Upon call of the Governor, a special meeting of the Federal Reserve Board was held in the office of the Governor on Friday, November 16, 1928 at 4:25 p.m.

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

The Governor reported advice received over the telephone from the Federal Reserve Bank of New York that the question of an increase in the bill rates of the bank was discussed at considerable length at the meeting of the directors yesterday, with the result that any increase was disapproved.

He stated he was also advised over the telephone that inquiry was made several days ago by the Bank of England as to the condition of the government bond market and that a cablegram was received today requesting the Federal Reserve bank to take over $40,000,000 of securities the first of next week. Simultaneously, he stated, a cablegram was received from the Bank of France, advising that it will want to earmark $100,000,000 of gold over a period of the next three or four months. He stated that the Deputy Governor of the New York bank advised him that there did not appear to be anything the bank could do except to take over the securities offered by the Bank of England, which would put $40,000,000 into the market temporarily. He stated, however, that the bank might negotiate with the Bank of France with the idea of having that institution take over $40,000,000 of bills prior to its gold earmarking transaction, in which event the Federal Reserve Bank could then determine whether it wished to sell securities taken over from the Bank of England or not. He stated that no action by the Board is required at this time, but that he merely

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wished to report the telephone conversation.

The Secretary then presented a letter dated November 15th from General Counsel of the Federal Reserve Bank of New York, transmitting the following confirmatory memorandum of report made over the telephone yesterday and certain additional information with reference to an interview in the office of the Attorney General of the State of New York, with regard to a reported investigation made by that office of the first mortgage concern in which are interested certain of the organizers of the proposed Straus National Bank and Trust Company of New York City.

"I just got back from the Attorney General's office, but I didn't see the 'boss' and, consequently, do not know yet whether I will be able to get the report. After waiting for about three-quarters of an hour, I did get hold of the fellow who actually made the investigations of all of the first mortgage companies, including the particular one. I think I got a pretty good idea from him of the matters in the report which would be interesting. He said this: That the criticisms of this particular company were on two grounds: First, that they didn't segregate the funds applicable to the particular issues. The amortization payments due under the various issues were all paid to the main company, the underwriting company, and were used for whatever purpose was convenient and, as a matter of fact, they were used to make good the defaults under some of the issues, so that they could continue their advertising slogan: 'Not a dollar's loss to an investor in forty-five years.' I asked him specifically whether he discovered anything which constituted a technical breach of trust and he said no: that they could never find any fault with their operations from a legal standpoint; that their papers were so drawn as to legally permit them to do what they did do, so that the criticism related to the ethics and business judgment rather than to any violation of trust.

The second point was that there were no independent trustees; that the trustees for the various issues were the officers of the underwriting company or might be anybody, but they were all under the absolute control of the underwriting company, so that when there was a default nobody ever knew about it - they kept it all 'under their hat.'

There was, as a matter of fact, rather less criticism against this particular outfit than their competitors.

Two reports were made - one back in 1926 and the other about the first of the year 1928, so it was pretty old information. The fellow I talked with was quite definite that this concern was in much better

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"shape than most of the others. As a matter of fact, he made an announcement not long ago that the country was overbuilt and that they were through with the first mortgage business and they put that into effect, so that now it is just an underwriting house - a dealer in securities, like any other Wall Street house - and they have no connection with the first mortgage business except that they are nursing along some of their old business. They are taking care of the old business, he said, and that short of a national calamity there is no reason to anticipate anything going wrong.

I am pretty well satisfied that the specific information we got was erroneous. I asked him particularly whether he knew of any instance in which the sinking fund of one issue had been used to purchase securities of an affiliated company. That was the specific charge, you know. He said he knew it hadn't been done, because you couldn't identify the sinking fund for any particular issue - they had the thing so set up that all the amortization payments (which means the same thing as the sinking fund) were paid to the underwriting company with no 'strings' attached and they could and did use them for anything they wanted to, even to finance other issues. Legally this was all right, but, of course, it is rotten business, but all the companies were doing it, apparently.

I am pretty well satisfied that you will not get much additional light from the report. As the matter stands now, this lad with whom I talked is going to explain the situation to his boss and tell his boss that I would like to see the report, so that I can follow it up, if necessary, but I really don't think you will get much additional light on the subject.

The report in question wasn't a public report; it was just an inter-office report - an office memorandum.

Additional Matter not Included in Telephone Conversation.

As a matter of fact, there were two reports, one made in 1926. This consisted of separate reports covering the individual companies. As a result of this first investigation in 1926, the Attorney General's office laid down a set of rules as to how the first mortgage companies should conduct their business in order to avoid criticism from the Attorney General's office. The second report, as of about January 1, 1928, was a general report covering all of the companies and was in the nature of a check-up to see to what extent the rules laid down by the Attorney General had been complied with. Mr. Gregory said he believed that such of the first mortgage business of the company in question as was being continued was being conducted entirely in accord with the rules of the Attorney General.

The gentlemen I talked to was Mr. Gregory. Mr. Timothy J. Shea is the Deputy Attorney General and is in charge of the Fraud Bureau which made the investigations."

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The meeting adjourned at 4:50 p.m.

Secretary.

Approved:

Governor.

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