At a joint session between the Federal Reserve Board and the Governors of Federal Reserve Banks held in the office of the Board on Wednesday, April 4, at 10.30 a.m.,

PRESENT:

Mr. McAdoo, presiding,	Mr. Hamlin,
Mr. Harding,	Mr. Delano,
Mr. Warburg,	Mr. Willis, Secretary.

Present also, Mr. Aiken, Mr. Treman, Mr. J. F. Curtis, Mr. Rhoads, Mr. Fancher, Mr. McCord, Mr. Seay, Mr. McDougal, Mr. Calkins, Mr. Van Zandt, and Mr. Wold.

Mr. McAdoo addressed the meeting stating that it was a time which called for frank conference and interchange of ideas. There was a probability that large amounts of Government financing, including bond issues, would have to occur in the near future. The rate and other details of the issue would have to be settled by Congress. At the last session he had himself gone before the Ways and Means Committee and asked that the bond holders be permitted to convert such bonds as they might take into higher rate securities, should such securities be offered later on. He expected to urge the same provision at this session. He did not know how many bonds could be floated at 3%, although he believed it would be a large volume, bue he felt that in any event the rate should be high enough to attract actual investors. Inasmuch as the law provided that a public offering of bonds should be made, it would be necessary to comply with that provision, yet he desired to give all banks a chance to cooperate in it, and particularly desired to have the Federal Reserve Banks aid in making such offering a success.

With reference to the recent 2% $50,000,000 loan, Mr. McAdoo said that he had been gratified with the response of the Federal Reserve Banks. They had not been requested to subscribe anything. He had thought that the matter was one of interest and advantage to reserve banks, and had, therefore, merely offered it to them. Requests had come from other sources for an opportunity to subscribe to the notes. As to the rate, he called attention to the fact that when the Government deposits its funds in bank it charges 2% and never more, but reserve banks have had Government deposits free of interest charges. This was a kind of subsidy, and represented a policy whose wisdom he had doubted. Had he offered the reserve banks more than 2% interest on the bonds it would have been difficult to explain.

Mr. McAdoo referred to resolutions which had been presented to him by the Federal Reserve Bank of New York, which he thought were out of harmony with the situation. This fact furnished the occasion for the present remarks. The Reserve Bank, however, was not obliged to take any of the notes, and the Secretary was disappointed at the tone and attitude it had assumed. It was unreasonable to assume a position of that kind. The duty of the bank was to co-operate in the interest of the whole country and in that alone from now on. Before leaving the bond question Mr. McAdoo desired to obtain an idea of the conditions prevailing in the different districts regarding the possible absorption of securities, and also what rate would be necessary to float them.

Governor Aiken replied that it would be difficult to know how far the Boston District would absorb bonds. There was a very large power of absorption there. If the country as a whole were assumed to be ready to absorb \$500,000,000 of 3% bonds, Boston could be expected to do its share. If the rate was $3\frac{1}{2}$% an almost unlimited amount would go off enthusiastically. He thought the bonds should be redeemable at the end of 5 years, and should pay $3\frac{1}{2}$%, with a provision for a serial retirement at the end of 5 years, the total maturity to be 20 or 30 years. Patriotic impulse would be very strong in such a case, but would be somewhat overloaded if the rate were made 3%. The savings banks paid 4%, and the investor naturally wants to get as near that as he can. In Massachusetts the privilege of exemption from taxation was worth to the investor from one-half of one per cent to one percent. He thought the issue ought to be handled in such a way as to push the bonds as fast as possible into safety deposit boxes.

Mr. Treman of New York stated that he did not know that he could correctly represent New York City. The banking interests in New York would be very glad to have a chance for consultation and the expression of their views through a delegation. He thought, however, the prevailing opinion would be that a 3½% rate on the bonds would be desirable if the amount was from one to two billion dollars. If the amount was not over $500,000,000, he thought 3% would be satisfactory, provided the bonds had the conversion privilege. It was, however, important to know what proportion of the funds for the conduct of the war would be provided by taxation and what proportion would be furnished by loans. Publicity with reference to the conditions and terms of the issue would be very desirable. Mr. Treman then spoke of varying suggestions that had come to him from different quarters, some sound, others absurd. He thought exemption from taxation in New York was worth about one-half of one percent.

Secretary McAdoo said that the Farm Loan Board in its recent investigations had had evidence which seemed to show the exemption was worth from one to two percent. He further asked whether the Federal reserve banks would like to be called upon to clear the subscriptions to bonds, that is to say, to handle the relations with member and other banks as to subscriptions.

Mr. Warburg said it ought to be decided whether the Federal reserve banks would act as the recipients of subscriptions or what would be their precise function, as the law would not permit funds to be kept on deposit with member banks.

Mr. McAdoo said he thought it would be necessary to give large credits to foreign governments. This might mean an immense issue of bonds, although he imagined it would stop the sale of foreign bonds in this market. A tremendous amount of money was seeking investment here. What he wanted was the best judgment of the Governors as to the way to get good results. He was, however, obliged to leave the room very shortly, and would suggest that it be discussed between the Board and the Governors. In closing he called attention to the fact that the Treasury might have to get another $50,000,000 before July 1st for 30 or 40 days in order to anticipate taxes. It would be necessary to offer this at 2%. He would like to have a distinct statement from the reserve banks whether they wanted these loans or not, and would be glad if the Governors would report their feelings direct to the Board.

Mr. Aiken stated that if the Secretary desired it, the Governors would make a complete memorandum as to government bonds before leaving, and Mr. McAdoo having assented withdrew from the room, Governor Harding taking the chair.

Mr. Harding said he had not been able to make any preliminary suggestion to the Governors because he was uncertain what direction the discussion would have to take. Mr. McAdoo had, however, advised them completely of the credit situation up to date, and there was little to add on that. He would, therefore, discontinue further discussion of the bond question and would await the memorandum which was to be furnished by the Governors as agreed.

Mr. Harding then turned to the question of amendments, distributing to each Governor a copy of the bill which the Board had transmitted to Congress and calling attention to the action already taken by Messrs. Glass and Owen. He noted that the most important additional provision likely to be incorporated would be one requiring state banks to enter the System and applying the power of taxation with that end in view. He called attention to the fact that the Board had recommended that the substance of existing regulations with reference to state bank membership should be put into the form of law, and he then reviewed the text of the amendments in detail.

As to state banks, Mr. Harding said the Board had held informal conferences with the Secretary of the Treasury on April 3d with a view to having its amendments made an administration measure. The essential plan was to provide that no discirminating taxes should be applied in any state against national banks and also to see to it that the provision for branches in cities should be made valid regardless of state laws to the contrary, similar action to be taken with regard to the granting of fiduciary powers. Finally, however, it was proposed to tax banks on their inter-state checks so as to drive them into the System. They could then choose between becoming member banks in the full sense of the term or keeping a balance with the reserve bank and clearing through it, as provided for in the proposed amendments, or doing neither but paying a tax to which they would be subject.

Mr. Harding laid before the Governors a letter which had been handed to him by the Secretary of the Treasury from the First National Granite Bank, of Augusta, Maine, with reference to danger from oppressive state legislation. He spoke of this as illustrative of the handicaps to which national banks were subject here and there. He further called attention to the question whether the Reserve Act should be changed so as to make more satisfactory provision for the election of Directors.

Mr. Harding then turned to the question of collections, and read a letter from Director Woodward of New York, suggesting that the proposed Federal reserve bank inter-district draft should be made payable upon advice. Discussion ensued between Mr. Harding and Governor Mc-

Dougalas to the draft question.

Mr. Aiken said he would now call for discussion of Government loans district by district, and would himself first state the position of the Boston District.

The feeling there was strong that the assets of reserve banks should be kept intact. Bankers would have preferred to see the recent $50,000,000 loan offered at a higher rate. As to any future issues, the Boston bank, while desirous of cooperating in any way, would not desire to take any more bonds at 2% for its own portfolio.

Mr. Treman said he regretted that the Secretary of the Treasury had interpreted the resolutions of the Board of Directors of the New York bank as criticism. The telegram from the Board as to the bond issue had come just before the gathering of their Board for a meeting, and two things seemed to be prominent in it - the low rate named and the necessity of keeping the bonds in portfolio on the one hand, and, on the other, the precedent involved in it. The offer had been made by telegraph, and was apparently urgent, and there was a feeling that there ought to have been fuller and more complete consultation. The Federal Reserve Bank of New York would not want to take any more bonds of that kind except as a matter of sheer patriotism. However, he could not say anything absolutely final at the present time.

Mr. Rhoads stated that it was purely a question of rate with the Reserve Bank of Philadelphia. The member banks would not take the issue at 2%. In future he thought the Treasury might meet the market rate.

Mr. Fancher said he had asked the members of his Board of Directors for their views. There was general agreement that they must keep the bonds because the large banks did not want them. Consequently he had arranged to hold them until maturity. A feeling prevailed that a 2½% rate would have resulted in enabling them to pass the issue along to other banks. As for any future issues, he thought they should be offered through the Federal reserve banks at a rate which would render it possible for them to transfer the securities to others if necessary.

Mr. Seay said that his bank thought the loan was a temporary one entirely, and assumed that the Board had probably considered the matter carefully. It made little difference whether the rate was 2% or 2½% in district number 5. As to any future loan, he would like to have it offered through the reserve bank, with the understanding that it would dispose of the securities to investors if the conditions favored.

Mr. McCord said his view was the same as that of Governor Seay, and his policy for the future would be the same. He thought that 2½% would be enough to place the loan in the hands of member banks.

Mr. McDougal said that he had not been able to get hold of all of his directors before acting, but all that he had seen thought the rate was out of line with the market. He thought Mr. Seay's statement that the Treasury carried considerable balances with reserve banks was not well founded, as the balance in the Federal Reserve Bank of Chicago fluctuated widely and was sometimes overdrawn. The Directors at Chicago had voted to subscribe for $6,000,000, but that the rate of interest was too low. If other bonds should be offered they ought to go to the public. He was disturbed in his own mind at finding that the Treasury considered that the duties of a fiscal agent included that of taking part of a public loan.

Mr. Wold thought that the loan was satisfactory for Federal reserve banks but the rate was too low.

Mr. Van Zandt said that the loan was an emergency and temporary matter, and he, therefore, would have taken it without any interest. The new bonds if offered should be placed on the market through Federal reserve banks for disposal to others.

Mr. Calkins thought that the resources of the reserve banks ought not to be tied up in Government loans. The rate really had little influence in the matter. Any future loan ought to be offered through Federal reserve banks and at a rate that would enable its being taken by member banks.

Mr. Harding said the Board would like to have the Governors discuss during their stay in the city the question of branches or agencies of Federal reserve banks.

Mr. Aiken said he would be glad to have the members of the Federal Reserve Board attend the sessions of the Governors at their pleasure whenever they were disposed. The Governors would, however, like to meet formally with the Board tomorrow, (Thursday) morning, at 10.30 a.m.

In summarizing the sense of the meeting on bonds he said he understood it to be that the reserve banks wanted to be helpful but that 2% was too low a rate. They would, however, like to have any future issues offered through them and would recommend that the rate should meet the market rate.

On motion, at 12.40 p.m. the joint session adjourned, to meet at 10.30 a.m. on Thursday, April 5.

H. Parker Willis
Secretary.

APPROVED:

W P G Harding
Chairman.