At a special meeting of the Federal Reserve Board held in the Assembly Room of the Board on Thursday, November 8, at 3:15 P. M.,

PRESENT

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

Present also, Mr. Aiken, Mr. Treman (Deputy Governor of F. R. B. of New York), Mr. Rhoads, Mr. Fancher, Mr. Seay, Mr. McCord, Mr. McDougal, Mr. Wells, Mr. Wold, Mr. Miller, Mr. Van Zandt, Mr. Lynch.

Governor Harding read a letter received from Mr. J. F. Curtis of New York setting forth the opinion of the Board of directors of the New York Bank regarding certain financing of large corporations which was being planned on a basis of 90 day paper, with an agreement to renew the notes seven times, so that the total duration of credit in each case would be two years. Governor Harding called attention to the fact that this subject might be regarded as falling under the topic designated as Subsection 8 of Section VI. It was a matter that involved an important legal question, while on the banking side it might arouse distrust as to the position of Federal reserve banks, were the plan outlined in the letter of Mr. Curtis to be adopted.

He thought the question was one that should receive general discussion.

Mr. Aiken said that he had been in New York during the time when the matter was under discussion at the Federal Reserve Bank of New York, and that it had been very anxiously considered. He himself thought that the opening of the doors to this kind of paper would destroy the liquid character of the Federal Reserve banks, and that this would disappear within three months.

Mr. McDougal called attention to the fact that he had had a telegram from Chicago in connection with a proposed flotation of notes of the American Tobacco Company running 90 days with seven renewals, the amount being $25,000,000 in all. This was an example of the plan now suggested in some quarters.

Mr. Treman called attention to the fact that an issue of $15,000,000 by the Goodrich Rubber Company had been announced, and that it had been stated that these notes were eligible for discount at Federal Reserve banks. Originally the American Tobacco Company had planned to finance themselves on a basis of acceptance, protected by tobacco still in warehouses, but had now changed their plans to the same basis as that of the Goodrich Company.

At the close of the discussion, Governor Harding consulted informally with members of the Board, and thereupon sent the following telegram to Mr. Curtis, Secretary of the Federal Reserve Bank of New York:

> "Your letter seventh. Board does not regard paper referred to as being commercial or self liquidating, or of a character which should be rediscounted by Federal Reserve banks. Letter will follow later."

Topic No. 5, the question of check clearing and collection, was then taken up. Governor Harding called attention to the present conditions relating to "float" as shown by tables which had been submitted to the meeting in conjunction with the formal programme. The attention of those present was then called to the great growth of float in some quarters.

Mr. Warburg expressed the opinion that the main thing required was to watch the development of the situation carefully, bearing in mind that conditions today were abnormal an unusual and hence could not be tsken as a standard.

Mr. Aiken said that Boston and New York Exchange had always been considered interchangeable. The Boston Bank had followed the policy of cutting down its float to minimum proportions, and the larger banks had become reconciled to a much greater number of telegraphic transfers than formerly.

Question was then raised as to whether there should be a daily gold settlement.

Mr. Warburg said he did not feel sure of the policy. He wanted to know whether a daily settlement would cut down the large excess balances of indebtedness now shown in the weekly settlement.

Mr. Aiken said he was unfavorable to a daily settlement at the present time.

Mr. Seay said he thought we should look forward to a daily settlement, the chief objection to it being the pressure on the accounting departments of the banks, which were already under severe pressure.

Mr. Wold thought there was no use in such a settlement. It would merely make a daily strain or embarrassment in place of one that occurred weekly.

Mr. Treman concurred with Mr. Wold.

Governor Harding inquired the attitude of the member banks in general toward the clearing system.

Mr. Seay responded that the Richmond Bank was doing about twice as much as formerly, and scattering comments were made by several of those in attendance to the effect that comparatively little change was now occurring in most places, while the volume of maturing notes and bills presented for collection under the new system was very small, Mr. McDougal stating this as only about ten items per day at Chicago.

Mr. Harding gave, as an example of current criticism, the complaint of a distilling firm of Louisville which had complained of the Louisville Clearing House as an illegal organization, but on investigation had specified their complaint as being that they had had to pay a charge of $10.57 for the collection of a draft of $10,570. There was general expression of the view that this was very low.

The question of increasing the number of member banks remitting at par was discussed and the various governors explained the methods employed by them, through personal solicitation, and otherwise, to increase the number of banks on their par lists. The question of a reduction in service charges was discussed at length and Governor Harding suggested that the Governors take the matter up with their respective boards of directors in order to ascertain their views about a reduction in these charges effective as of January first.

The question of the per item charge was then further considered with the following results:

Mr. Fancher thought that no charge whatever should be made.

Mr. Wold pointed out that higher postage imposed higher operating expenses and hence militates against lower charges.

Mr. Miller thought that next year it would be possible to cut the charge to one cent per item but at present the cost of operation was fully equal to the per item charge of one and one half cents.

Mr. Seay asked whether he might remit the service charge to banks out of the surplus earnings of his bank, such remittances to be retroactive, and Governor Harding expressed the opinion that the Board's Counsel thought that such action would be of questionable legality. Mr. Harding also thought that the proposed plan was a dangerous policy, and that the attitude of Congress toward the Reserve System would be more friendly if the Federal Reserve Banks made some return to the Government.

Mr. McDougal said that the reduction of the service charges would undoubtedly stimulate the use of the system.

Mr. Delano expressed the opinion that the idea of establishing direct relations between the small banks and the Federal reserve banks was a good one. He said that most items received by the banks come from some 20 or 25 members in each district, a fact which indicated that the city banks are still acting as clearing agencies for the country institutions of the district.

Mr. McCord said he had prepared a table showing where the charge for collection fell, and that at the present time over one half of it fell on the business public, through charges which were transmitted from other Federal Reserve Districts.

Mr. Warburg said he favored a reduction of the service charge but only in case the float could be brought under control.

Mr. Harding pointed out that this control could be secured by lengthening the period at the end of which credit was allowed.

Mr. McDougal wished to hear the experience of those banks which had adopted a rule exempting from 250 to 500 checks daily of service charges.

Mr. Fancher said that the exemption plan had had practically no effect.

Mr. Miller said that it had a good effect and had enlarged the number of checks received.

Mr. Seay had no information.

Mr. McCord thought the effect had been good.

Mr. Harding inquired whether it would be well to have the Board fix the charge for collection made by member banks.

Mr. Miller expressed the thought that the question was a good one to let alone.

Mr. Van Zandt stated that some banks thought that the Board had already established the charge of one tenth per cent.

There was general agreement that one tenth of one percent was a reasonable charge.

As to charges on wire transfers, Mr. Harding expressed the view that there was some lack of uniformity.

Mr. Harding asked whether the member banks knew that they could make use of transfer drafts on Federal Reserve banks.

The reply was generally affirmative, but coupled with the statement that banks had little disposition to avail themselves of the privilege.

Topic No. 6 being taken up, (Reports Examinations and Statistics), Mr. Harding stated that the attention of the banks had been called some time ago to the matter of equalizing reserve behind deposits and notes, and he called on Mr. Warburg for an expression of views.

Mr. Warburg stated he thought that equalization of reserves should be effected as nearly as possible and outlined the method by which such equalization could be brought about, as a matter of bookkeeping.

There was informal expression of views and comparison of relative reserve percentages behind notes and deposits, reference being made to the statistical showing presented in conjunction with the program of the meeting.

Governor Harding presented Chief Examiner Broderick's memorandum with reference to weekly reports of member banks as already laid before the meeting in connection with the formal program, as follows:

"It is respectfully recommended that the Board consider the advisability of having member banks doing business in the cities listed in the attached memorandum, furnish weekly reports of material items as follows:

1. United States Securities owned.
2. Loans secured by United States bonds and certificates.
3. All other loans and investments.
4. Cash in vault.
5. Net Deposits:
   a. Demand
   b. Time.
6. Reserve with Federal Reserve Bank.

These reports would be received from banks doing business in 82 cities, the number of banks reporting would probably be between 550 and 600. It is intended that the figures be reported to the local Federal Reserve Bank at the close of business Friday of each week and that summary be made and telegraphed to the Reserve Board for publication at the time of the issuance of the weekly statement on the following

Saturday. The point may be raised that the clearing house figures published weekly in a number of cities give the information which the suggested report calls for. That is partly true, but figures are published in but few cities. What is desired is a composite picture of current banking conditions in the principal cities of all of the Federal Reserve districts; figures which will be available within one week of the day of report and which will by a weekly comparison of material items, give a good index to the trend of business in the country. After the plan has been in operation say three or four months, it might be deemed advisable to extend it so as to include all member banks, but in such a case, a monthly report from member banks outside of the cities referred to will suffice."

Informal discussion ensued and Governor Harding asked that each of those present take the matter up carefully upon getting home. He further suggested that December 1 would be a good time at which the plan should take effect.

The question of adding to or reducing the number of cities in which member banks would be asked to make weekly reports was then taken up, and each district reported as follows:

Boston,	No change suggested.
New York,	Uncertain.
Philadelphia,	No change suggested.
Cleveland,	Add Wheeling.
Richmond,	Add Norfolk, Charleston, W. Va., and Columbia, S. C.
Atlanta,	Eliminate Mobile. Add Tampa, Fla., Jackson, Meridian, and Vicksburg, Miss.
Dallas,	Add Shreveport and El Paso.

It was agreed that the proposed list of cities transmitted to each bank with requests for further suggested changes.

The question of reports and examinations of member state banks and the problem of merging them with clearing house examinations was then taken up.

Governor Harding called attention to the fact that the provisions of law as now constituted required not less than three reports annually. Governor Harding pointed out that the Comptroller now calls for six reports annually, and asked whether six would be wanted. In reply the following suggestions were made:

Mr. Miller. Three (alternating dates identical with the Comptroller's.)

Mr. Treman. Six (identical with the Comptroller's.)

Mr. McCord. Three (alternating.)

Mr. Seay. Six, if possible, but leave the matter to the several institutions to decide.

Mr. Lynch. Three.

Mr. McDougal. Three.

Mr. Van Zandt. Six.

Mr. Rhodes. Three.

Mr. Wold. Five.

Mr. Aiken. Five or six (but standardize the plan throughout all districts.)

Mr. Fancher. Five or six (but standardize.)

Mr. Wells. Wishes to investigate the matter locally.

Mr. Harding said that his understanding was that the best plan would be to standardize the form of examination so far as possible, endeavoring to simplify the reports and to have the Board's report include only essential items.

Mr. McCord said that the Board ought to try to establish, if it could, harmony among the State superintendents of banking as to form and dates of their reports.

Governor Harding called attention to the desirability of having the various Governors give to Federal reserve agents two copies of all circulars issued by them, one to be kept by the agent and one to be transmitted to the Board.

Governor Harding then asked for information about the savings bank situation apropos of the depreciation of investments.

Mr. Aiken said there would be a serious situation in Boston if the New England savings banks were subjected to heavy withdrawals as result of the Government financing. He thought a plan should be developed whereby the Government would make direct advances to the savings banks on their collateral Such loans should be kept out of the reserve banks. The situation was not serious thus far, but trouble would begin if a 4½% loan were to be floated. The situation should be anticipated and not left to the future. This plan would prevent the development of trouble.

Mr. Lynch said their withdrawals had not yet been heavy in San Francisco, but the State Superintendent of Banks there was planning a revaluation of savings bank investments. This prospect was alarming the savings banks. It was serious enough to warrant the application of some pressure to the Superintendent against his proposed plan.

Mr. Miller said that the savings bank problem did not exist in Kansas City.

Mr. Treman stated that conditions in New York were well known and needed no further comment.

Mr. McCord said the problem was non-existent in Atlanta.

Mr. Seay described the problem as slight in Richmond.

Mr. McDougal said there was nothing serious at present in Chicago.

Mr. Van Zandt said the question was non-existent in Dallas.

Mr. Rhoads expressed the opinion that the depreciation in securities could be handled in Philadelphia, but not heavy withdrawals. There were several individual cases of critical moment in Philadelphia.

Mr. Wold said the condition was not serious in Minneapolis.

Mr. Fancher thought the condition at Cleveland was such as to give some concern.

Mr. Wells said the St. Louis situation was similar to that in Chicago. He had already explained his views fully to Governor Harding.

Governor Harding asked if it would be possible to devise a plan whereby the savings banks would deposit their mortgages in trust and obtain bonds based thereon which could be sold.

Mr. Lynch said if not too much were said about the situation matters would care for themselves. The main thing was not to investigate too closely into the temporary selling prices of securities.

Mr. Warburg called attention to the fact that while the policy suggested by Mr. Lynch might be satisfactory as a temporary matter, eventually the private depositors might become alarmed if nothing were done.

Taking up Section VIII (Capital and Reserve requirements), Governor Harding called upon Mr. Hamlin, who said that Section 9 of the Federal Reserve Act at present laid down a rule which kept state banks out of the system, except under the same restrictions as to capitalization which apply to national banks. He thought that state banks already in existence ought to be admitted practically regardless of capital restrictions if otherwise eligible. There were many such banks which would be welcome. He thought that if the Board should propose an amendment to the Act on the subject at all it should provide that any State bank duly approved by the Board should be let into the system provided it was already chartered.

Some dissent from this view was expressed, and Governor Harding suggested that it be informally discussed at the evening social session. He outlined in a general way the views of small banks as expressed to him.

Governor Harding took up Section VIII (cam paign for state bank membership) and explained the work of the American Bankers' Association Committee. He said the Board would like the names of two or three prominent state bankers in each district who were well disposed toward the system, and suggested that each reserve bank communicate them to Mr. J. H.

Puelicher, the head of the State Bank Committee. Governor Harding also called attention to the cost of the campaign, and said that if Federal Reserve banks should care to contrubute to the maintenance of the expense of the campaign the Board would not object.

Under the head of Topic X (note issues,) Governor Harding raised the question whether a fresh note printing order should or should not be placed with the Bureau of Engraving and Printing. He thought that each bank had better look into the matter with care and reach a conclusion with regard to it.

At 6.15 p. m. the meeting adjourned.

APPROVED:

H Parker Willis

Secretary.

Chairman.