

A meeting of the Federal Reserve Board was held in the Office of the Federal Reserve Board on Saturday February 2, 1929, at 11:35 a. m.

PRESENT: Governor Young  
Mr. Platt  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Cunningham  
Mr. Noell, Assistant Secretary  
Mr. McClelland, Assistant Secretary

The minutes of the meetings of the Federal Reserve Board held on January 29th and 30th were read and approved.

The Governor stated that special order of business for this meeting would be that fixed for consideration yesterday, namely, the proposed letter to the chairmen of 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.

Before consideration of this special order, however, he stated that he wished to acquaint the Board with certain facts learned by him during his visit to New York.

He stated that he had several conversations with Governor Norman of the Bank of England, but inasmuch as Governor Norman will be in Washington next Wednesday, he would prefer to let him advise the Board personally of the situation at the Bank of England.

He reported a conversation with Governor Harding of the Federal Reserve Bank of Boston, during which he was advised that member banks in the first district are owing the Federal Reserve Bank of Boston in the neighborhood of \$80,000,000, and the liquidation usual at this time of the year is not taking place. Governor Harding stated that an investigation develops that the member banks in the first district, while not borrowing in any particular case in a great amount, are simultaneously making speculative loans for their customers. In view of these facts, Governor Harding stated that he would recommend to his directors that the discount rate of the Boston Bank be increased to 6 per cent.

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The Governor stated that at the meeting of the directors of the Federal Reserve Bank of New York on Thursday, there was not much discussion with respect to the discount rate. He stated, however, that in conversation with Mr. Harrison and Mr. McGarrah, although Governor Harrison encouraged the idea of another Federal Reserve Bank increasing its rate, both he and Mr. McGarrah stated that the directors of the New York Bank do not want to raise their rate except as a last resort.

The Governor then reported that, although the Open Market Investment Committee has been unable to sell any government securities for some time, the market is somewhat improved, and the Committee may propose some sales from the System portfolio in the near future, although the sales would, of necessity, be in small amounts.

He also stated that at the meeting of the New York directors a statement relative to the volume of brokers' loans was presented and unanimously approved by the directors for inclusion in the bank's monthly review.

Mr. Miller then submitted a further and final revision of the proposed letter to the chairmen of all Federal reserve banks, reading 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 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 Act does not, in the opinion of the Federal Reserve Board, 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.



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"The 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 this situation and the problem confronting the administration of Federal Reserve Banks. The Board would like to have from them an expression as to (a) how they keep themselves fully informed of the use made of borrowings by their member banks, (b) what methods they employ to protect their institution against the improper use of its credit facilities by member banks, and (c) how effective these methods have been.

The Board realizes that the problem of protecting the credit situation from strain because of excessive absorption of credit in speculative security loans is attended with difficulties. It also realizes that there are elements in the situation which are not readily amenable to recognized methods of banking control. The Board nevertheless believes that, however difficult, the problem can be more completely met and that the existing situation admits of improvement.

The Federal Reserve Board awaits 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."

Mr. Cunningham moved that the above letter be accepted as a substitute for all drafts heretofore considered by the Board and approved for transmittal.

Mr. Hamlin moved that the above letter be amended by adding at the end of the next to last paragraph thereof the words, "without resort to drastic methods."

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

- Mr. Hamlin "aye"
- Mr. Cunningham "aye"
- Governor Young "no"
- Mr. Platt "no"
- Mr. Miller "no"
- Mr. James "no"

Mr. Platt stated that he voted "no" as he feels that the proposed addition is unnecessary, the matter being sufficiently covered in the letter as quoted above.

Mr. Cunningham's motion was then put by the chair and carried, Governor Young voting "no".

Mr. Hamlin stated that he voted "aye" because of 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.

A discussion then ensued with respect to the possible publication of the letter, either in the Federal Reserve Bulletin or as a press statement. During the discussion it was voted to rescind the resolution adopted at the meeting on January 24th, that the letter be treated as a confidential document, and the Secretary was authorized to handle and transmit the letter in the usual manner.

The Governor then referred to the possibility of the Open Market Investment Committee proposing sales of government securities in the near future and stated that, if there is no objection, he would advise the Committee that the Board sees no reason why such sales should not be made in small amounts.

No objection was expressed.

The Secretary then presented the matter approved on initials on January 31st, namely, application for surrender of 720 shares of stock in the Federal Reserve Bank of San Francisco, standing in the name of the Exchange National Bank, Spokane, Washington, which has been placed in the hands of a receiver.

Formally approved.

Letter dated January 30th, from the Chairman of the Federal Reserve Bank of Dallas, advising of the establishment on January 26th, of the following schedule of rates for purchases of bankers' acceptances:

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1 to 30 days	-	4 1/2%
31 to 45 days	-	4 5/8%
46 to 60 days	-	4 3/4%
61 to 90 days	-	4 7/8%
91 to 120 days	-	5%
121 to 180 days	-	5 1/8%
Repurchase	-	5%

Noted

REPORTS OF STANDING COMMITTEES:

- Dated, January 30th, 31st, February 1st, 2nd  
 Recommending changes in stock at Federal Reserve banks as set forth in the Auxiliary Minute Book of this date. Recommendations approved.
- Dated, January 31st,  
 Recommending action on applications for fiduciary powers as set forth in the Auxiliary Minute Book of this date. Recommendations approved.
- Dated, January 29th,  
 Recommending approval of the application of Mr. James T. Sweeney, for permission to serve at the same time as director of the Abington National Bank, Clarks Summit, Pa., and as director of the Dime Bank-Lincoln Trust Company, Scranton, Pa. Approved.
- Dated, January 29th,  
 Recommending approval of the application of Mr. Chauncey H. McKellips, for permission to serve at the same time as director of the First National Bank of Arizona, Phoenix, Arizona and as director of the South Pasadena National Bank, South Pasadena, California. Approved.
- Dated, January 29th,  
 Recommending approval of the application of Mr. F. W. Shelton, for permission to serve at the same time as director and officer of the Pacific National Bank of Los Angeles, California, as director of the Florence National Bank, Florence, California, and as director of the National Bank of Hermosa Beach, Hermosa Beach, California. Approved.
- Dated, January 31st,  
 Recommending approval of the application of Mr. August E. C. Becker, for permission to serve at the same time as director of The Tri State Loan and Trust Co., Fort Wayne, Indiana, as director of the Peoples Trust and Savings Company, Fort Wayne, Indiana and as director of The Old National Bank of Fort Wayne, Ind. Approved.
- Dated, January 31st,  
 Recommending approval of the application of Mr. Paul C. Cabot, for permission to serve at the same time as director and officer of Lee, Higginson Trust Company, Boston, Mass., as director of the National Shawmut Bank of Boston, Mass., and as director of the Needham National Bank, Needham, Mass. Approved.



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REPORTS OF STANDING COMMITTEES: (Continued)

Dated, February 1st,      Recommending approval of the application of Mr. Percy H. Johnson, for permission to serve at the same time as officer and director of the Chemical National Bank of New York, N. Y., as director of the Montclair Trust Company, Montclair, N. J., and as director of the Fidelity Union Trust Co., Newark, N. J.

Approved.

The meeting adjourned at 12:45 p. m.

*C. W. McCalland*

Assistant Secretary

Approved:

*Raymond*

Governor