

A meeting of the Federal Reserve Board was held in the office of the Board on Friday, February 25th, 1921, at 3:15 p.m.

PRESENT: Governor Harding  
Mr. Platt  
Mr. Hamlin  
Mr. Miller  
Mr. Wills  
Mr. Hoxton, Secretary.

PRESENT ALSO: The gentlemen representing the Pension Committee of the Federal Reserve banks as follows:

Mr. Fancher  
Mr. Kenzel  
Mr. Curtiss  
Mr. Sayre  
Mr. Buck  
Mr. Hopf.

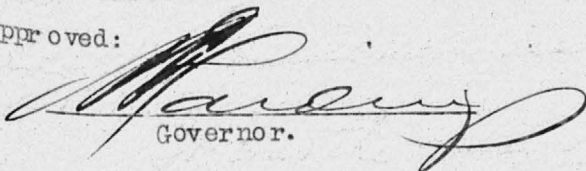
Reading of the minutes was omitted.

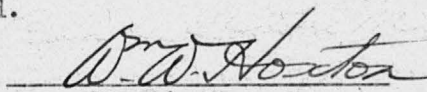
Governor Harding stated that the members of the Board had examined the report of the Pension Committee and regarded as well devised and excellent the proposed plan, but in view of the fact that a large immediate appropriation was required in order to bring the system to a current basis and that such appropriation must come from that portion of the earnings of the Federal Reserve banks which otherwise would be paid to the Government as a franchise tax, some of the members felt that the plan should not be adopted without specific authority from the Congress.

After discussion, the report of the Pension Committee was referred to Governor Harding and Vice-Governor Platt for recommendation after consultation with Mr. Curtiss.

At 3:25 p.m. the meeting adjourned.

Approved:

  
Governor.

  
Secretary

A meeting of the Federal Reserve Board was held  
in the office of the Board at 10.10 a.m. Saturday  
February 26<sup>th</sup> 1921

Present: Governor Harding

Mr. Platt

Mr. Hamlin

Mr. Miller

Mr. Wills

Mr. Williams

Mr. Hoxton, Secretary

The reading of the minutes was omitted.

Letter dated February 24<sup>th</sup> from the Railroad Loan Advisory  
Committee, requesting approval of a form of loan, in the  
amount of \$38,000, to be made to the Virginia Southern  
Railroad Co., under the provisions of Section 210 of  
the Transportation Act, 1920, as amended

Approved.

Governor Harding stated that the next order of business  
would be the consideration of the three motions made  
by Mr. Williams at the meeting of the Board yesterday,  
and the Secretary read the first motion as follows:

"Moved that, in view of all conditions including the success  
of the 6% rate in the Richmond, Cleveland, Philadelphia  
and San Francisco districts, the Federal Reserve Board  
request all the Federal Reserve Banks, effective Mar 1, 1921,  
to adopt a maximum discount rate of 6%.

It was the sense of the meeting that the action

contemplated by this motion should not be taken at this time, nor should it be taken without reference to the judgment of the Boards of Directors of the several Federal Reserve Banks.

Mr. Platt moved that the first motion offered by Mr. Williams be laid upon the table.

Mr. Platt's motion, being put by the Chair, was carried. Governor Harding, Mr. Platt, Mr. Hamlin, Mr. Miller and Mr. Wills voted "aye." Mr. Williams voted "no".

The Secretary read the second motion offered yesterday by Mr. Williams as follows:

"Moved that the Federal Reserve Board requests the abolition, as of March 1<sup>st</sup> 1921, of the Progressive rate in all those districts where the progressive rate is now applied."

It was the sense of the meeting that the action contemplated by this motion should not be taken at this time, nor should it be taken without reference to the judgment of the Boards of Directors of the Federal Reserve Banks concerned.

Mr. Platt moved that the second motion offered by Mr. Williams be laid upon the table.

Mr. Platt's motion, being put by the Chair, was carried. Governor Harding, Mr. Platt, Mr. Hamlin, Mr. Miller and Mr. Wills voted "aye." Mr. Williams voted "no".

The Secretary read the third motion offered yesterday by Mr. Williams as follows:

"Moved, that, effective March 1, 1921, the Federal



Reserve Banks be requested to establish a rate of  $4\frac{1}{2}\%$  upon member banks' loans secured by Liberty bonds in cases where the Liberty bonds were purchased originally by the member banks at par, such loans to be made on condition that the borrowers shall make reasonable reduction every 60 days, it being understood that the Federal Reserve Banks shall not grant such loans at said  $4\frac{1}{2}\%$  rate when they are applied for to obtain new money not needed for essential purposes, or not needed to prevent the borrower from being driven to the necessity of selling bonds costing him 100. The above  $4\frac{1}{2}\%$  rate shall also apply to discount by Reserve Banks of notes made by the customers of member banks when secured by Liberty Bonds which were paid for at par, and which belong to the borrowers as original subscribers.

Mr. Miller stated that this motion was clear cut and he saw no reason why it should not be acted upon at once.

Mr. Williams' third motion was put by the Chair and lost. Mr. Williams voted "aye". Governor Harding, Mr. Platt, Mr. Hamlin, Mr. Miller and Mr. Mills voted "no".

Letter Feb. 18 from the Chairman of the Federal Reserve Bank of Chicago making a comparative analysis of the efficiency of the reports of examination furnished by the National Bank Examiners and the examiners of the Federal Reserve Bank of Chicago.

Noted. Mr. Williams requested that he be furnished with a copy of Mr. Neach's letter.

At this point, at 10.32, Governor Strong of the Federal Reserve Bank of New York closed the meeting upon the invitation of the Board.

Governor Harding stated that Governor Strong had been invited to attend the meeting in order that he might answer certain criticisms made by the Comptroller of the Currency in his letter to the Governor of the Federal Reserve Board dated February 19, 1921. These criticisms were to the effect that the Federal Reserve Bank of New York had made, and the Federal Reserve Board had permitted to be made, large loans to certain New York City Member banks - notably the Chase National Bank - and that the proceeds of such loans had been used for the purpose of making unsafe and improper advances to the officers of the member banks and to companies and corporations in which such officers were interested. That the Federal Reserve Bank of New York had been put upon notice by the reports of the National Bank Examiner dated October 1919 and August 1920 upon the condition of the Chase National Bank and that by continuing to rediscount for the said member bank the Federal Reserve Bank of New York was at fault and that the Federal Reserve Board might be regarded as "Particeps Criminis".



Governor Strong replied that in his judgment, responsibility for the legality and propriety of loans made by National Banks to their customers rested squarely with the Comptroller of the Currency and not with the Federal Reserve Banks and that therefore he refused to accept any responsibility for the condition in the Chase National Bank as revealed in recent letters from the Comptroller. Governor Strong quoted the comments and criticisms made by the National Bank Examiner in his report of October 1919 upon the condition of the Chase National Bank and stated that there was nothing in those comments and criticisms to warn the Federal Reserve Bank of New York that further investigation was called for, that if the Comptroller of the Currency was in possession of other information at that time he did not supply such information to the Federal Reserve Bank of New York. He further stated that although the law requires that National Banks be examined by the Comptroller twice a year, the Chase National Bank was not examined between October 1919 and August 1920 and that the latter report of examination only reached the Federal Reserve Bank of New York on January 7, 1921.

Mr. Williams stated that while the responsibility for the proper conduct of business on the part of national banks rested primarily upon the Comptroller of the Currency, that all information relative to the condition of such banks in the possession of his office was available to

the Federal Reserve Banks and that the list of loans set forth in the October 1919 report upon the Chase National Bank was sufficient to warn the Federal Reserve Bank of New York that the funds borrowed from it by the Chase National Bank were being used for speculative and improper purposes.

Governor Strong stated that he was informed that Mr. Williams had distributed copies of certain of his letters addressed to Governor Harding to members of Congress and others and asked if he had sent this portion of the confidential archives of the Federal Reserve Board to members of Congress for the purpose of precipitating an investigation of the Federal Reserve Bank of New York.

Mr. Williams replied that he had not. Governor Strong asked Mr. Williams if he did not know that such action on his part would bring out such an investigation.

Mr. Williams replied that he did not.

Governor Harding stated that the Board had instructed him to ask Mr. Williams if he intended to supply the names of those persons to whom he had given copies of certain of his letters to the Board as requested in the letter of the Secretary of the Board dated February 14, 1921.

Mr. Williams replied that there was no impropriety in his giving out the letters to the persons to whom he had given them and that, as to the identity of such



persons he would reply to the Board by letter in such manner as he should deem appropriate.

Governor Strong said that he desired to go on record as advising the Board that an extremely hazardous situation is existing in New York as a result of rumours, in part arising from disclosures resulting from the giving out by Mr. Williams of correspondence between the Comptroller and the Federal Reserve Board, and that if serious loss should result to banks and their customers it will be due to this action on the part of the Comptroller of the Currency.

Mr. Wills stated that in his opinion the criticisms of the Federal Reserve Bank of New York made by the Comptroller of the Currency were not sustained by the evidence submitted and that he hoped the criticisms would now be withdrawn.

The same opinion was expressed by Mr. Haulin, Mr. Miller and Mr. Platt.

At this point, at 1.35 o'clock, Mr. Williams withdrew from the meeting.

Mr. Haulin moved that the Executive Committee prepare a report upon the matter of the criticisms of the Federal Reserve Bank of New York expressed by the Comptroller of the Currency.

Carried

After further discussion, the meeting adjourned at 2.15 P.M.

Approved

*W. W. Houston*  
Governor

*W. W. Houston*  
Secretary