A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, January 29, 1929 at 11:45 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 January 25th, revised in accordance with corrections made at the meeting yesterday, were read and approved.

The minutes of the meeting of the Federal Reserve Board held on January 28th were then read and approved.

Letter dated January 24th from the Chairman of the Federal Reserve Bank of Dallas, advising of the establishment on January 23rd of the following schedule of rates for purchases of acceptances:

Bankers acceptances
1 to 30 days - 4 1/2 %
31 to 60 days - 5 1/2 %
61 to 90 days - 5 3/4 %
91 to 180 days - 5 %
Repurchase - 5 %
Trade acceptances - 5 %

Noted.

The Governor then presented a letter dated January 28th from the Chairman of the Federal Reserve Bank of New York, confirming telephone advice yesterday that the board of directors of the bank decided not to do anything, at present, along the lines of issuing a statement such as was referred to by Mr. McGarrah during his conference with the Board on January 25th.

Noted.
Letter dated January 28th from the Assistant Federal Reserve Agent at New York, advising of the merger of the Garfield National Bank of New York into the Chase National Bank, the merger of the State Bank and Trust Company, a nonmember bank in New York, into the Manufacturers Trust Company and the voluntary liquidation of the Little Neck National Bank, Little Neck, Queens County, N.Y., and its absorption as a branch by the Bank of Manhattan Company; all effective at the close of business January 26, 1929.

Noted.

Memorandum dated January 28th from Counsel, recommending that there be published in the Federal Reserve Bulletin an opinion by the Court of Civil Appeals of the State of Texas, upholding the negotiability of the standard form of trade acceptance now in use, containing the clause "The obligation of the acceptor arises out of the purchase of goods from the drawer."

Approved.

Memorandum from Counsel dated January 24th with reference to the action of the Board at its meeting on January 11th in voting, subject to an opinion as to its legality by Counsel, to approve an application of the First National Bank of Brookfield, Mo., for permission to act as transfer agent in such manner as to enable the bank to so act in connection with a particular issue of stock by one of its customers, The Consumers Public Service Company; Counsel stating there is no legal reason why the Board should not authorize a National bank to act as transfer agent, with the understanding that the power is to be exercised only in a particular case, provided competing state institutions are permitted to act as transfer agent, as they are in the State of Missouri. In his memorandum, Counsel pointed out that it has been the practice
of the Board, however, with one or two exceptions, not to grant permission to
exercise a fiduciary power in one specific case only, but to grant powers
generally to be exercised in any case.

After discussion, upon motion, it was voted to authorize the First National Bank of Brookfield, Mo., to act, when not in contravention of state or local law, as transfer agent, with the understanding that the bank is not to act in any case under this grant of permission except as transfer agent for the Consumers Public Service Company in the particular issue of stock referred to in a letter addressed by the bank to the Federal Reserve Bank of St. Louis under date of October 1, 1928.

The Governor then stated that Mr. Miller expects to leave Washington on
February 5th or 6th for an absence of about ten days, while Mr. James is
leaving on February 8th for a more extended absence. He therefore brought
up for consideration the memorandum presented by Mr. Cunningham at the meet-
ing of the Board on January 18th, on the subject of qualifications and compens-
ation of employees of the Federal Reserve Board, submitting the following resolution:

"BE IT RESOLVED BY THE FEDERAL RESERVE BOARD that the Governor is hereby authorized to appoint a committee consisting of the Governor as Chairman, and two other members of the Board, who are directed to make a study of the employment situation under the Board in order to determine the efficiency of the service being rendered, and whether, considering the present cost of living, any adjustments in the compensation paid individual employees, should be made.

BE IT FURTHER RESOLVED that the committee is hereby requested to make a full report of their findings, together with any recommendations which they deem advisable, to the Federal Reserve Board, not later than June 1st, 1929."

After discussion, upon motion, the resolution was adopted.

The Governor designated Messrs. James and Cunningham to serve with him on the Committee referred to.
The Governor then referred to the practice of the Board for the last three years of requesting the Federal Reserve banks to furnish the Board with a statement listing all member banks borrowing continuously during the year, and suggested that the request be amended so as to include also member banks that are frequent, even though not continuous, borrowers.

After discussion, the Governor was requested to prepare and submit to the Board at its meeting tomorrow a letter to the Chairmen of all Federal Reserve banks along lines suggested during the discussion, requesting the additional information.

The Governor then advised the Board of two bills introduced in the Senate by Senator Glass, one of which would increase the reserve requirements of member banks on time deposits to 5% and the other, provides for the payment of an additional dividend by Federal Reserve banks, when earned, of 2%. He stated that the views of the Board on these bills will probably be requested in due course.

Mr. Miller then read to the Board a further revision of the proposed letter to all Federal Reserve banks, tentatively approved at the meeting of the Board on January 24th, on the subject of the proper use of the credit facilities of the Federal Reserve System, as follows:

"The firming tendencies of the money market which have been in evidence since the beginning of the year - contrary to the usual trend of money rates at this season - make it incumbent upon the Federal reserve banks to give constant and close 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 during 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 the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal Reserve Act.

The Federal Reserve Board has on different occasions, notably in its Annual Reports, stated its position with regard to the use of the rediscount privilege by member banks for purposes that come within the intent of the Federal Reserve Act and, therefore, are to be regarded as proper.

Broadly speaking, borrowing by a member bank from its Federal reserve bank is proper when the credit accommodation sought and obtained is for productive and distributive operations - in agriculture, industry or trade.

The Federal Reserve Act does not, however, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

The Federal Reserve Board has no disposition to assume authority to interfere with the loan practices 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 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 current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country.

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 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. It is, however, of the opinion that, taking the Federal reserve banks as a whole, the problem has not yet been completely met and that the situation admits of improvement. It is also of the opinion that methods of handling the problem 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 discussion, Mr. Cunningham moved that the above letter be approved as a substitute for that tentatively approved at the meeting on January 24th.

Mr. Hamlin then moved, as a substitute, that the revised letter quoted above be made special order of business for a meeting tomorrow and that a copy thereof be furnished to each member of the Board.

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

The Governor then reported that during a telephone conversation yesterday with the Governor of the Federal Reserve Bank of New York, it was suggested that members of the Board, if they think it advisable, come to New York for the purpose of sitting in with the directors of the New York bank at their meeting on Thursday.

The Governor stated that he thought it advisable to go.

Mr. Platt also intimated that he would attend the meeting.

REPORTS OF STANDING COMMITTEES:

Dated, January 28th, Recommending changes in stock at Federal Reserve banks as set forth in the Auxiliary Minute Book of this date. Recommendations approved.

Dated, January 26th, Recommending approval of the application of Mr. Nelson Morris for permission to act at the same time as director of the West Side Trust & Savings Bank, Chicago, Ill., as director of the National Stock Yards National Bank, National City, Ill., and as director of the Drovers National Bank in Kansas City, Mo. Approved.

The meeting adjourned at 1:00 p.m.

Approved: [Signature]

Secretary.

Governor.