

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, October 1, 1928 at 10:45 a.m.

PRESENT: Governor Young
Mr. Platt
Mr. Miller
Mr. James
Mr. Cunningham
Mr. McClelland, Asst. Secretary

The minutes of the meeting of the Federal Reserve Board held on September 27th were read and approved as amended.

The Assistant Secretary reported that in accordance with the directions of the Board on September 27th he communicated with the Federal Reserve Bank of Richmond, regarding liquidation of the rediscounts of the First National Bank of Frostburg, Md. and was informed by the Chairman that no definite date for liquidation has been fixed, although the bank has been advised that payment should be made by the middle of November and it is expected will be made by that time.

Letter dated September 27th from the Secretary of the Federal Reserve Bank of New York, telegram dated September 28th from the Chairman of the Federal Reserve Bank of Chicago and telegram dated September 27th from the Chairman 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 bank's existing schedules of rates of discount and purchase.

Without objection, noted with approval.

The Assistant Secretary stated that the term of Mr. James as member of the Executive Committee expired on September 30th, and accordingly Mr. Cunningham was appointed member of the Committee for the quarter ending December 31, 1928.

10/1/28

-2-

Report of the Executive Committee on letter dated September 27th from the Comptroller of the Currency, recommending approval of a salary of \$3,300 per annum for National Bank Examiner LeRoy J. VanBrunt, assigned to the Ninth Federal Reserve District; the Board's Committee also recommending approval.

Approved.

Report of the Executive Committee on letter dated September 27th from the Comptroller of the Currency, recommending approval of a salary of \$3,000 per annum for National Bank Examiner Daniel D. McLaren, assigned to the Ninth Federal Reserve District; the Board's Committee also recommending approval.

Approved.

Report of Executive Committee on letter dated September 21st from the President of the First National Bank of Houston, Texas for permission, under Section 13 of the Federal Reserve Act, to accept drafts and bills of exchange drawn upon it up to 100% of its paid-up and unimpaired capital stock and surplus; the Board's Committee concurring in a recommendation of the Executive Committee of the Federal Reserve Bank of Dallas that the application be approved.

Approved.

Report of Committee on Examinations on letter dated September 22nd from the Assistant Federal Reserve Agent at Cleveland, recommending approval of a proposed consolidation of the United Banking and Trust Company and the Lake Erie Trust Company, both member banks of Cleveland, to be effected on September 30, 1928 under the name and charter of the United Banking and Trust Company; the Board's Committee also recommending approval.

Approved.

10/1/28

-3-

Report of Committee on Salaries and Expenditures on letter dated September 24th from the Deputy Governor of the Federal Reserve Bank of Minneapolis, submitting and requesting approval of a budget for the Federal Reserve Club of the bank for the year 1929 in the amount of \$3,225.00, which it is estimated will be offset by the collection of approximately \$550.00 in dues, leaving an actual expense to the bank of \$2,675.00; the Board's Committee recommending approval.

Approved.

Letter dated September 27th from the Governor of the Federal Reserve Bank of Minneapolis, inquiring whether it would be proper for that bank to make a contribution to the local Community Chest fund such as commercial banks of the city are in the habit of making. The Assistant Secretary called attention to the fact that in considering previous requests of the kind the Board has expressed the opinion that it can not authorize expenditures of Federal Reserve bank funds by way of donations for purposes, no matter how worthy, which are not directly related to the conduct of the affairs of the banks.

Upon motion, the Governor was requested to advise the Federal Reserve Bank of Minneapolis along the same lines.

Memorandum dated September 28th from Counsel, submitting articles of association and organization certificate of the International American Banking Corporation which it is proposed to organize with the Board's approval under Section 25 (a) of the Federal Reserve Act; Counsel stating that the articles and organization certificate appear to be in proper legal form but calling attention to the Board's policy of having the qualifications of the organizers of proposed Edge corporations investigated before acting up-

10/1/28

-4-

on articles of association and organization certificates. With his memorandum Counsel also submitted draft of a letter to Mr. Julius Spiegel of New York City, correspondent for the organizers, calling attention to the fact that the association does not become a body corporate until after the Board has approved the articles and organization certificate and has issued a permit to begin business; the letter also requesting that the Board be furnished with information as to the character of business contemplated by the corporation, as well as a statement as to the qualifications of the organizers.

After discussion, upon motion, the letter submitted by Counsel was approved and ordered transmitted.

Upon motion, it was also voted to request the Federal Reserve Agent at New York to investigate and report to the Board on the qualifications of the organizers of the proposed corporation.

Memorandum dated September 27th from the Chief of the Division of Bank Operations, submitting statements with regard to purchases of government securities by Federal Reserve banks under resale agreement. The Governor called attention particularly to the practice of the Federal Reserve Banks of Atlanta and Dallas of purchasing securities from member banks and expressed the opinion that the sales were being made by the member banks to avoid the necessity of borrowing from the Federal Reserve bank and showing bills payable in their statements. At his suggestion, he was authorized to discuss the matter with the Governors of the Atlanta and Dallas banks when they come to Washington to attend the Fall Conference.

Upon motion, the memorandum and statements were ordered circulated for the information of the other members of the Board.

10/1/28

-5-

Memorandum from Counsel dated September 20th with respect to letter dated September 15th from the Governor of the Federal Reserve Bank of Dallas, inquiring whether in the case of notes offered to the Federal Reserve Bank for rediscount exceeding \$5,000 or exceeding 10% of the offering bank's capital stock, which are not accompanied by financial statements of the makers, it will meet the requirements of the Board's Regulation A for the Federal Reserve bank to accept financial statements of the endorsers whose names render the obligations acceptable from a credit standpoint, the maker himself having no financial responsibility; Counsel stating that Regulation A requires a recent financial statement of the borrower or principal obligor and that a financial statement of another party to the note does not comply with this requirement. The Assistant Secretary called attention to a memorandum from the Law Committee expressing the opinion that the purpose of requiring a maker's statement is to show the eligibility of the note and it should be required, therefore, to show that the maker is in business and uses the proceeds in accordance with the law, although the Regulation does not require that the maker's statement be sufficiently good to alone render the loan acceptable to the Federal Reserve bank from a credit standpoint.

After discussion, Mr. Platt moved that a letter be addressed to the Federal Reserve Bank of Dallas along the lines of the Committee's memorandum.

Mr. James moved, as a substitute for Mr. Platt's motion, that the matter be referred to the Governor with power.

Mr. James' substitute motion being put by the Chair was carried.

Memorandum from Counsel dated September 24th, submitting drafts of

10/1/28

-6-

letters to the Commissioner of Corporations and Taxation of Massachusetts and to the Attorney General of the United States, with respect to a possible violation of the Act of May 24, 1926 by the United States Acceptance Corporation, which was organized under the laws of Delaware in January 1928; the letter to the Attorney General referring the matter to him for such action as he may deem advisable and that to the Commissioner of Corporations and Taxation of Massachusetts advising of the reference.

Upon motion, the letters submitted by Counsel were approved.

The Assistant Secretary then read to the Board the following resolution submitted by Mr. James in a memorandum dated September 28, 1928:

"WHEREAS, a comparison of the Statements of Condition of Federal reserve banks for September 26, 1928, and September 22, 1927, shows a very marked increase in the outstanding credit of the Philadelphia Federal Reserve Bank, evidenced by the following figures, i. e.:

Bills Discounted	Sept. 26 <u>1928</u>	Sept. 22 <u>1927</u>	<u>Increase</u>
On Governments	80,441,000	22,544,000	57,897,000
Other bills discounted	<u>24,603,000</u>	<u>12,458,000</u>	<u>12,145,000</u>
	105,044,000	35,002,000	70,042,000

BE IT RESOLVED, that the same information be developed for the Philadelphia Bank as has been for the New York Bank under the caption 'Brokers' Loans'."

During the discussion, the Governor reported that in addition to New York and Chicago where information with respect to brokers' loans by member banks has been compiled for some time, the Federal Reserve Bank of San Francisco of its own volition recently inaugurated reports to the Board.

Following the discussion, the resolution submitted by Mr. James was adopted.

The Assistant Secretary then read to the Board the recommendations of the Federal Advisory Council made to the Board at the meeting on September

10/1/28

-7-

170

28th as follows:

TOPIC NO. 1. Business conditions in the respective Federal Reserve Districts.

RECOMMENDATION: Members of the Council have been polled and report that business is generally good and on a sound basis. The aggregate volume is greater than the most optimistic forecasts of the earlier part of the year prophesied.

TOPIC NO. 2. Effect of prevailing rediscount rates on business.

RECOMMENDATION: The prevailing rediscount rates have not retarded business since its demands have been taken care of satisfactorily by the banks in this time of high money rates and generally have been favored by a preferential discount rate. The Council believes the banks are disposed to continue this practice of favoring commercial borrowers as long as possible. It should also be noted that some financing of a more or less permanent type has been delayed by the present high money market.

TOPIC NO. 3. Open Market policy of the Federal Reserve System since the last meeting of the Council.

No formal recommendation.

TOPIC NO. 4. Suggestion that the Board revoke its ruling of 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.

RECOMMENDATION: The Council understands fully the need of the ruling of 1919 at the time it was made, but it urges strongly that now under altered conditions deposits in foreign banks immediately available be made a deductible item in figuring the required reserves of member banks.

The Assistant Secretary called attention to the fact that the above topic has also been referred to the forthcoming Conferences of Governors and Federal Reserve Agents, and upon motion, he was authorized to advise the Secretary of the Advisory Council that the Board desires before taking action to await the views of the Governors and Federal Reserve Agents.

TOPIC NO. 5. Suggestion that the Board's Regulations be amended so as to fix seven days as the minimum limitation on advances by Federal Reserve

10/1/28

-8-

banks to member banks on their promissory notes secured by eligible paper or Government securities.

RECOMMENDATION: The Federal Advisory Council is opposed to the above amendment of the Board's Regulations. It seems to the Council it will tend to increase rather than diminish the funds available for speculation and to increase the sale and purchase of Federal Reserve funds. It is obvious that, if a member bank must borrow for a period of seven days even though it needs the money for a shorter period only, such a bank will be compelled either to place its idle funds temporarily at the disposal of the call money market or to sell such Federal funds to some other member bank.

This topic having also been referred to the Conferences of Governors and Federal Reserve Agents, the Assistant Secretary was directed to advise the Secretary of the Council that the views of the Governors and Agents on this matter will be awaited before the Board takes final action.

RECOMMENDATION: The Federal Advisory Council without any intention of criticizing the present arrangements but in order that all governors of the Federal Reserve banks may participate in the discussions leading up to actions of the Open Market Committee suggests to the Federal Reserve Board to consider the advisability of having the membership of the Open Market Committee consist of all the Governors of the Federal Reserve banks with an executive committee composed of five members with full power to act.

The Assistant Secretary called attention to the fact that at the meeting of the Board on August 16th, it was voted that at a future meeting, at which the full membership of the Board is present, consideration be given to the advisability of having all Federal Reserve banks represented on the Open Market Investment Committee and that consideration also be given to a suggestion that meetings of the Committee be conducted under the supervision of the Board with the Governor of the Board presiding as Chairman of the meeting. Accordingly, the Assistant Secretary was instructed to advise the Secretary of the Council that the Board already has the suggestion under consideration and appreciates the views of the Council thereon.

After discussion, it was voted that Messrs. Miller and Platt be appointed a special committee to consider and report to the Board any other changes in the Open Market procedure which may be advisable, the whole question to be taken up as special order of business on a date to be designated by the Governor.

10/1/28

-9-

Memorandum dated September 27th from the Chief Examiner, advising that the Superintendent of Banks of California has changed his attitude with respect to cooperating with the Federal Reserve Agent at San Francisco in conducting examinations of state member banks with simultaneous entry at head office and all branches and, after fixing a date for an examination, has changed the date and started the examination without any advice to the Federal Reserve Agent; the Chief Examiner recommending that since the examining force of the Federal Reserve Agent is entirely inadequate to conduct independent examinations with simultaneous entrance at head office and all branches where a large number of branches are being operated, the Board permit the Agent in the cases of the American Trust Company of San Francisco and the Security Trust and Savings Bank of Los Angeles, which have not been examined during the current year, to conduct credit investigations as a temporary expedient until such time as ways and means can be determined for putting into operation the policy of simultaneous entry examinations previously laid down by the Board.

After discussion, upon motion, it was voted to defer consideration of the recommendation of the Chief Examiner until the meeting on Thursday, October 4th, when the question of examination of state member banks is to be considered by the Board as special order of business.

REPORTS OF STANDING COMMITTEES:

- Dated, September 29th, October 1st, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.
- Dated, September 26th, 28th, 29th, Recommending action on applications for fiduciary powers as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.
- Dated, September 25th, Recommending approval of the application of Mr. J. Frederic Byers for permission to serve at the same time as director of The Union National Bank of Pittsburgh,

10/1/28

-10-

REPORTS OF STANDING COMMITTEES: (Cont'd)

Pa., as director of the Union Trust Company of Pittsburgh, Pa., and as a director of The Union Savings Bank, Pittsburgh, Pa.

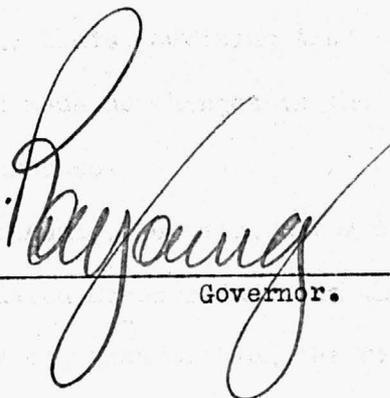
Recommendation approved.

Dated, September 28th, Recommending approval of the application of Mr. Henry W. Somers for permission to serve at the same time as director and officer of the Fort Edward National Bank, Fort Edward, N. Y., as director of the First Trust Company of Albany, N. Y., and as director of the Adirondack Trust Company, Saratoga Springs, N. Y.

Recommendation approved.

The meeting adjourned at 1:00 o'clock.

Approved:



 Governor.



 Assistant Secretary.