

At a special meeting of the Federal Reserve Board held in the office of the Board on Saturday, June 22, 1918, at 10:35 A.M.,

PRESENT:

Mr. Harding, presiding,	Mr. Miller,
Mr. Warburg,	Mr. Williams,
Mr. Hamlin,	Mr. Willis, Secretary.

The subject of guaranty of deposits which had been made the special topic for the day being brought up, Governor Harding read a series of resolutions on that subject which were submitted as a report on behalf of the Executive Committee as follows:

WHEREAS, it is important that nothing should impede the unification of the banking system of the country under the Federal Reserve Act, to which the President called attention in his statement of October 13, 1917:

'The Federal Reserve Act is the only constructive financial legislation which we have ever had which was broad enough to accommodate at the same time banks operating under powers granted by the General Government and banks whose charters are granted by the respective States. The unification of our banking system and the complete mobilization of reserves are among the fundamental principles of the Act'.

WHEREAS, such unification is threatened by the proposed plan for the guaranty of deposits in national banks:

(1) Because it would tend to stimulate a spirit of competition and antagonism between State bank systems and the national banking system;

(2) Because of the difficult and embarrassing situation in which such State banks, which, owing either to insufficient capitalization or to existing contractual or trust obligations, could not convert into national banks, would be placed;

(3) Because of the agitation which would be produced in many States to secure local legislation for the guaranty of deposits in State banks, thus destroying the harmony now happily developing and almost established between State and national bank systems, as evidenced by the increasing number of State member banks in the Federal Reserve System and the cordial cooperation which many States are giving to the policy of the Federal Reserve Board in seeking to bring about a unification of the American banking system;

WHEREAS, there is no sufficient evidence to establish that there are great sums of currency and specie now in hiding, which would be drawn out and deposited in national banks were such deposits guaranteed, beyond what is already being accomplished by the Postal Savings Bank System and the War Savings Stamp associations;

WHEREAS, in the judgment of the Board, no plan of insurance, either applied to bank deposits or to any other form of credit or property, is sound or can long be successfully maintained where a uniform premium is assessed upon all participants, good or bad, alike;

WHEREAS, relieving depositors of the necessity of exercising care and vigilance in choosing banks in which to deposit their funds would make for weakness, rather than strength, in the organization and conduct of banks;

WHEREAS, the extension of the principle of insurance to bank deposits raises large and most difficult questions of general governmental policy which ought to be decided only after the most mature consideration;

WHEREAS, the Government could not safely and wisely undertake the guaranty of bank deposits without

exercising a degree of control over banking loans and investments, which would, in effect, amount to the government guaranty of such loans and investments and thus bring banking credit under the complete control of the Government;

WHEREAS; the hardships now suffered by depositors of insolvent banks could be materially lessened by the establishment of a fund for the prompt liquidation of the valuable assets of failed banks;

THEREFORE, BE IT RESOLVED, that the Board deprecates the injection into the banking situation at this time of the bitterly controverted question of guaranty of bank deposits as prejudicial to the development of the Federal Reserve System, and as menacing to the successful financial conduct of the war, because of the agitation of mind produced in the business and banking community;

BE IT FURTHER RESOLVED, that it is the judgment of the Board that a fund, under the administration of the Federal Reserve Banks, might well be set up to provide and insure immediate determination of the value of the assets of failed member banks of the Federal Reserve System and an immediate distribution of the estimated value of such assets among depositors, pending their final liquidation; this to the end that the hardship and injury now sustained by depositors of failed banks, because of the delays to which they are subjected in receiving their pro-rata of the assets of failed banks, may be reduced to a minimum.

(Signed) W.P.G. HARDING,
A.C. MILLER
P.M. WARBURG

Discussion ensued.

Governor Harding stated his own position and described a conversation he had had with the Secretary of the Treasury on the subject and Mr. Williams read parts of a personal letter from Mr. McAdoo dated June 15th.

The pending question - the proposed resolution stating the position of the Board - being called for, Mr. Williams asked that the subject be laid on the table until the next meeting of the Board; and moved that Counsel be requested to submit to the Board on Tuesday, A.M., June 25th, a memorandum re bank guaranty of deposits and that the pending question be tabled until Tuesday, June 25th.

Mr. Miller moved as a substitute that the pending question be tabled until Tuesday, June 25th, and voted on at that time.

On being put to a vote the substitute prevailed.

On recommendation of Committee No. 3, the application of the Union Trust Company of New York, to surrender 4,500 shares, and the application of the ^{Central} Union Trust Co., of New York, for 4,500 shares of stock in the Federal Reserve Bank of New York, were approved.

On recommendation of Committee No. 1, the payment of a dividend January 1, 1918, to June 30, 1918, at 6% by the Federal Reserve Bank of Minneapolis, was approved.

The action of the Executive Committee in approving the purchase of a new bank site in Boston at a price which with adjustment of taxes, etc., amounted to about \$1,008,000 was ratified, the Governor to reply officially to the notification of Federal Reserve Agent Curtiss.

Mr. Harding presented business as follows:

A telegram from Federal Reserve Agent Wellborn re personnel of directorate at Jacksonville and Birmingham; read and the subject was given general discussion. Mr. Miller moved that it is the sense of the Board there should in the organization of the Birmingham branch be no departure from the established policy of having the manager of the branch a member of the Board.

The motion was defeated.

Mr. Miller asked whether the by-laws adopted for the Birmingham branch required the inclusion of a manager in the Board of Directors. A negative reply was given.

Mr. Williams moved that Mr. Oscar Wells be designated as a Government director at Birmingham. The motion prevailed.

The question of the directorate at Jacksonville was presented for consideration. Mr. Miller moved that the selection of the Board's directors at Jacksonville be referred to Governor Harding and Mr. Williams with power. The motion prevailed.

On motion a salary of \$400 a month each for A.E. Walker and Geo. R. DeSaussure, as managers at Birmingham and Jacksonville, respectively, effective on organization of the branches, were approved.

Governor Harding stated that the Federal Reserve Bank of Atlanta wishes to fix the salary of Manager Walker of New Orleans at \$7,500, and that he on behalf of the Atlanta Committee, recommended it. On motion it was voted that the salary of Mr. Walker be fixed at \$7,500 effective July 1st.

A letter from Federal Reserve Agent Austin, re dividends and increases in salary at the Federal Reserve Bank of Philadelphia was read and referred to Committee No. 1.

A letter from Federal Reserve Agent Hardy, proposing a dividend of 6% per annum to June 31, 1918, was approved subject to checking by the Statistician.

A letter from Assistant Treasurer Fort re the question of allotting bonds to Federal Reserve Banks offered by national banks during the quarter ending June 30, 1918. It was ordered that no bonds be allotted for this quarter.

A report of Committee No. 1, re a reorganization of the Board's examination system was presented and ordered circulated to be again presented on Tuesday, June 25th, for vote.

A report of the New York Committee re a plan to

establish a branch of the Federal Reserve Bank of New York at Buffalo, was read and discussed.

On motion it was voted to advise the Federal Reserve Bank of New York that the Board is favorable to the establishment of a branch at Buffalo.

A report on Cold Storage paper laid on the table on June 20th, was again presented and referred to Committee No. 2.

Mr. Miller read a letter from Colville Barclay re the conditions surrounding the export of American currency. The matter was referred to the Gold Export Committee.

Mr. Warburg, for Committee No. 2, reported back favorably a letter from Assistant Secretary Leffingwell, recommending that the price of rupee exchange be fixed at 35.73 instead of 35.75, and on motion the price was so fixed.

The question of new quarters for the Division of Foreign Exchange in New York was referred to the Executive Committee with power.

Applications for surrender of stock:

<u>District No. 2</u>	<u>Shares</u>
Union Trust Company, New York, N. Y.	4,500

Application for additional stock:

District No. 2

Shares

Central Union Trust Company, New York, N.Y. 4,500

On motion at 1 P.M., the Board adjourned.

APPROVED:

Chairman.

H. Porter Willis
Secretary,