposits of currency and gold. It also reflects in part recent issues of national bank notes. Interior banks have not used these funds to increase their customers' loans nor to any great extent to increase

their open-market loans and investments, other than investments in United States Government securities, but have deposited them with correspondent banks in the money centers. This accounts for the concentration of the increase in excess reserves of the member banks at member banks in those centers. As is indicated by the chart, the accumulation of excess reserves have been chiefly in New York City, though banks in Chicago also show some increase in excess reserves. Excess reserves outside of the two financial centers are approximately at the level that is usually maintained by country banks.

(See Original)

#### Business activity

The domestic business situation has shown some improvement since last summer. Output of manufacturing and mining industries has increased, as is indicated by a rise in the Board's seasonally adjusted index of industrial production from a low point of 58 in July to 66 in September. In October there appears to have been no further increase in activity, which was maintained at the September level. Traffic on the railroads increased more than seasonally this autumn, while changes in building activity have been largely of a seasonal character since early spring.

The improvement in manufacturing output and factory employment has been concentrated largely in the light industries, such as textiles, clothing, shoes, and some of the food products. Both production and employment in these industries increased substantially between the early summer and September. In the heavy industries, on the other hand, such as steel, machinery, automobiles, etc., there was no improvement in August and only slight improvement in September and October.

Farm income this fall is smaller than last season by a considerable amount, reflecting lower prices than a year ago for agricultural products, especially livestock and dairy products, and in addition smaller crops of cotton, winter wheat, and tobacco.

Wholesale prices in the United States, after declining steadily until the middle of June, advanced during the following three months by about 3 per cent. Since early September, however, they have declined again to approximately the low level of June. The price of cotton, reacting after the end of August, remains above the lowest levels of the year, but cattle and hogs have recently been selling again at the low prices prevailing in early summer, and the price of wheat at Chicago, after recovery in July and August, declined in November to the lowest levels ever recorded. Prices of other commodities in general have maintained their advance since mid-summer rather better than agricultural products. This is true of certain textiles, some of the metals, particularly lead, tin, and zinc, and products which we import from abroad, such as silk, sugar, and rubber.

Recent business developments are described further in the Review of the Month in the forthcoming November issue of the Federal Reserve Bulletin.