

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Friday, May 13, 1927 at 11:00 a.m.

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

Letter dated May 12th from the Assistant Secretary of the Federal Reserve Bank of New York, advising that the board of directors at their meeting on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Telegram dated May 12th from the Chairman of the Federal Reserve Bank of Richmond, advising that the board of directors at their meeting on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Telegram dated May 12th from the Chairman of the Federal Reserve Bank of Kansas City, advising that the board of directors at their meeting on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Bond of Mr. Gates W. McGarragh, Federal Reserve Agent at the Federal Reserve Bank of New York, dated May 9, 1927, in the amount of \$100,000.

Approved.

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Bond of Mr. M. L. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, dated May 6, 1927, in the amount of \$100,000.

Approved.

Letter dated May 6th from the Assistant Federal Reserve Agent at San Francisco, advising that the American Trust Company of San Francisco on May 4th closed their branch at Redwood City.

Noted.

Letter dated May 5th from the Federal Reserve Agent at San Francisco, advising that on April 30th the consolidation of the French American Bank of San Francisco with the United Bank and Trust Company of California was effected and on May 2nd the head office and three branches of the French American Bank were opened as branches of the United Bank and Trust Company.

Noted.

Report of Committee on Examinations on letter dated May 5th from the Federal Reserve Agent at San Francisco, transmitting and recommending approval of an application of The E. G. Young and Company Bank of Oakland, Oregon, for approval of its action of March 21st, 1927 in absorbing the Commercial Bank of Oakland, a non-member; the Committee also recommending approval.

Approved.

Telegram dated May 12th from Mr. Harry H. Rogers, advising of his acceptance of the Board's appointment as a director of the Branch of the Federal Reserve Bank of Dallas to be established at San Antonio, Texas.

Noted.

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Report of Committee on Salaries and Expenditures on letter dated May 10th from the Deputy Governor of the Federal Reserve Bank of New York, submitting for the Board's approval proposed promotions of employees from one grade to another, effective May 1, 1927, the maximum salary of the new grade in each case being in excess of \$2500 per annum, advising of the employment of Mr. Harry H. Elliott as Secretary to the Chairman of the Board of Directors at a salary of \$4,700 per annum, and recommending that the grade of Secretary to the Chairman of the Board of Directors be changed from Grade G 3 with an annual salary range of \$2600 - \$3,000 to Grade Ch. A. with a salary range of \$4,000 to \$5,000; the Committee recommending approval.

Approved.

Letter dated May 11th from the Federal Reserve Agent at Boston, referring to the recent surrender of stock in the Federal Reserve Bank of Boston by the Fitchburg Bank and Trust Company of Fitchburg, Mass., based upon a reduction in its surplus account of \$200,000; the Federal Reserve Agent inquiring whether in view of the fact that the trust company was not technically required as a matter of law to surrender the stock, the application for surrender may not be cancelled or withdrawn and the stock reissued to the trust company.

Referred to the Law Committee.

Report of Executive Committee on letter dated May 12th from the Comptroller of the Currency, recommending approval of the salary of \$3,000 per annum for National Bank Examiner C. C. Francis, assigned to the Second Federal Reserve District; the Committee also recommending approval.

Approved.



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Report of Executive Committee on letter dated May 12th from the Comptroller of the Currency, recommending approval of a salary of \$3,000 per annum for National Bank Examiner L. A. Shea, assigned to the 2nd Federal Reserve District; the Committee also recommending approval.

Approved.

Report of Executive Committee on letter dated May 12th from the Comptroller of the Currency, recommending approval of a salary of \$3,000 per annum for National Bank Examiner K. D. Strite, assigned to the 2nd Federal Reserve District; the Committee also recommending approval.

Approved.

Report of Committee on District #7 on the matter referred to it at the meeting on May 10th, namely, letter dated May 6th from the Federal Reserve Agent at Chicago, with reference to an application for membership in the Federal Reserve System filed by the Center Line State Savings Bank, Center Line, Michigan, which the management of the bank has requested lay without action until after an examination can be made at the end of several months, as the condition of the bank at the present time does not warrant a favorable recommendation on the application; the Committee reporting that no action should be taken on the application until the bank has been put in proper condition and its new management has proven itself capable.

Upon motion, the report of the Committee was approved and the Secretary was directed to advise the Federal Reserve Agent at Chicago accordingly.

Letter dated May 9th from the Secretary of the Federal Advisory Council, advising of topics to be discussed at the forthcoming meeting

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and inquiring whether the Board has any other topics which it wishes to add to the program.

The Secretary was directed to reply to the above letter stating that there are no other matters which the Board wishes to refer to the Council.

The Governor then referred to the action taken by the Board at the meeting on May 10th in voting to recommend the employment of Honorable Newton D. Baker as special counsel, on behalf of the Federal Reserve banks, in the par clearance suit of the First State Bank of Hugo, Minnesota, against the Federal Reserve Bank of Minneapolis. He stated that the Board's action was submitted to the Governors' Conference which was then in session here and that the Conference having concurred in the recommendation of the Board, the matter was taken up with Mr. Baker. He submitted a telegram addressed to the Board's Counsel by Mr. Baker advising of his willingness to serve in the case.

Noted.

Report of Committee on Salaries and Expenditures on letter dated May 12th from the Deputy Governor of the Federal Reserve Bank of New York, submitting list of employees for whom the directors of the bank have approved leaves of absence with pay on account of illness during the month of April, where the total of such absences since January 1, 1927 has exceeded thirty days; the Committee recommending approval.

Approved.

At this point, Mr. McIntosh entered the meeting.

In accordance with the statement made by him at the meeting on May 10th, Mr. James then submitted and moved adoption of the following



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resolutions relative to the establishment and temporary housing of the proposed branch of the Federal Reserve Bank of Dallas at San Antonio:

"WHEREAS, by a resolution adopted by the Federal Reserve Board under date of April 18, 1927, the Federal Reserve Bank of Dallas was authorized to submit an offer of not to exceed \$225,000 for the purchase of the San Antonio National Bank building in San Antonio, Texas, in which to house the branch of the Federal Reserve Bank of Dallas to be established in San Antonio, or in the event said San Antonio National Bank building could not be secured at a price of \$225,000, to purchase the so-called Smith Brothers property located in San Antonio at the corner of Villetta Street and Garden Street (an extension of Navara), 100 feet square, at \$750 per front foot, and to proceed with the erection thereon of a building for the proposed branch Federal Reserve bank, the total expenditure covering said building, vaults and permanent equipment not to exceed \$175,000 and final plans, specifications and bids to be submitted to the Federal Reserve Board for its approval;

WHEREAS, in said resolution of April 18, 1927, the Federal Reserve Board expressed the opinion that it would not be advisable to house the Branch Federal Reserve bank at San Antonio in temporary quarters necessitating separation of the various functions at different locations;

WHEREAS, by said resolution of April 18, 1927, the Federal Reserve Board ruled that the branch of the Federal Reserve Bank of Dallas to be established at San Antonio should not be opened until permanent quarters are available;

WHEREAS, in a letter dated May 3, 1927, from the Chairman of the Federal Reserve Bank of Dallas, the Federal Reserve Board has been advised that the offer of \$225,000 made by the Dallas bank for the San Antonio National Bank building has been declined; and

WHEREAS, the Governor of the Federal Reserve Bank of Dallas has filed with the Federal Reserve Board a telegram dated May 9th addressed to him by the Chairman of the Board of Directors of the Dallas bank, in which advice is given of action taken by the Dallas directors at a meeting on May 7th, in voting to accept, subject to the approval of the Federal Reserve Board, an offer made by the Frost National Bank to provide sufficient space in the Frost National Bank building to house the entire organization of the proposed branch at San Antonio for such period of time as may be necessary to enable the Federal Reserve bank to erect on the so-called Smith Brothers property permanent quarters in which to house the branch, and in which advice is also given of the action of the Dallas directors in agreeing to pay for such space in the Frost National Bank building a monthly rental of \$850;

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"THEREFORE, BE IT RESOLVED, that the Federal Reserve Board approve the action taken by the Board of Directors of the Federal Reserve Bank of Dallas at its meeting on May 7th, in accepting the offer made by the Frost National Bank to provide sufficient space in its building to house the entire organization of the proposed San Antonio branch, and to permit the occupancy of said space for such period of time as may be necessary to enable the Federal Reserve bank to erect on the so-called Smith Brothers property permanent quarters in which to house the branch, and also the action of said directors in voting to pay to the Frost National Bank a rental for said space at the rate of \$850 per month; and

BE IT FURTHER RESOLVED, that the Federal Reserve Board rescind the order contained in its resolution of April 18, 1927, that the branch of the Federal Reserve Bank of Dallas at San Antonio shall not be opened until permanent quarters are available, and that the Board interpose no objection to the directors of the Dallas bank proceeding with the establishment of the proposed branch and housing same temporarily in the Frost National Bank building."

After discussion, Mr. James' motion was put by the Chair and carried.

Mr. Platt, Chairman of the Committee on Examinations, then submitted an application for membership in the Federal Reserve System and for 66 shares of stock in the Federal Reserve Bank of Richmond, filed by the Bank of Darlington, Inc., Darlington, S. C., which is being organized for the purpose of taking over the assets and assuming the liabilities of the closed Bank of Darlington, a former member of the System, with the exception of stockholders' liabilities and with the understanding that \$314,430.25 of paper classed as worthless be eliminated; together with a recommendation of the Board's sub-committee (1) That the application be approved subject to the nine conditions of membership contained in the Board's Regulation H and the further condition that prior to the payment of a dividend the bank shall carry to surplus account not less than one-tenth part of its net profits for the preceding dividend period until its



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surplus fund shall amount to 25% of its capital stock; and (2) That the bank be advised that the Board is now considering the question of what changes should be made in conditions of membership in the light of the provisions of the McFadden Act, and if any changes in the present conditions are found necessary the bank will be subject to such changes, and acceptance by the bank of conditions now being imposed will be deemed to be acceptance of any changes in those conditions which the Board finds to be necessary in view of the amendments contained in the McFadden Act.

Mr. Platt then referred to the unsatisfactory condition of the applicant bank and stated that the Committee on Examinations was not prepared, after preliminary consideration, to recommend approval of the application.

Following a discussion, it was voted that the file concerning the application should be circulated among all members of the Board for their information.

At this point, the Secretary of the Treasury entered the meeting and took the Chair.

The Board then proceeded with further consideration of the recommendations of the Open Market Investment Committee, submitted at the meeting yesterday and on which no action was taken at that meeting.

Mr. Hamlin moved that the Board approve the recommendations of the Open Market Investment Committee contained in the report of the Committee dated May 11, 1927.

Mr. Miller stated that he would prefer to have action on the recommendations of the Committee deferred until the Board has had an opportunity to discuss the general question of open market policy with the Federal Advisory Council at their meeting on next Friday. He stated, however, that if the Board did not believe it desirable to defer action



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he wished to present for the Board's consideration, as an alternative for Mr. Hamlin's motion, a memorandum prepared by him as the basis of a letter to the Open Market Investment Committee regarding its report.

The Chairman pointed out the desirability of establishing a policy which he stated could, of course, be changed by the Board at any time if developments warranted. He stated that he believed unless there was some particular reason for not doing so the Board should concur in the recommendations of the Open Market Investment Committee, and pointed out that if the Board did so, and following the meeting of the Federal Advisory Council, wished to change that policy there was no reason why an amendatory action should not be taken by the Board. He suggested that the Board might approve the recommendations of the Committee and in advising of such approval state to the Committee that the question of open market policy will be kept under consideration and that the Board upon review might wish to take further action.

Mr. Platt then moved that Mr. Hamlin's motion be amended to read as follows:

"Resolved, that the Federal Reserve Board approve the report and recommendations of the Open Market Investment Committee, with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the time limit mentioned."

Mr. Hamlin accepted the amendment moved by Mr. Platt and by unanimous consent withdrew his original motion.

Mr. Miller then read to the Board the following memorandum prepared by him and as a substitute for Mr. Platt's motion moved its adoption by the Board as the basis of a letter to the Open Market Investment Committee:

"The Board has considered the recommendations of the Open Market Committee dated May 11, 1927, for the period ending August 1:

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(1) That no further sales of System securities be made in order to offset arrivals of gold from abroad now known or anticipated.

(2) That it shall be the policy of the committee between now and August 1 next, gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-time government obligations to bring the total of the committee's investment account up to \$250,000,000.

With respect to recommendation No. 1, it does not appear to the Board that the next few months will show gold imports to the United States in any such volume as would indicate the necessity or desirability in existing circumstances of an offsetting operation by the sale of System securities. It has, therefore, nothing to suggest by way of modification of the course of action outlined by the Committee, unless there should be a marked change in the situation in which case the matter should be reconsidered. The Committee's recommendation is, therefore, approved.

With respect to recommendation No. 2, it is the opinion of the Board that the System's Special Investment Account should, sooner or later, in accordance with the policy which has governed the operation of the Account in the past, be replenished by the purchase of an amount of securities that would bring up the total holdings in the Account to not less than \$200,000,000.

It is, however, the opinion of the Board that the present situation is not a favorable one for such an operation and that the resumption of purchases of securities for the Special Investment Account should be deferred until such time as it may appear that such purchases will have a desirable stimulating effect upon trade, industry or agriculture. The country is now entering a period of interseasonal trade lull with the demand for credit for commercial use slackening. The only highly active market in the country is the securities market. There is accumulating evidence of speculative excesses, which in part has been reflected in recent weeks in a great growth of brokers' demand loans. It is thought not to be desirable to stimulate these by a reduction of the cost of money in the New York market such as would result from the purchase during the next two months of from \$100,000,000 to \$150,000,000 of securities for the System account.

It is the view of the Board that the movement of business, credit, gold, money rates and other factors bearing upon the credit and open market policy of the Federal Reserve System should be carefully and constantly watched, in order that when action is taken to replenish the Special Investment Account it may be done with a minimum of undesirable stimulation.



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For its part the Board will follow coming developments affecting open market policy with care and will keep in touch with the Committee in order that there may be a prompt exchange of views and suitable action when conditions warrant. For the present the Board does not think the situation favorable to a securities-purchase operation and, therefore, withholds approval of the recommendation that the Committee at this time be given authority to purchase securities between now and August 1 to an amount sufficient to bring up the System's account to \$250,000,000."

After a detailed discussion, Mr. Miller's substitute motion was put by the Chair and lost, the members voting as follows:

The Chairman, "no"  
 Mr. Platt, "no"  
 Mr. Hamlin, "no"  
 Mr. James, "no"  
 Mr. McIntosh, "no"  
 Governor Crissinger, "aye"  
 Mr. Miller, "aye"  
 Mr. Cunningham, "aye"

Mr. Platt's motion was then put by the Chair and carried, the members voting as follows:

The Chairman, "aye"  
 Governor Crissinger, "aye"  
 Mr. Platt, "aye"  
 Mr. Hamlin, "aye"  
 Mr. James, "aye"  
 Mr. Cunningham, "aye"  
 Mr. McIntosh, "aye"  
 Mr. Miller, "no"

Mr. Cunningham then made the following statement:

"With the sincere hope that the view expressed in Mr. Platt's resolution that the securities which the open market investment committee recommends be purchased will be accumulated gradually up to August 1st next, I am voting in favor of the motion."

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

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The Governor stated that he would bring up as special order of business at the meeting of the Board to be held on Monday, the matter of changes in the position of Federal Reserve Agent at several of the Federal Reserve banks which the Board may wish to make, effective at the beginning of next year.

The Secretary then presented draft of a letter to the Chairman of the Open Market Investment Committee, just prepared for the signature of the Governor, advising of the action taken by the Board at this meeting with respect to the recommendations submitted by the Committee yesterday.

Upon motion, the letter submitted by the Secretary was approved and ordered transmitted.

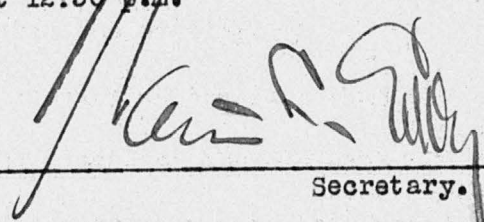
The minutes of the meetings of the Federal Reserve Board held on May 10th and 12th were then read and approved.

REPORTS OF STANDING COMMITTEES:

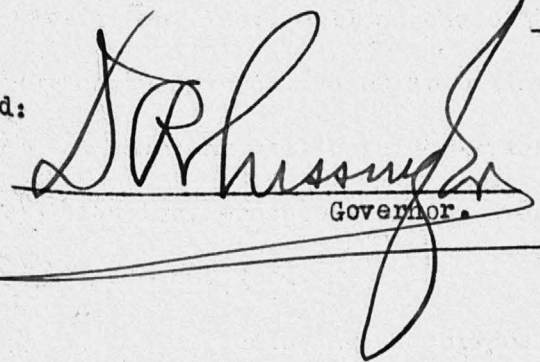
Dated, May 13th, Recommending changes in stock at Federal Reserve Banks, as set forth in the Auxiliary Minute Book of this date.  
Recommendations approved.

Dated, May 10th, Recommending action on applications for fiduciary powers  
12th, as set forth in the Auxiliary Minute Book of this date.  
Recommendations approved.

The meeting adjourned at 12:30 p.m.

  
Secretary.

Approved:

  
Governor.