

At a special meeting of the Federal Reserve Board held in the office of the Governor on Saturday, June 9, at eleven a.m.,

PRESENT:

Mr. Warburg, presiding, Mr. Williams,
Mr. Delano, Mr. Willis, Secretary.
Mr. Miller,

The minutes of the meeting of the Board held on June 1 were read and, on motion, approved.

The minutes of the meeting of the Executive Committee held on June 5, June 6, June 7, morning, and June 7, afternoon, were read and, on motion, approved, and the action therein set forth ratified.

Mr. Warburg reported that he had transmitted to Governor Strong a letter granting the approval of the Board to the holding of gold abroad for Federal reserve banks, such gold to be counted as reserve up to the amount and under the conditions agreed upon by the Executive Committee at its last meeting, in view of the fact that he had received from Secretary Mcadoo and Governor Harding a dispatch conveying their approval of the action which had previously been authorized, as just stated, by Messrs.

Delano and Miller, the members of the Board, in residence at the time the policy was decided upon.

A letter from Governor Strong with reference to the question of filing with the Board a copy of the agreement made between the Federal Reserve Bank of New York and the Bank of England, constituting the latter the foreign agency of the Federal Reserve Bank of New York, was read and after discussion it was agreed that the Federal Reserve Bank of New York be asked to place a copy of the contract on file with the Board, the Vice Governor to convey this decision to the New York Bank,

The application of Tulsa, Oklahoma, for designation as a reserve city, was, on motion, approved and the city so designated, the Secretary being instructed to telegraph the decision accordingly to those interested.

After discussion, it was agreed that Mr. Miller telegraph the Federal Reserve Bank of San Francisco that it was the desire of the Board that the State banks at Spokane, Washington, apply for admission to the Federal Reserve System before the San Francisco Bank definitely undertakes the establishment of a branch bank at that point.

A letter received from the Federal Reserve Bank of

Atlanta with reference to the status of the contract for the proposed bank building there, was, on motion, referred to the Committee in charge of the plans for the proposed Atlanta Bank Building, Mr. Delano, Chairman.

A letter from Mr. H. M. McLarin, president of the Federal Employees Union, asking for aid in raising the salaries of employees was presented and, on motion, referred to the Committee on Staff.

A letter from Honorable Frank L. Polk, and a memorandum from the Department of State with reference to the present status of Spanish Exchange, were referred to the Executive Committee.

A letter from the Chase National Bank with reference to the acceptance of bills of exchange on behalf of planters in a foreign country, under specified conditions, was, on motion, referred to the Committee on Investments.

A letter from Governor Strong with reference to methods of checking the outflow of gold to Japan, was referred to the Vice Governor for consultation with Assistant Secretary of the Treasury Crosby.

A letter from Mr. James M. Witherow with reference to agricultural accommodation in the northwest, was referred to

Mr. Hamlin.

A telegram from Mr. F. D. Davis, of Manson, Iowa, and a memorandum from the Comptroller of the Currency transmitting a letter from Mr. N. A. Haile, of New Windsor, Maryland, both with reference to the proposed stamp tax on bank checks, were referred to the Committee on Law.

The resignation of Mr. Paul C. Moran, a stenographer in the office of Mr. Hamlin, effective June 6, 1917, was, on motion, approved.

An opinion of Counsel with reference to the status of trade acceptances as affected by Section 5200, and a draft of a proposed letter on the subject written for the signature of the Vice Governor, were presented and, on motion, approved, and their publication in the Federal Reserve Bulletin authorized.

The minutes of the meetings of the Clayton Act Committee held on June 1, June 4 and June 6, were read and the action therein set forth ratified.

On recommendation of the Committee on Operation of the Federal Reserve Bank of Philadelphia, it was, on motion, voted to authorize the payment of a dividend at the rate of 6% per annum for the six months' period ending June 30, 1915, the

Secretary to send notice accordingly.

Upon recommendation of the Committee on Operation of the Federal Reserve Bank of Minneapolis, it was, on motion, voted to authorize the payment of a dividend by the Federal Reserve Bank of Minneapolis at the rate of 6% per annum for the year ending June 30, 1916, the Secretary to send notice accordingly.

Applications for trustee powers not yet acted upon by the Committee on Member and State Banks were presented and, on motion, laid on the table for the present.

A telegram from Federal Reserve Agent Heath stating that a representative of the St. Joseph's Valley Bank of Elkhart, Indiana, would be in Washington on Monday, June 11, was read and, on motion, referred to Mr. Broderick with the suggestion that he consult with the representative.

Mr. Warburg read a letter making inquiry as to the rate to be charged for rediscount of notes of non member banks presented through member banks to Federal reserve banks, and a draft of a reply saying that such non member banks should make arrangements with member banks with reference to the rate that they expected to pay.

Mr. Warburg presented to the Board the question of permitting a member bank which had discounted the note of a non-member bank supported by an affidavit that the proceeds were to be used for the purchase of U. S. bonds under the Board's ruling of May 22, - from June 15 to July 15, to rediscount such notes at Federal reserve banks. In this connection he presented the draft of a letter addressed to Federal reserve banks on this subject, as follows:

"Dear Sir:

Enquiries have been made of the Board from several quarters concerning the Board's circular of May 22. In this circular the Board has authorized member banks to rediscount for nonmember banks, including savings banks from June 15 to July 15, whenever the proceeds have been or are to be used to meet demands caused by subscriptions to the Liberty Loan. The question has been raised whether this authorization would permit member banks to rediscount with their endorsement with Federal reserve banks a direct obligation of a nonmember bank when supported by collateral of Liberty Loan Bonds, provided the nonmember bank states in an affidavit that the proceeds of the note have been used for the purpose of paying for or carrying Liberty Loan Bonds.

"The Board has carefully considered this matter and reached the conclusion that, in view of the importance of making this loan a success, and furthermore, in view of the fact that the amendments covering the admission of State banks are still under the consideration of Congress at this time, the Board should not, all things considered, withhold this authority which it is advised by Counsel it may grant, it being strictly understood that this authority as stated before, is given to be in force only between June 15 and July 15, 1917, and the Board is desirous that it should be understood that the whole question will be reviewed after that date and a new decision then given to cover similar cases in the future."

Very truly yours,

Vice Governor."

Discussion ensued, and a vote being taken, those in favor of the transmission of the letter as read were Messrs. Warburg, Delano and Williams. Mr. Miller was recorded in the negative.

Mr. Miller in explanation of his position on this subject stated that the proposed letter was, in his judgment, tantamount to a ruling and in his opinion based on a highly strained and an unwarranted construction of the law; also that the expedient approved in the letter was most questionable both on banking and financial grounds - as making for unsound finance - and therefore in his opinion not to be sanctioned or permitted unless or until it was clear that the flotation of the Liberty Loan would fail unless the bills payable of non-member banks, when held by member banks, were allowed to be treated by Federal Reserve Banks as customer paper, and as such eligible for rediscount. Mr. Miller was not satisfied that such a serious pass had been reached in the negotiation of the Liberty Loan as to justify this extreme expedient, and therefore felt obliged to vote "No" on the sending out of the proposed letter.

Mr. Warburg by way of further explanation of his

position on the subject, in reply to Mr. Miller, stated it as his view that the law was not being strained and that Counsel's opinion sustained this view; that the Board was simply carrying out the spirit of its letter of May 22 in authorizing member banks for a limited period from June 15th to July 15th to rediscount without further special approval from the Board, notes of nonmember banks as well as savings banks, provided the proceeds had been or were to be used for the purchase or carrying of Liberty Bonds.

As to Mr. Miller's point that he was not satisfied that the status of the Liberty Loan subscriptions justified action at this time, Mr. Warburg pointed to the fact that the Secretary of the Treasury had now published that subscriptions in the amount of about \$1,300,000,000 were in hand and that \$700,000,000 remained to be raised within five more days. It would be impossible to await further results before deciding whether or not "a serious pass had been reached."

It was, to Mr. Warburg's mind, the best policy on the part of the Federal Reserve Board and the Federal Reserve Banks to engender a spirit of courage and confidence

on the part of the subscribing public and the banks. It was to be expected that to a large extent the relief offered by the ruling under discussion would remain psychological, but it was important that the banks should feel that in carrying their customers they could rely upon the full sympathy and support of the Federal Reserve Banks.

It was evident that if the loan should fail, steps would have to be taken which would increase the pressure on the Federal Reserve Banks to an extent which might prove of much more serious consequence than could any result from this ruling.

As to the criticism that too much liberality might be shown to State banks and trust companies which were non-member banks, the fact had to be borne in mind that the amendments which were to facilitate their entrance were still pending, and that the Board in its letter was making it very clear that the present privileges were extended only for thirty days and that these privileges might not be extended again upon a future occasion.

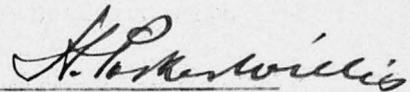
Mr. Delano stated that while he was willing to approve the letter and had voted in favor of it, the only

reason that induced him to do so was that the success of the Liberty Loan was not at so critical a point that he thought extreme measures were warranted in order to insure success.

Mr. Delano presented a letter from Mr. E. D. Hulbert, President of the Merchants Loan and Trust Company of Chicago, with reference to the most advantageous time for joining the Federal reserve system. It was agreed that it be suggested to him that he take prompt action with reference to entering the system.

On motion at 1 p. m. the Board adjourned.

APPROVED:


Secretary.

Chairman.

The following is a list of the names of the persons who have been
 appointed to the various positions in the office of the
 Secretary of the Board of Directors of the
 Federal Reserve Bank of St. Louis, Missouri, for the term
 ending on the 31st day of December, 1914.



SECRETARY