

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, March 11, 1926 at 10:40 a.m.

PRESENT: Governor Crissinger  
 Mr. Platt  
 Mr. Hamlin  
 Mr. Miller  
 Mr. Cunningham  
 Mr. McIntosh  
 Mr. Eddy, Secretary  
 Mr. McClelland, Asst. Secretary

The reading of the minutes of the meeting of the Federal Reserve Board held on March 9th was dispensed with.

Telegram dated March 9th from the Chairman of the Federal Reserve Bank of Atlanta, advising of the election of Mr. G. G. Ware, President of the First National Bank of Leesburg, Florida, as Class A Director of the bank for the unexpired term of Mr. P. R. Kittles, deceased, ending December 31, 1926.

Noted.

In accordance with the notice given by him at the meeting on March 3rd, Mr. Miller then moved that the By-laws of the Board be amended by adding to Article XIII thereof a new section reading as follows:

"No vote shall be taken or motion made by the Board at a meeting or conference when others than the members of the Board and its secretarial staff are present."

Carried.

In accordance with the notice given by him at the meeting on March 4th, Mr. Hamlin then moved that Section 2 of Article XIII of the By-laws of the Board be amended so as to eliminate special orders from the list of matters the consideration of which is confined to the particular

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meeting of the Board each week at which are to be brought up only the matters listed in that section.

Carried.

Report of Committee on Salaries and Expenditures on letter dated March 6th from the Chairman of the Federal Reserve Bank of Philadelphia, advising of the action of the board of directors of that bank in voting to grant a thirty day leave of absence with pay to Mr. Charles H. Fralick, an employee of the Transit Department; the Committee recommending approval.

Upon motion it was voted to approve payment of compensation to Mr. Fralick during the leave of absence granted him.

Report of Committee on Salaries and Expenditures on letter dated February 24th from the Chairman of the Federal Reserve Bank of Atlanta, referring to the Board's circular letter of February 15th (X-4531) on the subject of compensation of attorneys employed by Federal Reserve banks other than regular counsel, and transmitting a statement showing all agreements which the executive committee and board of directors of that bank have with attorneys other than regular counsel at this time; the Committee reporting that it sees nothing objectionable to the arrangements reported.

Noted without objection.

Report of Committee on Examinations on letter dated March 6th from the Federal Reserve Agent at Cleveland, recommending approval of an application of the Fourth and Central Trust Company, Cincinnati, Ohio, for permission to purchase the Stock Yards Bank, Cincinnati, and to continue

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its operation as a branch; the Committee also recommending approval.

Approved.

Telegrams dated March 2nd and 8th from the Chairman of the Pacific Southwest Trust and Savings Bank, requesting the Board's permission to take over the First National Bank of Inglewood, with an agency at Fairview Heights, the Inglewood Savings Bank and the Lennox State Bank and to operate branches in the four premises; together with telegram dated March 6th from Mr. James who is in California, recommending approval of the application, and telegram dated March 9th from the Federal Reserve Agent at San Francisco advising that both he and the Executive Committee recommend approval, but stating that the Superintendent of Banks of California has approved only the taking over of the First National Bank of Inglewood and the Inglewood Savings Bank, but has not acted on the Fairview Heights Agency, which was not included in the original application, nor on the Lennox State Bank, on which he is withholding approval pending further investigation.

The Board's Committee on Examinations reported favorably on the application and Mr. Platt moved that the Board approve of the Pacific Southwest Trust and Savings Bank taking over the First National Bank of Inglewood and the Inglewood Savings Bank and establishing branches in their premises, but defer action on the taking over of the Lennox State Bank and the Fairview Heights Agency of the First National Bank pending approval by the State Superintendent.

Mr. Platt's motion being put by the Chair was carried, Mr. McIntosh not voting.

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Report of Committee on Examinations on telegram dated March 9th from the Federal Reserve Agent at San Francisco, recommending approval of an application of the Security Trust and Savings Bank, Los Angeles, for permission to take over the Citizens State Bank of Sawtelle, together with its branches at Palms and West Los Angeles, and to establish branches in the three premises; the Committee also recommending approval.

Approved.

Report of Committee on Examinations on letter dated March 3rd from the Federal Reserve Agent at St. Louis, transmitting and recommending approval of an application of the Cherokee National Bank of St. Louis, for a reduction in its reserve requirements from 10% of demand deposits and 3% of time deposits to 7% of demand deposits and 3% of time deposits, under the provisions of Section 19 of the Federal Reserve Act; the Committee also recommending approval.

Approved.

Report of Committee on Examinations on memorandum dated March 9th from the Comptroller of the Currency, recommending approval of an application of The First National Bank of Pineville, La. for permission to reduce its capital from \$50,000 to \$30,000, on condition that no money is returned to the shareholders, but that the entire amount set free by the reduction be used for the purpose of taking out doubtful paper to be trusted for the benefit of shareholders at date of reduction; the Committee also recommending approval.

Approved.

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Report of Committee on Examinations on letter dated March 5th from the Federal Reserve Agent at Minneapolis, transmitting and recommending approval of an application of The First Security State Bank of Red Wing, Minn., for approval of its action in consolidating on December 31, 1925 with the Security Loan and Trust Company of the same place under the name Security Bank and Trust Company of Red Wing; the Committee also recommending approval.

Approved.

Memorandum from Counsel dated March 9th on the subject of the advisability of seeking an amendment to law to restore to Federal courts jurisdiction over suits by and against Federal Reserve banks; Counsel recommending that the subject be placed on the program for discussion at the forthcoming Governors' Conference, and that copies of his memorandum be sent immediately to the Governors of all Federal Reserve banks in order that they may study the subject and consult with their counsel prior to the Conference.

Upon motion, it was voted to approve Counsel's recommendation and to place the subject of his memorandum on the Governors' Conference program.

Matter ordered circulated at the meeting on March 4th, namely, memorandum from Counsel dated February 25th submitting draft of a circular letter to the Governors of all Federal Reserve banks on the subject of the eligibility for rediscount at Federal Reserve banks of factors' notes covering advances to producers of eggs, poultry and butter, under the provision of the second paragraph of Section 13 of the Federal Reserve

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Act making eligible the paper "of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state".

Upon motion by Mr. Hamlin, the proposed circular letter was approved and ordered transmitted.

Matter ordered circulated at the meeting on January 26th, namely, letters dated January 18th and 21st, respectively, from the Chairman of the Federal Reserve Banks of Kansas City and Dallas, with reference to applications for transfer from the 11th to the 10th Federal Reserve District filed with the Board by the First National Bank and the Albuquerque National Bank of Albuquerque, New Mexico, and by the First National Bank of Belen, New Mexico; Mr. Walsh stating that if it is deemed advisable and expedient to grant the applications there will be no objection on the part of the Federal Reserve Bank of Dallas, and Mr. McClure stating that the Federal Reserve Bank of Kansas City will interpose no objection and suggesting that the matter be arranged by the transfer of two counties in New Mexico, Valencia and Berna-lillo, in which Belen and Albuquerque, respectively, are the only banking towns.

Upon motion by Mr. Miller, it was voted the the Board's Counsel be directed to prepare proper orders approving the transfer of Valencia and Berna-lillo counties, New Mexico, from the 11th to the 10th district, the changes to be effective on a date mutually agreeable to the Federal Reserve Banks of Dallas and Kansas City.

At this point, the Secretary of the Treasury entered the meeting and took the Chair. Governor Crissinger explained that the Board was about to consider the following draft of a letter addressed to Mr. Frank O. Wetmore, President of the Federal Advisory Council, prepared by Mr. Miller and dealing

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with the matter which he stated at the meeting of the Board on March 4th he proposed to make the subject of a resolution at a meeting subsequent to that date. Mr. Miller stated that he had decided to submit the matter in letter form rather than make it the subject of a resolution.

"At the last conference of the Federal Advisory Council and the Federal Reserve Board, there was some discussion of the step taken by the Board toward assembling and publishing in the weekly statement of condition of the 61 reporting banks of New York City figures covering so-called street loans of those banks, to wit, loans to brokers and money dealers. This is now being done. While this action had not been set down on the formal program of the Council conference and no formal action by the Council was taken, members of the Board have the impression that the Council generally regarded with favor the action taken by the Board.

Since the above action was taken the Board has taken further steps to possess itself of information with respect to the security and street loans of each of the reporting New York City banks weekly and of their borrowings from the Federal reserve bank whenever these are above \$2,000,000. The Board intends to follow a similar procedure in the near future with respect to reporting member banks at the most important Federal reserve centers, to wit, Boston, Philadelphia, Cleveland, Chicago, St. Louis and San Francisco.

On the subject of security loans, the Federal Reserve Board will say in its forthcoming Annual Report:

'Under circumstances such as prevailed in the autumn of 1925, when the growth in member bank credit was largely in loans on securities, and when seasonal currency demands accounted for only a part of the increase in reserve bank credit, it was evident that the member banks as a whole were increasing their borrowings at the reserve banks in order to build up their reserve balances. The increase in reserve requirements which occasioned this borrowing could in turn be traced to the growth in deposit liabilities arising from the increased volume of security loans. Considerations of this character were among the factors considered in November, 1925, when the discount rates were advanced at four of the reserve banks.'

Before the Federal Reserve System was established an investment of a portion of its resources in the call loan market by a bank was regarded as affording it a secondary reserve. Events, particularly in the last half of the year 1925, seem to indicate, however, that some, if not a considerable number of banks are not disposed to withdraw investments from the call loan market in order to meet local commercial demands when

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"the spread between the discount rate of the Federal reserve bank and the call loan rate makes it profitable to maintain intact its investment in the call loan market and to borrow from the Reserve bank to meet commercial demands of its customers. It even appears, as briefly set forth in the above extract, that there are banks that have been using Federal reserve credit facilities to extend their investments in the call loan market when that is a profitable proceeding by reason of the spread between the Federal reserve discount rate and the prevailing call loan rates.

The Board is desirous of ascertaining the views of the Council with regard to

- (1) The proper relation of Federal reserve banks to the call loan market;
- (2) The relation of Federal reserve bank rates to call loan rates;
- (3) The proper function under our banking system as modified by the establishment of the Federal reserve banks of banking investment in call loans.

It is clear that the Federal Reserve Act never contemplated the use of the facilities of the Federal Reserve System to support the extension of loans by its member banks to the call market. The Board is giving much thought to the development of a procedure which will check or altogether eliminate the misuse of Federal reserve credit facilities. A review of banking history during the last year shows that such misuse was made by some member banks, especially in the latter portion of the year. The Board, therefore, desires the views and assistance of the Council in developing a procedure to deal with this situation. Specifically, the Board desires the views and recommendations of the Council upon the following questions:

- (1) What can the Council recommend that the Federal Reserve Board do -
  - (a) By way of amplifying the information it now obtains from its weekly reporting member banks with respect to their condition and operations;
  - (b) By way of regulations addressed to Federal reserve banks with respect to their relations and dealings with their member banks; or



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(c) In any other ways deemed appropriate and effective by the Council?

2. What, in the judgment of the Council, can the management of the Federal reserve banks properly do by way of restraining such of their member banks as show a disposition to make improper use of the credit facilities of the Federal Reserve bank?

\*\*\* It is presumed that the members of the Advisory Council are already conversant with the practices and methods of their respective Federal reserve banks or can without difficulty fully inform themselves on these matters.

Realizing the importance of the difficulties of the questions that are being submitted to the Council, the Board is transmitting them at this early date in advance of the next conference of the Advisory Council with the Federal Reserve Board (May 21st) in order that the Council may have ample time to study the situation which has given rise to these problems and to recommend suggestions of practicable ways and means of dealing with them in a manner at once effective and temperate.

\*\*\* It occurs to the Board that the Council may want to delegate the study of this matter to a Committee of its membership and that such a Committee may need clerical, statistical or other assistance from the Federal Reserve Board. In inviting the cooperation of the Council in dealing with these important matters the Board will be glad to place at the disposal of the Council any assistance that it can which may be desired.

By direction of the Federal Reserve Board."

The Secretary of the Treasury stated certain reasons which in his opinion made it undesirable to give any publicity at this time to the views of the Federal Reserve Board with respect to the extent to which member banks should make loans on stocks and securities, while at the same time borrowing from the Federal reserve banks. His attention was called to the fact that it was not the purpose of the Board to make public any views which it might hold on the subject, but that Mr. Miller's proposal was to have the matter discussed by the Federal Advisory Council with a view to securing its views and recommendations. Governor Crissinger stated that Mr. Miller, at the request of the Board, had prepared for inclusion in the Board's Annual Report

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for the year 1925, which has not yet been made, an article dealing with the subject of call loans and call loan rates, that the Board had referred to Mr. Platt and himself with power the question of the advisability of including same in the report, and that he and Mr. Platt had reached a decision that it was inadvisable to include the discussion of the subject in the report.

Thereupon, Mr. Miller moved approval of the letter as submitted by him, following which there ensued a general discussion of the statements contained therein, and suggestions were made and accepted by Mr. Miller that the three paragraphs above indicated by asterisks be stricken from the letter and that the word "improper" appearing in the second direct inquiry made of the Council be stricken out and the word "excessive" substituted in lieu thereof.

Following a discussion of the advisability of the Board's approving the letter with the changes indicated, Mr. Hamlin moved as a substitute for Mr. Miller's motion, that the proposed letter be laid on the table for the present.

Mr. Hamlin's substitute motion, being put by the Chair, was carried, Mr. Cunningham voting "no", and Mr. Miller "not voting".

The Secretary of the Treasury then left the meeting and the Governor returned to the Chair.

Mr. Platt then presented letter dated February 9th from the Executive Committee of the Federal Reserve Bank of Atlanta, transmitting and recommending approval of an application of the Citizens and Southern Bank, Savannah, Ga., for permission to take over the business of the Merchants Bank of Valdosta, Ga., a non-member, and to establish a branch at that point; together with certificate of the Superintendent of Banks approving

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the establishment of the branch in question and stating it appears that the public convenience and advantage to the citizens of Valdosta and the surrounding territory will be promoted by the opening of such branch bank.

Mr. Platt submitted subsequent correspondence with the Federal Reserve Agent at Atlanta on the subject, including a telegram dated March 11th, requesting advice as to the Board's action on the application.

The Committee on Examinations being divided on the matter, Mr. Platt recommending approval and Mr. Cunningham disapproval, it was voted that the application be laid on the table until the meeting on Thursday, March 18th.

REPORTS OF STANDING COMMITTEES:

Dated, February 12th, Recommending changes in stock at Federal Reserve  
March 9th, banks as set forth in the Auxiliary Minute Book  
of this date.

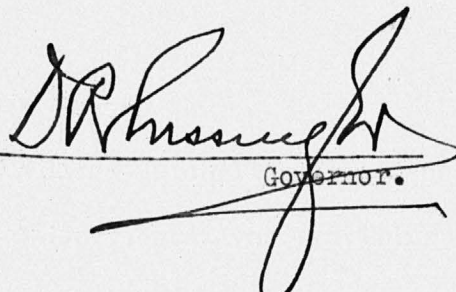
Approved.

Dated, March 8th, Recommending action on application for admission  
of state bank, subject to the conditions stated  
in the individual reports attached to the applica-  
tion, as set forth in the Auxiliary Minute Book  
of this date.

Approved.

The meeting adjourned at 12:30 p.m.

Approved:

  
Governor.

  
Secretary.