

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, October 9, 1928 at 10:45 a.m.

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

The minutes of the meeting of the Federal Reserve Board held on October 5th were read and approved.

Memorandum dated October 3rd from the Deputy Comptroller of the Currency, advising that on October 8th the Comptroller would call upon all National banks, and all banks in the District of Columbia, for reports of condition as of the close of business, Wednesday, October 3, 1928. The Secretary advised that on October 8th a call as of the same date was made upon all state member banks.

Noted, with approval.

Telegram dated October 5th from the Secretary of the Federal Reserve Bank of Cleveland, advising that the board of directors at a meeting on that date made no change in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Matter approved on initials on October 6th, namely, letter dated October 6th from the Comptroller of the Currency, recommending approval of a salary of \$4,000 per annum for National Bank Examiner Michael H. Sims, assigned to the Third Federal Reserve District.

Formally approved.

Report of Committee on Salaries and Expenditures on letters dated

10/9/28

-2-

October 5th from the Secretary of the Federal Reserve Bank of Cleveland and October 3rd from the Chairman of the Federal Reserve Bank of Dallas, transmitting lists of employees for whom the directors of those banks approved leaves of absence with pay, on account of illness, during the month of September, 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.

Letter dated October 8th from the Assistant Federal Reserve Agent at New York advising of the proposed merger, effective about December 15th, of the First National Bank of Brooklyn into the Bank of Manhattan Company, New York City; the Assistant Agent stating that the main office and branches of the First National Bank are to be continued as branches of the Bank of Manhattan Company.

Noted.

Memorandum from Counsel dated October 8th, with reference to the Clayton Act application of Mr. Herman A. Metz, involving the First National Bank and Trust Company of Mamaroneck, N. Y., the First National Bank of Brooklyn and the Bank of United States of New York City, which the Board on September 12th advised Mr. Metz it would approve upon receipt of advice of his resignation from the International Germanic Trust Company of New York City; Counsel stating that Mr. Metz has now advised the Board that his resignation as a director of the International Germanic Trust Company has been accepted.

Upon motion, Mr. Metz's application was formally approved.

Memorandum dated October 8th from the Assistant Secretary, recommending

10/9/28

-3-

approval of a change in the interdistrict time schedule of the Federal Reserve Bank of Philadelphia from Philadelphia to Portland and Seattle of from five to four days; the Assistant Secretary advising that the change is agreeable to the Federal Reserve Bank of San Francisco.

Approved.

Report of Committee on District #11 on the matter referred to it at the meeting on October 5th, namely, letter dated October 1st from the Federal Reserve Agent at Dallas, with reference to a statement regarding the current cotton crop made in a report to the Southwest Shippers' Advisory Board by Mr. W. J. Evans, Assistant Federal Reserve Agent, which has been the subject of critical comment by the press and others in the Southwest; the Board's Committee recommending that a letter be written to the Federal Reserve Agent at Dallas, cautioning him that any statements made with regard to the size of crops, etc. should be directly buttressed by authority so as to take the greatest precaution possible against having them wrested from their context and made to serve the purposes of speculators.

Mr. Hamlin pointed out that inasmuch as the statement was apparently based upon a crop estimate by the United States Department of Agriculture several weeks previous to the statement, the letter to the Federal Reserve Agent should specifically advise that whenever reference is made by the Federal Reserve bank to any such report care should be taken to clearly state the source and date of the report.

Upon motion, the recommendation of the Committee, as amended by Mr. Hamlin's suggestion, was adopted, Mr. Miller not voting.

Matter referred to the Law Committee at the meeting on October 5th, namely, letter dated September 25th from the Federal Reserve Agent at San Francisco,



10/9/28

-4-

transmitting copies of a letter addressed to the United States District Attorney at Los Angeles reporting certain transactions of the former Pacific Southwest Trust and Savings Bank of Los Angeles, disclosed by an examination of that institution made as of February 5, 1927.

The Secretary reported that the Law Committee had noted the letter and enclosures, and upon motion it was voted that copies of the letter to the United States District Attorney be transmitted to the Department of Justice, in accordance with the Board's usual procedure.

At this point, Mr. McIntosh joined the meeting.

The Governor then referred to a proposed amendment to Section XI (3) of the Board's Regulation A, which he has discussed with the Board informally on several recent occasions, which would make eligible for rediscount and purchase by Federal Reserve banks bankers' acceptances drawn by an elevator or warehouse company and secured by warehouse receipts of the elevator or warehouse company that draws the draft. He submitted a proposed form of amendment which some time ago he suggested to the Federal Reserve Bank of Minneapolis and stated that an amendment of the kind would meet the situation in Minneapolis which gives rise to the question.

After considerable discussion, upon motion, the amendment to Section XI (3) of Regulation A submitted by the Governor was amended and adopted in the following form, Messrs. Miller and Platt voting "no":

"The storage in the United States or in any foreign country of readily marketable staples, provided that the bill is secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer or issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn; and provided further that the acceptor remains secured

10/9/28

-5-

"throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be resubstituted within a specified time."

Mr. Platt stated that although he favored the amendment as submitted by the Governor, relating only to acceptances against grain, he voted "no" because the amendment had been broadened to include all commodities.

The Secretary then read to the Board a letter addressed to Governor Young under date of October 9th, dictated over the telephone by the Chairman of the Federal Reserve Bank of Richmond, inviting the members of the Board and its staff to attend the formal opening of the Baltimore Branch Building on Thursday, October 18th; the Chairman stating that the Board members are invited to attend a joint meeting of the boards of the Richmond bank and its two Branches to be held in the new building during the morning and to be followed by a luncheon and inspection of the building. In his letter, the Chairman also referred to invitations being sent to the members of the Board by the Baltimore Clearing House Association to attend a dinner on the evening of October 17th.

During the discussion which followed, Messrs. Platt, Hamlin and McIntosh signified their intention of attending the formal opening of the Branch Building.

Memorandum dated October 5th from the Assistant Secretary, advising that due to the contemplated absence of Governor Young and Mr. James, by direction of the Vice Governor he advised the Chairman of the Federal Reserve Bank of Philadelphia that it is necessary for the Board to postpone the hearing to the

10/9/28

-6-

Philadelphia Clearing House Association, fixed for October 16th, regarding applications which have been made to the Board by member banks for reduction in reserve requirements.

Upon motion, Wednesday, October 24th was fixed as the date for the hearing.

Letter dated October 8th from the Deputy Governor of the Federal Reserve Bank of New York, Acting Chairman of the Open Market Investment Committee, advising of instructions received from a foreign correspondent to convert into cash \$40,200,000 of short-time government securities and that in order to avoid any change in the System's holdings of securities arrangements have been made to sell \$30,000,000 to the Treasury and \$2,500,000 to another foreign correspondent, with the expectation that before the next published statement the remaining \$7,500,000 will be marketed.

Noted.

The Governor then referred to the question of examination of State member banks, which is special order of business for this morning's meeting.

At this point, Messrs. Gilbert, Herson and Wyatt were called into the meeting.

Mr. Hamlin submitted and moved adoption of the following resolutions:

"Whereas, the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks, the character of their management, and whether they are complying with the provisions of the Federal Reserve Act, the regulations of the Federal Reserve Board, and the conditions of membership applicable to them;

Whereas, the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to national banks so long as the Comptroller continues to make at least two complete and reliable examinations of each national bank each year;

Whereas, the Board is of the opinion that it is justified in relying upon reports of examination of State member banks made by the State authorities



10/9/28

-7-

"only when such examinations are made by competent and reliable examiners and furnish full and complete information as to the condition of such banks, the character of their management and whether or not they are complying in every respect with the provisions of the Federal Reserve Act, the Board's Regulations and all applicable conditions of membership;

Whereas, the Board is of the opinion that, if the State authorities fail to make at least one such examination each year of each State member bank, it is the duty of the Federal Reserve Board to cause at least one such examination to be made each year, either by its own examiners, by the Federal Reserve Agent, or by the Federal Reserve Bank, and to assess the costs thereof against the banks examined;

Whereas, the Federal Reserve Agents are at present charged with the duty of seeing that at least one examination of each State member bank is made each year and this appears to be the most convenient and practical method of obtaining such examinations;

Whereas, the reports of examinations of State member banks now being received are not in all cases entirely adequate to inform the Board as to the condition of State member banks, the character of their management, and whether or not they are complying in every respect with the provisions of the Federal Reserve Act, the Board's regulations and all applicable conditions of membership;

Now, Therefore, Be It Resolved By The Federal Reserve Board, That:

(1) Each Federal Reserve Agent shall obtain and forward to the Federal Reserve Board at least one report of examination of each State member bank in his district each year, each such report to result from an examination made by reliable and competent examiners and to contain full and complete information as to the condition of such bank, the character of its management and whether or not it is complying in every respect with the provisions of the Federal Reserve Act, the Board's regulations and all applicable conditions of membership;

(2) If possible, the Federal Reserve Agents shall obtain reports of such examinations from the State authorities;

(3) Whenever the State authorities fail to make at least one examination of each State member bank each year or whenever the examinations made by the State authorities are not made by competent and reliable examiners, or do not furnish full and complete information as to the condition of such banks, the character of their management, and whether or not they are complying in every respect with the provisions of the Federal Reserve Act, the Board's regulations and all applicable conditions of membership, the Federal Reserve Agent shall cause such examinations to be made by his own examiners and shall assess the costs thereof against the banks examined;

(4) Each Federal Reserve Agent shall use every reasonable means within his power to correct all matters criticized in the reports of examination of State member banks in his district (exclusive of technical violations of State law which do not constitute violations of the Federal Res-

10/9/28

-8-

erve Act, the Board's regulations, or the conditions of membership applicable to such banks, and which do not endanger the solvency of such banks), either by direct correspondence with the banks or through cooperation with the State authorities and shall report to the Federal Reserve Board only such matters as require definite action by the Board or by the Department of Justice;

(5) Whenever the Federal Reserve Agent is unable to bring about the correction of matters criticized in the reports of examination and whenever such matters are of sufficient importance to require action by the Federal Reserve Board, he shall report the matter to the Federal Reserve Board with a definite recommendation for specific action to be taken by the Federal Reserve Board;

(6) There is hereby created in the staff of the Federal Reserve Board a division to be known as the 'State Bank Examining Division' which shall keep a constant check upon the number and character of reports of examination of State member banks received from the Federal Reserve Agents and of the activities of the Federal Reserve Agents in correcting the matters criticized by the Examiners, and shall, after reasonable notice to the Federal Reserve Agents and after affording them a reasonable opportunity to comply with the provisions of this resolution, call to the attention of the Federal Reserve Board any continued neglect of any Federal Reserve Agent to comply fully with the provisions of this resolution."

Mr. James submitted the following resolutions, and moved their adoption as a substitute for those submitted by Mr. Hamlin:

"BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks, the character of their management, and whether they are complying with the provisions of the Federal Reserve Act, the regulations of the Federal Reserve Board, and the conditions of membership applicable to them;

BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to national banks;

BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon reports of examination of State member banks made by the State authorities when such examinations furnish full and complete information as to the conditions of such banks and the character of their management;

BE IT FURTHER RESOLVED, That whenever the reports of examination of State member banks, furnished by the State authorities, are not deemed complete and satisfactory, the Federal Reserve Board shall order or make at least one examination or investigation per year of such character as it deems necessary to provide it with the requisite information, the cost of such examination or investigation to be assessed against the member bank examined."

A detailed discussion then ensued of the resolutions submitted by Mr. James, and the several paragraphs thereof were discussed separately and amendments suggested.



10/9/28

-9-

Mr. Cunningham then moved that the substitute resolutions submitted by Mr. James be amended and adopted in the following form:

"BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks;

BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to National banks;

BE IT FURTHER RESOLVED, That whenever reports of examination of State member banks furnished by State authorities are not deemed satisfactory either to the Federal Reserve Bank or the Federal Reserve Board, examinations of such member banks shall be made at least once each year by the Federal Reserve authorities and shall be of such character as the Federal Reserve Board deems necessary, the cost of such examinations to be assessed against the banks examined."

Mr. Hamlin then moved that the resolutions be further amended and adopted in the following form:

"BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks;

BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to National banks;

BE IT FURTHER RESOLVED, That whenever the reports of examination of State member banks furnished by the State authorities are not deemed satisfactory either to the Federal Reserve bank of the district concerned or to the Federal Reserve Board, the Federal Reserve bank or the Board shall cause to be made at least one examination or investigation each year of such character as to furnish satisfactory information, the cost of such examinations or investigations to be assessed against the member banks examined."

At the conclusion of the discussion, the resolutions, as last quoted above were put to a vote and carried, Mr. Platt voting "no".

Mr. Hamlin then suggested that a letter be addressed to all Federal Reserve banks advising that nothing in the resolutions just adopted is intended to interfere with the present practice of having necessary examinations conducted under authority of the Chairman of the Board and Federal Reserve Agent, as representing the Federal Reserve Bank and the Federal Reserve Board.

Upon motion, Mr. Hamlin's suggestion was laid on the table.

10/9/28

-10-

Mr. James then submitted the following resolutions, action on which was deferred until the meeting tomorrow:

"Whereas, the Board has today adopted a policy and established certain principles relating to examinations of State member banks and;

Whereas, the Board has petitioned Congress to so amend the Federal Reserve Act as to make it discretionary as to assessment of costs of examination to banks examined;

Be It Resolved, that the ruling just made on the matter of assessing costs of examination be held in abeyance pending action of the Banking and Currency Committee and Congress."

"Be It Resolved, that the Board, through the Governor, address a letter to the Chairman of the Banking and Currency Committee of the House, calling especial attention to the recommendation made in the Board's Annual Report for 1927, Page 48 (4) 'An amendment making it discretionary with the Federal Reserve Board to assess the costs of examining member banks against the banks examined', and urgently request prompt action on the part of the coming session of Congress."

REPORTS OF STANDING COMMITTEES:

Dated, October 5th, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.  
6th, set forth in the Auxiliary Minute Book of this date.  
8th, Recommendations approved.  
9th,

Dated, October 5th, Recommending action on applications for fiduciary powers as set forth in the Auxiliary Minute Book of this date.  
Recommendations approved.

Dated, October 1st, Recommending approval of the application of Mr. Oscar Daniels for permission to serve at the same time as director of the City National Bank, Miami, Fla., as director of the Miami Beach First National Bank, Miami Beach, Fla., and as director of the First National Bank, Tampa, Fla.  
Recommendation approved.

Dated, October 1st, Recommending approval of the application of Mr. Charles L. Briggs for permission to serve at the same time as director of the Merrimack National Bank, Haverhill, Mass., and as director of the City National Bank in Miami, Fla.  
Recommendation approved.

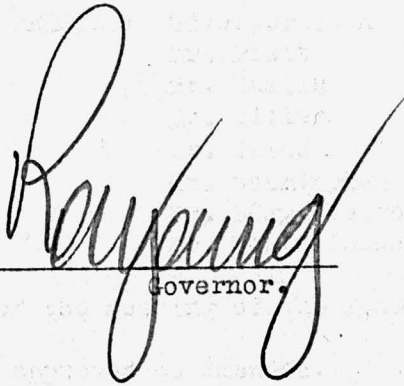
Dated, October 4th, Recommending approval of the application of Mr. Kelley Graham for permission to serve at the same time as officer and director of the First National Bank of Jersey City, N. J., and as director of the First National Bank, Millburn, N. J.  
Recommendation approved.

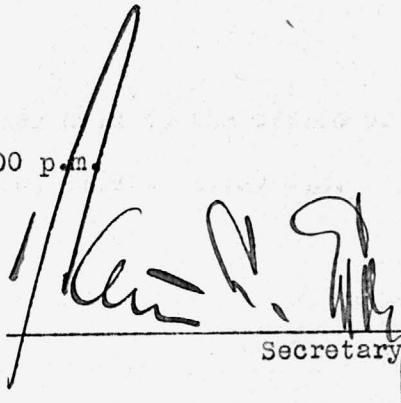
10/9/28

-11-

The meeting adjourned at 1:00 p.m.

Approved:

  
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Governor.

  
\_\_\_\_\_  
Secretary.