A meeting of the Executive Committee of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, August 4, 1926, at 11:00 a.m.

PRESENT: Governor Crissinger
Mr. James
Mr. Hamlin
Mr. Eddy, Secretary
PRESENT ALSO: Mr. McIntosh

Telegram dated August 3rd from the Federal Reserve Agent at Atlanta, recommending the appointment of Mr. Claude Gilbert as Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta to conduct a constructive survey of member banks for the purpose of strengthening their position, with salary at the rate of $10,000 per annum.

On motion by Mr. Hamlin, Mr. Gilbert was appointed Assistant Federal Reserve Agent at Atlanta for a temporary period, with salary at the rate of $10,000 per annum.

Memorandum dated July 29th from Counsel, with regard to the application of Mr. L. H. Windholz to serve at the same time as Director of the Virginia National Bank of Norfolk, Va., as Director of the National Marine Bank of Baltimore, Md., and as Director of the Maryland Trust Company of Baltimore, Md.; Counsel stating that it is not believed that the Norfolk bank is in competition with the Baltimore banks, and that the question of competition between the Baltimore banks is a close one in which the Board may well, in view of the position taken in previous cases, conclude that the competition is not substantial.

On motion, the application of Mr. Windholz to serve the three banks in question was approved.

Memorandum dated July 26th from Counsel, recommending temporary

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refusal of the applications of Messrs. C. Walter Lotte, Wilmer A. Cadmus, George W. Renkel, and Albert H. Slater to serve upon the directorates of the Broadway National Bank and the National Bank of America, both of Paterson, New Jersey; Counsel stating that the Federal Reserve Agent at New York recommends that these applications be refused because, in his opinion, the banks must be considered to be in substantial competition, and suggests if the applications are refused that the applicants be permitted to continue to serve on the boards of both banks until the end of the year in order to avoid any abrupt termination of the existing relationship. Counsel in his memorandum suggests that, in accordance with the usual practice, if the Board is not notified on or before August 23rd that the applicants desire to present additional facts, the applications be considered to be definitely refused. Counsel in his memorandum also calls attention to letter dated March 26th from the Federal Reserve Agent at New York in connection with these applications, suggesting the advisability of reviewing the situation concerning interlocking directorates between banks in Paterson with the idea of revoking permits previously granted because of existing competition between the banks.

> On motion, it was voted to temporarily refuse the applications referred to, such refusal to become definite on August 23rd if the Board is not previously advised that the applicants desire to present additional facts, and to postpone action on that part of Counsel's memorandum suggesting the advisability of revoking certain permits previously granted to serve banks located in Paterson, New Jersey.

The Secretary then presented a memorandum dated August 3, 1926, from the Board's Chief Telegraph Operator, advising that Raymond Burrows, messenger

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in his office, was offered and accepted a position outside of Washington, and recommending that he be dropped from the rolls of the Board as at the close of business July 31, 1926; the Secretary requesting authority to employ a messenger to fill the vacancy, with salary at the rate of $50 per month.

On motion, the recommendation contained in the memorandum was approved, and the Secretary was authorized to employ a messenger to fill the vacancy with salary at the rate of $50 per month.

Governor Crissinger stated that while in conversation over the telephone with Deputy Governor Harrison of the Federal Reserve Bank of New York on another matter, he had discussed with him the present money market and the relation thereto of the present New York rediscount rate. The Governor stated that he had advised Mr. Harrison that in his opinion the New York rate should be raised at this time, which action might put the bank in a better position to consider a lower rate later on when the crops began moving. He stated that he had called Mr. Harrison's attention to the falling off in the amount of brokers' loans as reported to the Board weekly and expressed the view that the stock market was being financed by commercial banks, not through the brokers, but by direct loans made to the brokers' customers. The Governor stated that he felt that there was a manifestation of a spirit of optimism throughout the country which might develop a condition difficult to control, and that in his opinion the raising of the New York rate at this time would do no harm to the business or commercial interests, but would have a beneficial psychological effect on the speculative interests. The Governor stated that he had later been advised by Deputy Governor Harrison that at an informal meeting of the New York directors yesterday, there was some discussion of the advisability of raising the New York rate and it developed that the

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directors were divided on the question. He stated that Deputy Governor Harrison advised him that another meeting would be held tomorrow at which the matter would be discussed. The Governor also stated that he received another telephone call from Deputy Governor Harrison yesterday afternoon and was advised that the question had been discussed by the officers of the bank who felt that it would be beneficial to them and to the directors at their meeting tomorrow to have before them an expression of the views of the Board on the question of the advisability of raising the New York rate at this time.

At this point, Dr. Goldenweiser, Acting Director of the Board's Division of Research and Statistics, entered the meeting and stated to the Board that he was of the impression that the money rate situation as it exists in New York now is not in itself indicative of a necessity for a change in the New York bank rate. He stated that the acceptance rate is slightly below the discount rate and that the commercial paper rate is a full half of one per cent above. The Director stated that all available evidence indicates, however, that there will soon be a rise in both of these rates, because of the approaching seasonal demand for credit and currency. He stated that such an advance almost always appears at this time of the year and is more certain to occur this year than last because of the increase in the loans of the commercial banks. He stated that he believed it to be desirable to increase the New York rate at this time in order to assume leadership. He stated that the growth of credit has been very large for two years, and that the volume of credit has maintained its present level since the beginning of the year, without the usual mid-year slump, the growth being in both

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security loans, in commercial loans and in investments. Dr. Goldenweiser called attention to the increase in the total of security loans made by member banks and the decrease in the loans made by New York banks to brokers, as reported to the Board. He stated that in view of the activity and volume of business on the exchange, this indicated to him that much of the borrowing was being done by the brokers' customers direct from the banks, rather than through the brokers. He stated that market prices of securities after the slump in March of this year have recovered practically all they had gone off, and a great many stocks are now at their highest point. He called attention to the volume of activity on the exchange, which has been running very high again. He stated that since this is the second year of high speculative activity the situation, in his opinion, is more serious than it has been because the present advance in the market came on top of a year of active speculation. He stated that business sentiment is very optimistic now and all misgivings shown in April, March and May seem to have disappeared, and the general tone of business sentiment is one that in his opinion comes close to "boom psychology". He stated that production and trade are in very large volume, but there are indications, at least in two basic industries, of an accumulation of surplus stocks - building and automobiles. He stated that while there was still a large volume of building activity, there was some indication of a decline. He stated that wholesale and retail trade evidence a large volume of business with some reduction in prices. He also stated

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that in view of the continued large volume of production and the fact that the purchasing power of the consumer is likely to be somewhat below last year's, it is probable that there will be a growth in the accumulation of stocks, and that a slump in business would result in a more serious situation now than a year ago. He called attention to the fact that the general price level has been declining for some time and that the decline has been for the most part in non-agricultural commodities, with a slight rise in the general agricultural list due principally to the upward movement of wheat and live-stock. In the past few weeks, he stated, live-stock prices have declined. He stated that in his opinion when the business situation is considered in connection with the credit situation and the growth of speculative activity, a move in the direction of higher discount rates appears to be desirable. He stated that his advices were that prevailing counter rates for borrowers in New York City were ranging from about 4 1/2 to 5 1/2 per cent. He felt that if the New York bank rate should go to 4 per cent, this would have no material effect on business generally, but would have an effect on the speculative movement in the New York market. He stated that our export trade at the present time is not as large as it has been in previous years, and that the decline was chiefly in cotton and in grains.

Following the discussion, Mr. McIntosh suggested that the Governor advise the New York bank that if the directors make a recommendation for a change upward in the rediscount rate of the bank at this time, a majority of the members of the Board present would be inclined to approve their recommendation.

Mr. James and Governor Crissinger stated that they agreed with Mr. McIntosh's suggestion, and Mr. Hamlin stated that he desired to have an opportunity of studying the situation and having the views of the directors of the New York bank before taking any action.

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Dr. Goldenweiser then presented a draft of the pamphlet descriptive of the operations of the Federal Reserve System which the Federal Reserve Bank of Boston proposes to distribute to member banks in its district and to their customers, which revised draft he had edited and found a number of points inadequately covered and which editorial suggestions he recommended be communicated to the Boston bank.

Following discussion, Mr. Hamlin moved that Dr. Goldenweiser be directed to proceed to Boston and communicate verbally his suggestions to the proper officials of the Boston bank, and instruct them to send on to the Board for its approval another revision of the text of the pamphlet.

Carried.

REPORTS OF STANDING COMMITTEES:

Dated, August 3rd, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.
Approved.

Dated, July 29th, Recommending action on application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.
Held.

Dated, July 30th, Recommending approval of the application of Mr. Fred C. Dickson for permission to serve at the same time as Director of the Merchants National Bank of Indianapolis, Ind., and as Director of the Indiana Trust Company of Indianapolis, Ind.
Approved.

Dated, July 30th, Recommending approval of the application of Mr. Gustav H. Mueller for permission to serve at the same time as Director and Vice President of the Fletcher-American National Bank of Indianapolis, Ind., as Director and Chairman of the Board of the Madison Avenue State Bank, Indianapolis, Ind., and as Director of the Belmont State Bank of Indianapolis, Ind.
Approved.

Dated, August 2nd, Recommending approval of the application of Mr. C. H. Newman for permission to serve at the same time as Director of the Citizens National Bank, Emporia, Kans., and as Director of the Griswold National Bank, Detroit, Mich.
Approved.

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The meeting adjourned at 12:30 p.m.

Secretary.

Approved:

Governor.

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