

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, August 29, 1928 at 11:00 a.m.

PRESENT: The Chairman
Governor Young
Mr. Platt
Mr. James
Mr. McIntosh
Mr. McClelland, Asst. Secretary

The Governor referred to the visit to New York which he and Mr. James made yesterday for the purpose of discussing with the directors of the Federal Reserve Bank of New York the matter of assistance which could be given the Intermediate Credit banks in connection with the marketing of their short time debentures, either through purchase of the debentures by the Federal Reserve banks or by the rediscount of eligible paper for the Intermediate Credit banks. He pointed out the inconsistency in the present rate structure which permits one Federal Reserve bank to charge a quasi-governmental corporation $4\frac{1}{2}\%$ on rediscounts and simultaneously another reserve bank to charge 5% on the same class of paper for the same purpose. He reported that the Federal Reserve Banks of Minneapolis and Kansas City have already given assistance to the Intermediate Credit banks on rediscounts at $4\frac{1}{2}\%$, and referred to the embarrassing position in which the Federal Reserve Bank of New York would be placed with its own member banks if it also made a $4\frac{1}{2}\%$ rate to the Intermediate Credit banks while simultaneously charging its member banks 5% on the same class of paper. He suggested that the Federal Reserve Banks of Minneapolis, Kansas City and Dallas, and possibly San Francisco, which now have discount rates of $4\frac{1}{2}\%$, might give additional assistance to the Intermediate Credit banks, with an assurance from the Board that if by reason of such rediscounts they themselves should find it necessary to rediscount with other Federal Reserve banks, their

8/29/28

-2-

own borrowings could be made at $4\frac{1}{2}\%$. The Governor reported that in the event of such inter-Federal Reserve Bank rediscounting the directors of the Federal Reserve Bank of New York would be entirely willing to grant the rediscounts required in case other Federal Reserve banks should be unwilling to do so. He further suggested that if it should subsequently develop that the rediscount procedure of the Intermediate Credit banks is not found practicable that the System could give consideration to temporary purchases of the debentures of the Intermediate Credit banks at a rate which would appear reasonable at this time for tax exempt obligations.

At his suggestion, the Governor was requested to take up with the Federal Reserve Banks of Minneapolis, Kansas City and Dallas, the question of their extending further assistance to the Federal Intermediate Credit banks.

The Governor also suggested, and upon motion it was voted that the Board fix the rate of rediscount between Federal Reserve banks at the discount rate charged by the borrowing Federal Reserve bank to its member banks.

The Governor then presented a telegram dated August 27th from the New Orleans Clearing House Association, suggesting that the Federal Reserve Board give immediate consideration to the question of the establishment of preferential rediscount rates on member bank collateral notes secured by United States government obligations, the rate of rediscount not to exceed the rate borne by the securities; the telegram referring to the forthcoming financing by the Treasury Department and stating that present rates penalize member banks which assist in such financing.

The Governor also submitted draft of a proposed reply to the telegram of the New Orleans Clearing House Association, which, after discussion was approved in the following form, for signature by the Chairman of the Board:

8/29/28

-3-

"This will acknowledge receipt of your wire of August 27th to Governor Young recommending preferential discount rates by Federal reserve banks on collateral notes secured by Government obligations, the discount rate in each case to be the same as that borne by the security. Your proposal has been laid before the Federal Reserve Board, and, first, the Board feels justified in reminding you that the usual procedure under the law is for the Directors of the reserve banks to initiate rates. When such rates are initiated they are laid before the Board for review and determination. While the Board undoubtedly has the power to fix rates of discount for reserve banks we see nothing in the present situation to require such arbitrary action. At the same time the Board is not attempting to sidestep any responsibility it may have for reserve bank discount rates, and we advise your Association that if any reserve bank should initiate such preferential rates as you suggest the Board would be opposed to such procedure for the following reasons:

(1) It would not care to discriminate against commerce and industry by approving a rediscount rate of as low as three and one quarter percent on collateral notes secured by Government obligations while simultaneously certain reserve banks would be permitted to charge five percent on eligible commercial, agricultural and industrial paper.

(2) There is nothing in the present situation which would justify a lower rate on one class of Government securities over another. The previous action of the reserve banks that you refer to was a war-time measure only.

(3) If your proposal was put into effect at the present time it would permit a member bank to buy United States bonds in the present market on a yield higher than the bonds bear and the member bank would be prompted to rediscount to make such purchase solely for profit.

(4) Member banks own over four billions of United States Government bonds, and, upon reflection, we believe your Clearing House will agree with us that the invitation for profit would be too great for many of the banks to resist and only result in inflation that eventually would work widespread disaster to our entire financial structure and, indirectly, to the business interests of the country.

(5) The proposed plan would have a strong tendency to appreciate the market value of the outstanding United States obligations bearing low rates and simultaneously depreciate those bearing higher rates, developing artificial and unwarranted prices for the various Government issues.

(6) Under normal peacetime conditions the Treasury Department should and does pay the ordinary market rates for money the same as any other borrowers. Moreover, the credit of the United States Government is so good that there is no occasion whatsoever of attempting by artificial means to place United States Government securities in a favored position as compared with commerce, industry and agriculture."

8/29/28

-4-

After further discussion, upon motion, it was voted that the telegram from the Clearing House Association and the Board's reply thereto, with names deleted, be given to the Press this afternoon at 3:00 o'clock.

The Governor then submitted a telegram dated August 18th, not received by him until late August 27th, from the Governor and the Commissioner of Finance of the State of Tennessee, referring to a forthcoming \$12,000,000 issue of six months highway and bridge construction notes of that State, and suggesting that \$8,000,000 of these notes, which are issued in anticipation of revenues, come within the eligibility requirements of the Board's Regulations and could be purchased by the Open Market Investment Committee of the Federal Reserve System on a 4 $\frac{1}{2}$ % basis; the telegram stating that such action would be of material assistance to the business of the South, which has been noticeably chilled by the prevailing high interest rates.

After discussion, upon motion, it was voted that the Chairman of the Board should transmit the following telegraphic reply to the Governor of the State of Tennessee:

"Your wire August 18 to Governor of Federal Reserve Board was not delivered until late August 27. Understand Postal Telegraph Company has furnished explanation of delay in delivery. Your suggestion has been laid before Federal Reserve Board and while our reply has no reflection upon credit standing of State of Tennessee, we think, upon reflection, you will agree with Federal Reserve Board that your obligations should be floated in the general market at the going rates, the same as United States government is accustomed to doing. You can realize that if the Federal Reserve System, through its Open Market Investment Committee or any Federal Reserve Bank, should depart from its policy of confining its open market operations entirely to bills and United States government securities it would be an invitation to the other 47 states and all their political subdivisions to make similar requests."

The minutes of the meeting of the Federal Reserve Board held on August 16th were read and approved.

8/29/28

-5-

The minutes of the meeting of the Executive Committee of the Federal Reserve Board held on August 23rd were read, and upon motion, the actions recorded therein were ratified.

Letter dated August 23rd from the Secretary of the Federal Reserve Bank of New York, telegram dated August 24th from the Chairman of the Federal Reserve Bank of Chicago, and telegram dated August 24th from the Secretary of the Federal Reserve Bank of Kansas City, all 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.

Matters approved on initials on August 28th, namely, applications of the Dunbar National Bank, New York, N. Y., and the First National Bank, Belle-rose, N..Y., for stock in the Federal Reserve Bank of New York, effective if and when authorized by the Comptroller of the Currency to commence business.

Formally approved.

Matter approved on initials on August 24th, namely, application of The First National Bank of Yankton, S. D. for permission to act as trustee, executor, administrator and registrar of stocks and bonds.

Formally approved.

Matter approved on initials on August 28th, namely, application of the Hyde Park National Bank, Chicago, Ill. for permission to exercise general fiduciary powers, effective if and when authorized by the Comptroller of the Currency to commence business.

Formally approved.

8/29/28

-6-

Memorandum dated August 28th from the Director of the Division of Research and Statistics, recommending that the temporary appointment of Miss Elsie Hanold, which expired at the close of business August 19th, be extended for three months from that date, at her present salary of \$1440 per annum.

Approved.

Memorandum dated August 28th from the Director of the Division of Research and Statistics, recommending that the Board make permanent the temporary appointment of Mrs. Julia Haigh, as clerk-stenographer in the Division, at her present salary of \$1440 per annum.

Approved.

Memorandum dated August 29th from the Assistant Secretary, advising that the Director of the Division of Research and Statistics requests that Miss Mildred DeHart, whose temporary appointment in the office of the Governor expires at the close of business, September 15th, be transferred to his Division under a temporary appointment until November 15, 1928 with salary at the rate of \$1680 per annum; the Assistant Secretary stating that this recommendation is made due to the proposed transfer on September 16th of Miss Vivian Dee Bane from the Division of Research and Statistics to the office of the Board's Counsel at her present salary of \$1680 per annum.

Approved.

Matter approved on initials on August 25th, namely, letter dated August 24th from the Acting Comptroller of the Currency, recommending approval of an increase from \$4,000 to \$5,500 per annum in the salary of National Bank Examiner Herbert Hallenberg.

Formally approved.

8/29/28

-7-

Report of Committee on Salaries and Expenditures on letter dated August 22nd from the Deputy Governor of the Federal Reserve Bank of New York, submitting for approval recommendations for promotion in grade of certain employees to positions where the grade is in excess of \$2,500 per annum, such changes to be effective August 1, 1928; the Committee reporting that the proposed changes are all in accordance with the salary plan approved by the Board and recommending approval.

Approved.

Report of Committee on Salaries and Expenditures on letter dated August 21st from the Chairman of the Federal Reserve Bank of San Francisco, transmitting report of employees for whom the directors of that bank approved leaves of absence with pay, on account of illness, during the month of July, where the total of such absences since January 1, 1928 has exceeded thirty days; the Board's Committee recommending approval of the salary payments involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated August 24th from the Chairman of the Federal Reserve Bank of Chicago, transmitting report of employees for whom the directors of that bank approved leaves of absence with pay, on account of illness, during the period July 27th to August 23rd, where the total of such absences since January 1, 1928 has exceeded thirty days; the Board's Committee recommending approval of the salary payments involved.

Approved.

Memorandum dated August 22nd from the Chief of the Division of Bank

8/29/28

-8-

Operations, transmitting statements of expenditures by the Federal Reserve banks for educational and welfare work, etc. during the month of July and for the seven months period ending July 31st; the memorandum calling attention to contributions by the Federal Reserve Bank of Dallas to the American Institute of Banking, totaling \$2,712 for the year, and submitting draft of a letter to the Governor of the bank requesting information regarding this apparently excessive expenditure.

Upon motion, the proposed letter to the Dallas bank was approved and the statements submitted with the memorandum were ordered circulated.

Memorandum from Assistant Counsel dated August 24th, recommending that there be published in the forthcoming issue of the Federal Reserve Bulletin a statement attached regarding the new edition of the Board's Digest of Rulings.

Approved.

Memorandum from Counsel dated August 27th submitting statement in the amount of \$2500 rendered by Hon. Newton D. Baker, covering his fee for handling in the Supreme Court of the District of Columbia the suit brought against the Board on behalf of the organizers of the proposed United States Foreign Financing Corporation; Counsel stating that the amount of the fee has previously been fixed by the Board and recommending that the statement be paid.

Upon motion, it was voted to approve a payment of \$2500 to Mr. Baker covering the statement rendered by him.

Memorandum from Counsel dated August 22nd, with reference to a recommendation by the Federal Reserve Agent at Chicago that the Federal Reserve bank stock issued to the Guaranty State Bank of Knoxville, Iowa, be cancelled in accordance with the provisions of the Board's Regulation "I"; Counsel

8/29/28

-9-

stating that although the assets of the Guaranty State Bank have been sold to another institution, the Federal Reserve Agent has been unable to obtain information as to whether the bank has been placed in liquidation. With his memorandum, Counsel submitted draft of a proposed letter to the Superintendent of Banking of Iowa requesting him to advise the Board as to the present status of the Guaranty State Bank of Knoxville.

Upon motion, the letter submitted by Counsel was approved.

Letter dated August 21st from the Federal Reserve Agent at St. Louis, with reference to a hearing held by him on that date at which representatives of the Lawrence County Bank, Walnut Ridge, Arkansas, appeared to show cause why that bank should not forfeit all rights and privileges of membership in the Federal Reserve System; the hearing being a continuation, approved by the Board on April 24, 1928, of the hearing held by the Federal Reserve Agent on April 19, 1928. In his letter, the Federal Reserve Agent stated that some improvement has been made in the condition of the member bank and that it is desirous of obtaining a further continuation of the hearing until after the first of the year which would give them an opportunity to put the bank in thoroughly good condition. The Federal Reserve Agent recommended that the hearing in his office be continued to January 29, 1929 at 10:00 o'clock a.m. and that if the date of the Board's hearing should also be continued, it be fixed for about one week after January 29, 1929.

After discussion, upon motion, it was voted to postpone the Board's hearing in the above mentioned case until 10:00 o'clock on the morning of February 5, 1929, and to advise the Lawrence County Bank that it may appear before the Federal Reserve Agent in his office at 10:00 o'clock on the morning of January 29, 1929.

8/29/28

-10-

Letter dated August 22nd from the Secretary of the Federal Advisory Council, advising that the next meeting of the Council will be held in Washington on September 28th, and requesting that he be furnished with a list of the topics which the Board would like to have the Council discuss. The Assistant Secretary reported that on July 30, 1928 the Board voted to refer to the Federal Advisory Council:

(1) The suggestion of Mr. Fred I. Kent that the Board revoke the ruling made by it in 1919 to the effect that balances due from foreign banks may not be deducted from balances due to other banks by a member bank in calculating its reserves; and

(2) The suggestion made by Mr. Miller that the Board's Regulations be amended so as to fix seven days as the minimum limitation on advances by Federal Reserve banks to member banks on their promissory notes secured by eligible paper or government securities.

The Governor stated that it was understood that the Advisory Council would review the brief recently submitted, in accordance with the action at its last meeting, on the question of the desirability of the Board requiring member banks in Federal Reserve Bank and Branch cities and in other cities designated from time to time, to calculate their lawful reserves daily instead of on an average semi-weekly basis as at present.

After discussion, it was voted to refer the following topics to the Council:

(1) Discussion of business conditions in the respective Federal Reserve Districts.

(2) Discussion of effects of prevailing rediscount rates upon business.

(3) Discussion of open market policy of the Federal Reserve System since the last meeting of the Council.

REPORTS OF STANDING COMMITTEES:

Dated, August 29th, Recommending changes in stock at Federal Reserve banks as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

8/29/28

-11-

REPORTS OF STANDING COMMITTEES: (Cont'd)

Dated, August 27th, Recommending action on applications for fiduciary powers
28th, as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

Dated, August 24th, Recommending approval of the application of Mr. Henry
W. Stecher for permission to serve at the same time as
director of the National City Bank, Cleveland, Ohio and
as officer and director of the Pearl Street Savings and
Trust Company, Cleveland, Ohio.
Recommendation approved.

Dated, August 24th, Recommending approval of the application of Mr. Robert
B. Rugg for permission to serve at the same time as officer
of the National Rockland Bank, Boston, Massachusetts and
as director of the Buzzards Bay National Bank, Buzzards
Bay, Massachusetts.
Recommendation approved.

The meeting adjourned at 12:20 p.m.

E. M. McClelland
Assistant Secretary.

Approved:

A. C. Miller
Chairman.