A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, January 24, 1929 at 11:00 a.m.

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

The minutes of the meetings of the Federal Reserve Board held on January 21st and 23rd were read and approved.

Letter dated January 21st from the Governor of the Federal Reserve Bank of Boston, advising of the establishment on that date of the following rates for purchases of acceptances:

Bankers acceptances:

<table>
<thead>
<tr>
<th>Days</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 15 days</td>
<td>4 3/4%</td>
</tr>
<tr>
<td>16 to 45 days</td>
<td>4 7/8%</td>
</tr>
<tr>
<td>46 to 180 days</td>
<td>5%</td>
</tr>
<tr>
<td>Repurchase</td>
<td>5%</td>
</tr>
</tbody>
</table>

Trade acceptances: 5%

Noted.

Mr. Cunningham, Chairman of the Committee on District #9, then presented a letter from the Federal Reserve Agent at Minneapolis, in reply to one addressed to the Agent in accordance with the instructions of the Board at its meeting on January 18th, recommending that the salary of Mr. Oliver S. Powell, Statistician in his Department, be increased from $4,500 to $4,800 per annum effective January 1, 1929.

In accordance with the informal understanding at the meeting on January 18th, upon motion, it was voted to approve the salary now recommended for Mr. Powell.
Memorandum from Counsel dated January 19th, submitting draft of letter to the Rhode Island Hospital Trust Company, Providence, R. I., with respect to the action of that bank, reported by the Federal Reserve Agent at Boston in a letter dated January 15th, in operating a branch in Woonsocket on the site formerly occupied by the National Globe Bank and the Mechanics Savings Bank, which went into liquidation after their assets had been taken over by the Rhode Island Hospital Trust Company, already operating one branch in Woonsocket; the letter pointing out that the new branch may not be continued if the Rhode Island Hospital Trust Company is to remain a member of the Federal Reserve System and requesting definite advice as to whether the bank plans to continue the operation of the branch or expects to consolidate it with its old branch in Woonsocket.

Upon motion, the letter submitted by Counsel was approved.

Discussion then ensued with respect to the proposed letter to the boards of directors of all Federal Reserve banks on the subject of the proper use of the credit facilities of the Federal Reserve System, submitted by Mr. Miller at the meeting of the Board on January 21st.

Mr. Cunningham presented and the Secretary read to the Board a revision of the letter submitted by Mr. Miller as follows:

"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 of the past year, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a further firming of money rates, which would be detrimental to the business interests of the country.

"The Federal Reserve Board has on different occasions and in different places, notably in its annual reports, stated its position with regard to proper uses of the rediscount privilege of member banks. Broadly speaking, credit
accommodation obtained from the Federal reserve bank may be used consistently with the purposes of the Act for production, distribution, and marketing operations, in brief, for the requirements of industry, agriculture, and trade; and the Federal Reserve Board believes that Federal reserve credit used for investments in so-called speculative security loans, or in support of the market for securities of that character, is not, in the main, being used for proper purposes. 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 its borrowing is occasioned by reason of accommodations granted to customers or others for the purpose of carrying stocks, bonds, or other securities.

In the opinion of the Federal Reserve Board, whenever there is evidence that member banks are maintaining a substantial volume of so-called speculative security loans with the aid of Federal reserve credit, the Federal reserve bank then becomes either a contributing or a sustaining factor in the existing volume of security loans, which 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 credit accommodation, the proper course for them to pursue is to reduce their call loans and thus put themselves in a position to take care of the requirements of their commercial borrowers without applying to the Federal reserve Bank for credit, except possibly for two or three days while their call loans are being liquidated.

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.

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 method 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 has 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.

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."

A detailed discussion ensued during which, at the suggestion of individual members of the Board, the letter submitted by Mr. Miller on
January 21st was amended so as to read 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, beyond what may develop as inevitable.

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

(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. This is not, in the judgment of the Federal Reserve Board, in harmony with the intent of the Federal Reserve Act or conducive to the wholesome operation of the banking system of the country.
"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.

The Board has undertaken to give a candid expression of its point of view and attitude. It would greatly appreciate a similarly candid expression of the attitude of your board of directors. Further, it would like an expression of the views of your directors on (a) how they keep themselves fully informed as to the use made of borrowings 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) how effective their policy has been.

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 administrative difficulties. It views the matter primarily as one of good operating practice. 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, but is, however, firm in the opinion that a more effective control is needed if the Federal Reserve System is to function satisfactorily 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.

It is also requested that you treat this letter as a confidential document, intended for the directors of your bank only, and your reply will be treated so by the Board.

The primary purpose of this letter is to undertake to establish a common viewpoint between the boards of directors of the Federal reserve banks and the Federal Reserve Board."

At the conclusion of the discussion, Mr. Hamlin moved that the letter be further amended by the addition of the following paragraph:

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Federal Reserve Bank of St. Louis
"The Board does not intend, by this letter, to advocate any sudden, drastic liquidation of existing speculative loans. It simply is laying down a procedure primarily for the future, with the feeling, however, that a gradual conservative liquidation of present speculative loans may be brought about without injury, thus releasing Federal Reserve credit for normal purposes."

Mr. Hamlin's motion was put by the chair and lost, the members voting as follows:

- Governor Young, "no"
- Mr. Platt, "no"
- Mr. Cunningham, "no"
- Mr. Hamlin, "aye"
- Mr. Miller, "not voting"

The members of the Board did not object to the substance of the additional paragraph but expressed the belief that it is unnecessary, as the position of the Board is already made clear in the proposed letter quoted above.

Mr. Platt then moved that the letter, in the amended form quoted above, be approved with the understanding that corrected copies will be supplied to each member of the Board and that formal approval will be deferred until the meeting of the Board on Monday when a date for its transmittal will be fixed.

Mr. Platt's motion being put by the Chair was carried, Governor Young voting "no".

Mr. Hamlin stated that he rests his vote in the affirmative on the fact that the letter is not a ruling of law, but merely a declaration of good banking policy and does not advocate or suggest drastic liquidation.

Governor Young reserved the right to insert a statement in the record regarding his vote.

Mr. Miller then moved that in view of the confidential nature of the proposed letter, the Governor be requested to see to it that special pains are taken to maintain that character for it and that in the event of anything in the nature of a leak a thorough-going investigation be instituted to determine what changes in the procedure or organization of the Board should be made.

Carried.
Mr. Hamlin then submitted, for the information of the Board, a letter addressed to him under date of January 22nd by the Governor of the Federal Reserve Bank of Boston, quoting the following resolution adopted by the board of directors of that bank at a meeting on June 20, 1928:

"Resolved that in the judgment of this board of directors, the funds of the Federal Reserve Bank are primarily intended to be used in meeting the seasonal, temporary or unusual requirements of member banks and that continuous borrowing by a member bank as a general practice is inconsistent with the spirit and the intent of the Federal Reserve Act, and with the policy of this bank, and that the Governor be and he hereby is authorized and requested to bring the substance of this resolution to the attention of the officers of any member bank which shows a tendency toward making continuous use of reserve bank credit, with a view of having such continuous use terminated."

Noted.

REPORTS OF STANDING COMMITTEES:

Dated, January 22nd, Recommending action on application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.

Recommendation approved.

Dated, January 23rd, Recommending approval of the application of Mr. George F. Gunnell for permission to serve at the same time as director of the Ashland National Bank, Ashland, Ky., and as director and officer of the Kentucky National Bank, Catlettsburg, Ky.

Approved.

Dated, January 23rd, Recommending approval of the application of Mr. James W. Turner for permission to serve at the same time as director of the Ashland National Bank, Ashland, Ky., and as director and officer of the Paintsville National Bank, Paintsville, Ky.

Approved.

The meeting adjourned at 12:45 p. m.

Approved:

[Signature]

Secretary

[Signature]

Governor.