

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, January 21, 1929 at 11:30 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 meetings of the Federal Reserve Board held on January 18th and 19th were read and approved.

Mr. Miller reported that immediately after the meeting on Saturday he took steps to ascertain whether Directors Young and Woolley of the Federal Reserve Bank of New York would be available for a conference with the Board on Tuesday and reported to the Governor that while Mr. Woolley will be in Washington, Mr. Young will not.

The Governor then stated that Governor Harrison of the Federal Reserve Bank of New York, who was in his office this morning, communicated over the telephone with Deputy Governor Kenzel of the New York bank and reported that bill dealers have established the following rates on acceptances:

1 to 30 days, bid 5% - offer 4 3/4%
 31 to 90 days, bid 5 1/8% - offer 5%
 91 to 120 days, bid 5 1/4% - offer 5%
 121 to 180 days, bid 5 3/8% - offer 5 1/8%

He also reported that beginning this morning the Federal Reserve Bank of New York is establishing the following rates for purchases of acceptances, along with a general policy of refusing to take new bills of long maturity:

1 to 15 days - 4 3/4%
 16 to 45 days - 4 7/8%
 46 to 180 days - 5%

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A brief discussion ensued with respect to the probable effects of the increase in rates.

Mr. Miller then stated that he had requested the Governor to call the meeting in order that he might submit to the Board draft of a letter to all Federal Reserve banks prepared by him in accordance with the resolution adopted by the Board on December 31st, with respect to the proper use of Federal Reserve credit facilities, which letter he read to the Board as follows:

"The firming tendencies of the money market which have been in evidence since the opening of the year - contrary to the usual trend of money rates at this season - make it incumbent upon the Federal Reserve System to give constant and vigilant attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, if it is avoidable, beyond what may develop as inevitable.

During the year 1928, through the combined influence of member banks and the Federal reserve banks, commercial rates were successfully maintained at levels appreciably lower than the trend of money market changes about mid-year indicated as probable. The problem of exerting the influence of the Federal Reserve System as a moderating influence in the movement of commercial money rates is still with us at the opening of the new year.

The extraordinary absorption of funds in speculative security loans which has characterized the credit movement in the past year or more in the judgment of the Federal Reserve Board deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

The resources of the Federal Reserve System are ample for meeting any probable commercial needs of credit without difficulty or strain provided the credit facilities of the Federal Reserve System are vigilantly and efficiently administered and restricted to such uses as are proper.

The Federal Reserve Board has on different occasions and in different places, notably in its annual reports, stated its position with regard to uses of the rediscount privilege by member banks for purposes that are proper. Broadly speaking, the purposes are proper when the credit accommodation obtained from the Federal reserve bank is for productive and distributive operations, in brief, agriculture, industry and trade. They are not proper when occasioned by extensions of speculative loans by member banks. While such loans are not prohibited either by the National Bank Act or by the Federal Reserve Act, the whole tenor of the Federal Reserve Act makes it clear that a member bank is not within its reasonable claims for rediscount facilities at a Federal reserve bank when the occasion of its borrowing is

- (a) Speculative loans that it contemplates making; or

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"(b) Speculative loans that it has made and which it desires not to liquidate.

There would be no difference of opinion as regards the impropriety of seeking Federal reserve credit for the purpose of making security loans.

It is the opinion of the Federal Reserve Board that the objections that lie against the use of Federal reserve credit for the making of speculative loans also lie against the use of Federal reserve credit for the maintaining of speculative loans.

The Federal Reserve Board has no disposition to assume authority to interfere with the loan operations of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining a given volume of speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the existing volume of security loans. And such is contrary to the intent of the Federal Reserve Act and the wholesome operation of the Federal reserve banking system.

It is the opinion of the Federal Reserve Board that when member banks which have substantial investments of their resources in speculative security loans are called upon by their commercial customers to provide commercial accommodation, the proper course for them to pursue is to reduce their call loans and thus put themselves into a position to take care of the requirements of their commercial borrowers. The Federal Reserve Board has no disposition to question the propriety of investments by banks of surplus funds in the call loan market. The call loan market is capable of performing a useful service if investments by banks in it are treated as a secondary reserve to be availed of as occasion arises. It may become a source of mischief, if the banks are permitted to regard such investments as something not to be disturbed except under the pressure of exigent circumstances.

You are desired to bring this letter to the attention of the directors of your bank in order that they may be advised of the attitude of the Federal Reserve Board with respect to a situation and a problem confronting the administration of the Federal reserve banks which for more than a year has been exciting widespread interest and concern.

After your directors have fully considered it the Board desires to be advised of their attitude and their views on (a) how they keep themselves fully informed as to the occasion of borrowing by their member banks; (b) what methods they employ to protect their institution against improper use of its credit facilities by member banks; and (c) what other steps they propose to take in working out a further procedure where existing methods are not proving fully effective.

The Board realizes that the problem of adequate control against misuse of the credit facilities of the Federal reserve banks of the kind that have given rise to this letter is not free of difficulties. It also appreciates that no one method of procedure would be equally effective in all districts and in all circumstances. It is, therefore, not disposed to be dogmatic in its own attitude. It is, however, firm in the opinion that a more effective control is needed if the Federal Reserve System is to function satisfactorily

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"and that methods of control suitable to the situation and not invasive of the privacy of member bank operation can be worked out by each Federal reserve bank that will have the approval and support of the majority of the member banks of the Federal Reserve System and the general body of public opinion.

The Federal Reserve Board will await with deep interest the reply of your directors to this letter and bespeaks their prompt attention in order that it may have their reply at an early date."

After a brief discussion of the letter, it was voted that a copy be furnished to each member of the Board and that any member desiring to make criticisms or suggestions for changes do so in writing within the next day or so.

Mr. James then reported that he is leaving this afternoon for St. Louis and will advise the Board by telegraph of the result of his negotiations with Mr. Rolla Wells as to appointment as Class C Director, Chairman and Federal Reserve Agent at the Federal Reserve Bank of St. Louis.

The Governor then referred to the large increase which takes place at the end of each year in the amount of Federal Reserve credit outstanding, which this year amounted to approximately \$550,000,000, due to the practice of banks and corporations of "window dressing" as of December 31st.

At his suggestion, the Governor was authorized to refer the question of the practice mentioned to the Federal Advisory Council for discussion at its forthcoming meeting.

The Secretary then presented a memorandum from Counsel dated January 19th, with respect to the articles of association and organization certificate of the proposed International American Banking Corporation, which were filed with the Board on September 24, 1928, following which the Board requested that an investigation of the character and financial responsibility of the organizers be made by the Federal Reserve Agent at New York, and addressed a letter to Mr. Julius Spiegel, correspondent for the organizers, requesting information as to the character of business which the proposed corporation intended to transact, and also a statement of the qualifications of the organizers; the

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memorandum stating that the Board has not received the report requested of the Federal Reserve Agent at New York, nor has it received any reply to its letter to Mr. Spiegel. With his memorandum, Counsel submitted and recommended that the Board transmit a letter to Mr. Spiegel calling attention to the necessity of a reply to its inquiry and a letter to the Federal Reserve Agent at New York, advising that the report requested of him should be made to the Board as soon as possible.

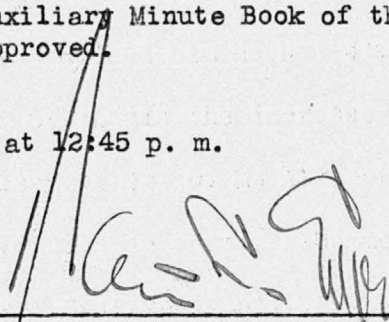
Upon motion, the letters submitted by Counsel were approved and ordered transmitted.

Mr. Platt then advised the Board briefly of his visit to the Havana Agency of the Federal Reserve Bank of Atlanta, with particular reference to the adequacy of the new quarters of the Agency and the proposal that the Agency act as clearing house for banks in Havana.

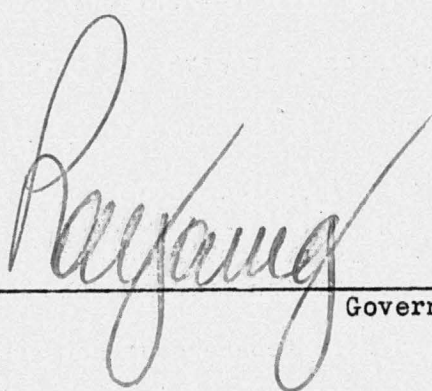
REPORTS OF STANDING COMMITTEES:

Dated, January 21st, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.
Recommendation approved.

The meeting adjourned at 12:45 p. m.



Secretary.

Approved: 

Governor.