

A meeting of the Federal Reserve Board was held in the office of the Governor on Wednesday, May 2, 1928 at 11:00 a.m.

PRESENT: Governor Young
Mr. Platt
Mr. Hamlin
Mr. James
Mr. McIntosh
Mr. Eddy, Secretary
Mr. McClelland, Asst. Secretary

The Governor stated that Mr. Miller's absence is due to the fact that he is today appearing before the Committee on Banking and Currency of the House of Representatives in connection with the hearing on the so-called Strong Stabilization Bill.

The Governor submitted a memorandum with reference to credit conditions which was considered by the Open Market Investment Committee at its meeting on April 29th and he also presented the report and recommendations of the Committee dated April 29th as follows:

"The Committee has considered the memorandum submitted by the Chairman, and has carefully reviewed the Open Market operations of the System since the last meeting of the Committee, in the light of the general credit situation referred to in the memorandum.

In view of the fact that it now appears that the expansion in the total volume of bank credit, referred to in its last report, has continued at what seems to be an unduly rapid rate since that time, notwithstanding the sales of securities made by the Committee and the recent increase in the discount rates of some of the Reserve Banks, the Committee now recommends that the general policy adopted at its last meeting be continued until its next meeting, which it would expect to hold shortly after the middle of June, unless conditions make an earlier meeting advisable.

The Committee would expect to make such changes in the Open Market account as might be necessary to carry out the policy recommended."

He referred to the recommendation of the Committee that the general policy adopted at its last meeting be continued and stated that at the

5/2/28

-2-

meeting referred to, held on March 26th, the Committee recommended that there be continued the policy established in January of working toward somewhat firmer money conditions. He suggested that following consideration of the Committee's report and recommendations a special letter be addressed to the Committee clearly setting forth the policy which is approved by the Board.

During the discussion which ensued, Mr. James requested and received permission to insert in the record the following statement:

"In view of the abnormal increase in brokers' loans and other evidences of an inflationary tendency in the money market, I desire at this time to offer the following suggestions in the hope that the Board may adopt them as a part of its policy:

FIRST: That daily settlements as to reserve requirements be ordered for all reserve bank or branch cities. Deposits computed as at opening of the day's business to govern.

SECOND: Liquidate the System's Open Market Account and suspend temporarily all activities of the Open Market Committee.

THIRD: Establish a rate same as the discount rate for buying of bills and for repurchase agreements.

FOURTH: The Board to suggest or request the reserve banks to make no loans on collateral notes to banks having money on call after duly notifying the member banks of this policy.

As I see it, there is nothing in the present business situation that warrants the raising of the discount rates so long as the reserve banks are loaning money to member banks having money employed in the call market. When the open market account is liquidated it will, in my judgment, be time to consider the rediscount rates."

After discussion, the following letter to the Acting Chairman of the Committee was approved:

"The report and recommendations of the Open Market Investment Committee as of April 29, 1928, have been received and considered by the Board. We observe that the Committee now recommends that the general policy adopted at its last meeting be continued until the next meeting. The previous meeting, to which you refer, was held on March 26, and at that time your Committee recommended that the general policy established in January be followed. In January you stated the Committee program should work toward somewhat

5/2/28

-3-

"firmer money conditions and to accomplish the program the Committee would expect to sell further amounts of Government securities, the object being to check unduly rapid increase in the volume of credit. The Board therefore assumes that your present policy is a continuation of the program adopted in January.

We also observe from your report of April 29 that it is now expected by your Committee that this policy will be continued until the next meeting of the Open Market Investment Committee, which you contemplate holding shortly after the middle of June, unless conditions make an earlier meeting advisable. The Board realizes that it is extremely difficult for the Committee to outline any definite procedure to be followed between now and June 15, and in like manner, it is extremely difficult for the Board to approve any definite policy for any definite period. It, however, is in agreement with the procedure suggested by the Committee at the moment and therefore gives approval to its recommendations, but in doing so, reserves the same right that the Committee reserves of changing its position should conditions develop which would make a change advisable."

The minutes of the meeting of the Federal Reserve Board held on April 27th were then read and approved.

The Governor reported that on Monday during his appearance before the Committee on Banking and Currency of the Senate on the subject of Senate Resolution 113, the Committee also brought up H. R. 10151, a bill to amend Section 9 of the Federal Reserve Act so as to permit all state banks and trust companies, which are members of the Federal Reserve System, to act generally as depositaries of public moneys and as financial agents of the government when designated for that purpose by the Secretary of the Treasury. He stated that the Committee had received a letter from the Under Secretary of the Treasury stating in effect that the Treasury Department objects to the bill, particularly because there are at present no funds which the Treasury could place in depositaries of the kinds referred to, and the department would prefer not to be burdened with the correspondence with

5/2/28

-4-

state member banks which will follow passage of the bill. He stated that he advised the Committee that while he could not speak for the Board he personally saw no objection to the bill. He also stated that the Committee later made a favorable report on the bill.

The Governor also reported that other members of the Board are to be invited to appear before the Committee on Banking and Currency of the House of Representatives relative to the so-called stabilization bill introduced by Congressman Strong. The date for the Board's appearance, he stated, has not yet been fixed.

Matter approved on initials on April 28th, namely, application of the Lumbermens Bank and Trust Company, Hoquiam, Washington, for permission to exercise general fiduciary powers, effective if and when it is converted into a national banking association and is authorized by the Comptroller of the Currency to begin business as the Lumbermens National Bank and Trust Company; the application having been approved on condition that following the conversion the board of directors of the national bank should file a resolution ratifying the action of the state bank in applying for trust powers on its behalf.

Formally approved.

Matter approved on initials on April 30th, namely, application of The Third National Bank and Trust Company, Camden, N. J. for permission to exercise general fiduciary powers, effective if and when it is authorized by the Comptroller of the Currency to begin business as a national bank.

Formally approved.

5/2/28

-5-

Letter dated April 30th from the Chairman of the Federal Reserve Bank of Chicago, advising that on April 20th a rate of 4 1/2% was established for purchases of government securities under agreement to resell, to conform to the increase made on that date in the rediscount rate of the bank.

Without objection, noted with approval.

Telegrams dated April 27th from the Chairman of the Federal Reserve Bank of Chicago and May 2nd from the Chairman of the Federal Reserve Bank of Philadelphia, both advising that their boards of directors at meetings on the dates stated made no changes in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

The Secretary then recommended acceptance of the resignation of Mr. T. W. English as stenographer in his office, effective at close of business April 30th, and requested authority to fill the vacancy thus created at a salary of not to exceed \$2,000 per annum.

Upon motion, the resignation was accepted and the authority requested by the Secretary was granted.

Memorandum from the Secretary dated May 2nd, requesting authority for the employment of an additional messenger for a temporary period of six months at a salary of \$75 per month.

Approved.

Report of Committee on Salaries and Expenditures on letter dated April 30th from the Comptroller of the Currency, recommending approval of a salary of \$2500 per annum for National Bank Examiner Wm. C. Grimes, assigned to the Fourth Federal Reserve District; the Board's Committee also

5/2/28

-6-

recommending approval.

Approved.

Report of Committee on Salaries and Expenditures on letter dated April 30th from the Comptroller of the Currency, recommending approval of an increase from \$3300 to \$3600 per annum in the salary of National Bank Examiner M. A. Ross; the Board's Committee also recommending approval.

Approved.

Report of Committee on Salaries and Expenditures on letter dated April 30th from the Federal Reserve Agent at St. Louis, requesting approval of the action of the Executive Committee of that bank in voting to extend for a period of thirty days from May 3rd, with full pay, leave of absence on account of illness previously granted Mr. J. M. Mitchell, an employee in the Money Department of the Memphis Branch; the Board's Committee recommending approval of the salary payment involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated April 30th from the Federal Reserve Agent at St. Louis, requesting approval of the action of the Executive Committee of that bank in voting to extend for a period of thirty days from May 6th, with full pay, leave of absence on account of illness previously granted Mr. J. W. Rinkleff, Controller of the Bank; the Board's Committee recommending approval of the salary payment involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated April 27th from the Deputy Governor of the Federal Reserve Bank of New

5/2/28

-7-

York, submitting recommendations for the promotion in grade of employees to positions where the grade is in excess of \$2500 per annum, such changes to be effective April 1, 1928, and also advising of the establishment of a new position in the Foreign Department of the Bank; the Board's Committee recommending approval.

Approved.

Letter dated May 1st from Mr. Walter S. Cox, resubmitting schedule of rates for handling the stenographic reporting work of the Board, the rates being the same as those now in effect.

Upon motion, the Board's arrangement with Mr. Cox was ratified.

Report of Committee on Examinations on letter dated April 27th from the Federal Reserve Agent at Boston, recommending approval of a proposed merger of the B. M. C. Durfee Trust Company of Fall River, Massachusetts, a member bank, with the Massasoit-Pocasset National Bank and the Metacomet National Bank, both of Fall River; the Board's Committee also recommending approval.

Noted, without objection.

Letter dated April 27th from the Assistant Federal Reserve Agent at New York, advising of the proposed merger of the Bank of United States and the Central Mercantile Bank and Trust Company, both of New York City; the Assistant Federal Reserve Agent stating that the present main office of the Central Mercantile Bank and Trust Company will be continued as the main office of the merged institution, which will have a total of fifteen banking offices.

Noted, without objection.

5/2/28

-8-

Letter dated April 27th from the Federal Reserve Agent at Philadelphia, advising of a proposed consolidation of the Peoples Savings and Dime Bank and Trust Company, a member, and the Lincoln Trust Company, both of Scranton, Pa., which will be effected under the charter of the member bank; the Agent advising that it appears the consolidation will result in no material change in the character of the business or scope of the corporate powers now exercised by the member bank and that he knows of no reason why it should not be approved.

Noted, without objection.

Memorandum from Counsel dated April 25th, submitting in accordance with the directions given by the Board at its meeting on April 24th, drafts of letters to the Federal Reserve Agent at St. Louis and to the American Bank and Trust Company, Paris, Ark., advising of a hearing to be held by the Board, at which duly appointed representatives of the member bank are requested to appear to show cause why it should not be required to surrender its stock in the Federal Reserve Bank of St. Louis and to forfeit all rights and privileges of membership in the Federal Reserve System; the letter stating that in the event the member bank desires to waive its right to appear before the Federal Reserve Board it may, upon due notice, appear before the Federal Reserve Agent for the purpose of presenting such evidence as it may care to have transmitted to the Board.

Upon motion, the proposed letters were approved and ordered transmitted, after June 4, 1928 had been fixed as the date for the Board's hearing.

Memorandum from Counsel dated May 2nd, with reference to letter dated April 28th from Mr. John Evans, requesting approval by the Board

5/2/28

of his serving as President and director of the First National Bank of Denver, Colorado while serving as President and director of the International Trust Company of that city; Counsel submitting drafts of letters to Mr. Evans and to the Governor of the Federal Reserve Bank of Kansas City, who is interested in the matter, stating that the Board some time ago authorized Mr. Evans to serve at the same time as director and officer of the International Trust Company and as director of the First National Bank of Denver and that there will be no objection to his serving as President of the latter bank under the permit heretofore issued to him.

Upon motion, the letters submitted by Counsel were approved.

Draft of reply to letter dated April 19th from the Federal Reserve Agent at San Francisco, inquiring whether trust funds of the Union Bank and Trust Company of Los Angeles, not segregated from the general assets of the bank but used in the commercial or savings department, are to be classified as deposits against which reserves must be maintained, and if so, whether they may be treated as amounts "due to" other banks; the proposed reply stating that funds of the kind referred to must be classified as deposit liabilities requiring reserves but may not be classified as amounts "due to" other banks, since they are not in fact amounts due by the Union Bank and Trust Company to other banks but are amounts due to itself as trustee.

Upon motion, the proposed reply was approved.

Memorandum from Counsel dated April 26th, submitting in accordance with the instructions of the Board at its meeting on April 24th, draft of a circular letter to all Governors and Federal Reserve Agents advising that deposits of mutual savings banks, Morris Plan Banks and credit unions should

5/2/28

be classed by member banks as amounts "due to" banks within the meaning of Section 19 of the Federal Reserve Act, while deposits of Building and Loan Associations and cooperative banks of the Massachusetts type may not be so classified; Counsel suggesting that the ruling be published in the Federal Reserve Bulletin.

Upon motion, the proposed circular letter was approved and in accordance with Counsel's suggestion the ruling contained therein was ordered published in the next issue of the Bulletin.

Letter dated April 27th from the Chairman of the Federal Reserve Bank of New York, advising of the resignation, effective June 30, 1928, of Mr. L. R. Mason, General Counsel of the Bank, who is resuming private practice and has been designated, effective July 1, 1928, as one of the notaries to act for the Federal Reserve Bank of New York in connection with the protest of unpaid items; the Chairman also stating that a special committee has been appointed to select a successor to Mr. Mason as General Counsel of the bank.

Noted.

The Governor then stated that the Governors' Conference expects to complete its program early this afternoon, and that the Board and Governors will meet in joint session at 3:00 o'clock.

REPORTS OF STANDING COMMITTEES:

Dated, April 30th, Recommending changes in stock at Federal Reserve Banks
May 1st, as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

Dated, April 30th, Recommending action on applications for fiduciary powers
as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

The meeting adjourned at 12:10 p.m.

Approved:

Raymond

Governor.

Wm. A. Gray

Secretary.