

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Friday, August 12, 1927 at 11:15 a.m.

PRESENT: Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. McIntosh
Mr. James
Mr. Eddy, Secretary
Mr. Noell, Asst. Secretary

The Governor presented a report of the Committee on District #5 on letter dated August 11th from the Chairman of the Federal Reserve Bank of Richmond, with reference to housing, personnel, etc., for the branch of that bank to be established at Charlotte, N. C.; the Committee recommending (1) that the Board give its approval to the plans and proposal of the Richmond bank in the matter of acquiring space in the First National Bank building and equipping same for use of the Charlotte Branch; (2) that it be suggested to the Richmond bank that a 10-inch door be installed in the vault since this seems to meet the requirements of the insurance people and as the use of the vault will be temporary; and (3) that the Richmond bank be advised that the matter of approving the purchase of a lot on which to erect a building at Charlotte will be taken up by the Board if and when the Richmond bank has something definite to submit.

Upon motion, it was voted to approve the recommendations of the Committee.

Upon motion, it was also voted to note with approval the report regarding personnel at the branch, made by the Managing Director, and transmitted to the Board in Mr. Hoxton's letter of August 11th.

Matter approved on initials on August 11th, under authority granted by the Board at its meeting on July 28th, namely, action of the board of

8/12/27

-2-

directors of the Federal Reserve Bank of Dallas in voting to establish at that bank a rediscount rate of 3 1/2% on all classes of paper of all maturities, effective the first business day following that on which approved by the Federal Reserve Board.

Formally approved, Mr. Platt not voting.

Mr. Platt submitted the following statement in connection with the above matter:

"I am unwilling to approve the reduction of the rediscount rate in the Dallas district from 4 to 3 1/2 per cent at this time; first, because it was not made in response to any local demand or because of any local condition but because of the Board's request for uniformity at a lower rate; and, second and chiefly, because in reducing its rate the Dallas reserve bank, in my opinion, surrenders one of the greatest advantages of the regional system - namely, the opportunity of attracting funds from the east by maintaining a rate higher than the eastern rates. I think the Board's request for uniformity is a mistake. It cannot be denied, I think, that a higher rate does attract funds. Certainly that is true of international rates, and no one doubts the efficiency of the higher rate in London in attracting funds from New York. If it is not also true to some extent as to Federal reserve districts, then there is little or no advantage in the regional plan of the Federal Reserve System as compared with the discarded Aldrich plan which provided for uniform rates. I believe its truth can be demonstrated through a study of the movements of gold from week to week through the Gold Settlement Fund. Several of the leading financial writers, when the reduction of the Kansas City rate was announced, stated that the result would be to promote a flow of funds to New York so long as the New York rate remained higher. Certainly that was not what the Board was seeking to accomplish.

When rates are uniform throughout the Federal Reserve System it is clear, I think, that the New York rate is relatively high and serves to attract funds from most of the other districts, particularly from the western and southern districts. The tremendous accumulation of funds in New York at the present time, as shown by the Brokers' Loan figures, took place under uniform rediscount rates maintained for a considerable period, and, in my opinion, such an accumulation could not have been made so easily if western reserve rates had been maintained somewhat above the New York and other eastern rates. Four per cent at a time of fairly abundant supplies of funds and of softening interest rates is not a low rate for New York, Boston or Philadelphia, but it is a low rediscount rate for Dallas, and for several other western districts.

Conditions in the New York and Boston districts (disregarding the speculation in the stock markets) had for several weeks pretty clearly indicated the wisdom of reduction, quite apart from the inter-

8/12/27

-3-

"national financial situation which provided an additional reason. Everything that we sought to accomplish was accomplished by the reduction of the New York and Boston rates. The lowering of rates in the agricultural districts which at this time need money for crop moving is a mere gesture, possibly harmless but also possibly dangerous. It has been acclaimed by a few writers as an effort to help the farmers but every farmer who borrows money must know that it does not lower the interest that he pays.

It has been said the lowered local rediscount rate compels big banks in the large cities of the west to grant lower rates to their country correspondent banks, particularly to the non-member banks whose officers have been told that they can obtain from their city correspondents every service the Federal Reserve can give them. This may be true, but we are generally not interested in non-member banks and I have never seen any evidence that these small banks, whether members or non-members, pass on a reduction of rates to their customers. Furthermore, there is plenty of evidence that a low borrowing rate, with a high spread of profit, tempts the small banks into unsound advances or investments which get both themselves and their customers into difficulties.

It may be said that I should have expressed disapproval of the first reduction made - the reduction at Kansas City. That reduction, however, was determined upon by Governor Bailey and his directors during my absence abroad and came through before I had opportunity to study the local situations. I had also sufficiently expressed my disagreement with the plan for a new uniformity at a lower rate beginning with the western districts at the Open Market Committee Meeting of July 27th, the day after my return.

If the reduction to 3 1/2 per cent already made by Kansas City, St. Louis and Dallas, as well as by Boston, New York and Cleveland, is made also by the remaining banks in the System, or by most of them, then uniformity will have been restored but on a lower level. The New York rate will then again become relatively the highest and will continue to attract funds to New York from other districts."

Letter dated August 11th from the Assistant Secretary of the Federal Reserve Bank of New York, advising that the board of directors on that date made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Telegram dated August 11th from the Chairman of the Federal Reserve Bank of Richmond, advising that the board of directors on that date made no change in the bank's existing schedule of rates of discount and purchase.

8/12/27

-4-

Noted.

Memorandum from Counsel dated August 8th, with reference to the Clayton Act application of Mr. Louis F. Kraemer, involving the Reading National Bank and the Colonial Trust Company, both of Reading, Pa.; Counsel recommending that the Board refuse the application temporarily, advise the applicant that on the evidence before it it cannot permit him to serve the banks, and request him to furnish the Board with additional information, and further that unless the applicant within twenty days advises the Board of his desire to submit such additional information, the Board's refusal become final.

Upon motion, Counsel's recommendations were approved and the application temporarily refused, with opportunity to the applicant to furnish additional information.

Memorandum from Counsel dated August 9th, with reference to the Clayton Act application of Mr. Scott F. Emis, involving the California National Bank and the Farmers and Mechanics Bank, both of Sacramento, California; Counsel recommending that the Board refuse the application temporarily, advise the applicant that on the evidence before it it cannot permit him to serve the banks, and request him to furnish the Board with additional information, and further that unless the applicant within twenty days advises the Board of his desire to submit such additional information, the Board's refusal become final.

Upon motion, Counsel's recommendations were approved and the application temporarily refused, with opportunity to the applicant to furnish additional information.

Memorandum dated August 11th from the Secretary, requesting authority to employ a clerk in the Gold Settlement Fund Division, with salary at the

8/12/27

-5-

rate of from \$1,200 to \$1,400 per annum, to fill the vacancy caused by the resignation of A. L. Houghton.

Approved.

Letter dated August 10th from the Federal Reserve Agent at New York, referring to the action of the Board on August 12, 1926, in voting to grant full trust powers to the Citizens National Bank of Englewood, N. J., on condition that it would increase its capital at least \$100,000 within the next six months, which time was on September 11th extended to one year; the letter stating that the bank (now the Citizens National Bank and Trust Company of Englewood) has increased its capital from \$150,000 to \$200,000 and its surplus from \$200,000 to \$300,000, of which \$125,000 was paid in and \$25,000 transferred from undivided profits, and now feels that they are in good faith meeting the condition imposed, although, technically the capital account was increased only \$50,000; the Agent requesting advice as to any further action which should be taken by him in the matter.

After discussion, it was voted to advise the Federal Reserve Agent that the Board feels that the action of the Citizens National Bank and Trust Company of Englewood in increasing its capital account in the amount of \$150,000, as above stated, fulfills the condition imposed upon it at the time its fiduciary application was approved.

The minutes of the meeting of the Federal Reserve Board held on August 11th were then read and approved.

REPORTS OF STANDING COMMITTEES:

Dated, August 12th, Recommending a change in stock at Federal Reserve Bank as set forth in the Auxiliary Minute Book of this date.

Recommendation approved.

8/12/27

-6-

REPORTS OF STANDING COMMITTEES: (Cont'd)


Dated, August 8th, Recommending approval of the application of Mr. Harry B. Churchill for permission to serve at the same time as Director and Acting Cashier of the First National Bank of Oradell, N. J., and as Officer of the Chase National Bank of the City of New York, N. Y.
Recommendation approved.

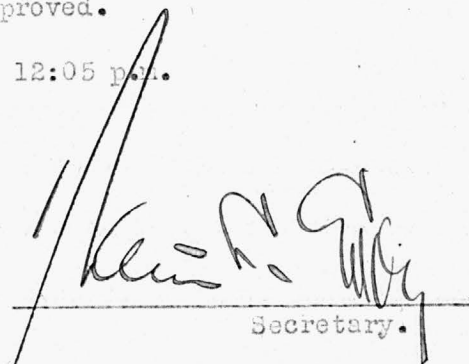
Dated, August 8th, Recommending approval of the application of Mr. H. V. Foster for permission to serve at the same time as director and officer of the Union National Bank, Bartlesville, Okla., and as director of the Washington Trust Company, Westerly, R. I.
Recommendation approved.

Dated, August 9th, Recommending approval of the application of Mr. W. C. Bradley for permission to serve at the same time as director of the Third National Bank, Columbus, Ga. and as director of the Atlanta and Lowry National Bank, Atlanta, Ga.
Recommendation approved.

The meeting adjourned at 12:05 p.m.

Approved:


Governor.


Secretary.