

A meeting of the Federal Reserve Board was held in the Office of the Federal Reserve Board on Friday, February 8, 1929, at 11:15 a. m.

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

The minutes of the meetings of the Federal Reserve Board held on February 2, 4, 5 and 7, were read and approved.

The Governor presented a telegram received after the close of business last night from the Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"Answering your telegram our Board of Directors still in session requests me to say that text of our first telegram is partly in reply to your letter of February 2nd and increase in rate to five per cent was largely brought about by consideration of your letter. Replying to your second inquiry as to whether use of reserve credit in brokers loans cannot be controlled without increase in rate we have as yet applied no administrative measures but believe increase in rate will be helpful. Do you suggest any specific administrative measures without increase in rate. Board will continue in session until ten o'clock tonight. Please arrange to keep wire open if further communication is necessary."

The Governor stated that a reply was made to the Dallas bank that it would not be possible to get the Board together and that the matter would have to go over until this morning.

Discussion then ensued with respect to the action of the Board of Directors of the Dallas bank in voting to establish a rediscount rate of five per cent on all classes of paper of all maturities, effective the first business day following that on which approved by the Board, and the question whether, as a matter of policy, the increased rate should be approved by the Board in the light of the position taken in its letter to the boards of directors of all Federal reserve banks, under date of

February 2nd, and its public statement in the morning papers of February 7th.

Mr. Platt moved that the rate of five per cent established by the directors of the Federal Reserve Bank of Dallas on all classes of paper of all maturities be approved, effective tomorrow February 9th.

Mr. Hamlin moved, as a substitute, that the matter be laid on the table, at least until specific answers are received from the Federal Reserve Bank of Dallas to the questions asked in the Board's letter of February 2nd.

After further discussion, Mr. Hamlin's substitute motion was put by the chair and carried, Mr. Platt voting "no".

During the discussion of the above matter, the Governor presented and the Secretary read a letter dated February 5th from the Governor of the Federal Reserve Bank of Dallas on the subject of credit conditions in the eleventh district; together with a detailed memorandum on the subject which Governor Talley had prepared for submission to the board of directors of his bank at its meeting yesterday. The memorandum pointed out, in more detail, the tendency of member banks in the eleventh district, referred to in Chairman Walsh's telegram of yesterday, to borrow at the Federal reserve bank while maintaining loans on call. Governor Talley called attention in the memorandum to the fact that the liquidation usual at the first of the year has not taken place and that the average outstanding loans of the Dallas bank, which for the greater part are made to a small number of member banks, for January 1929 were \$20,575,000, as compared with \$4,271,000 for January 1928, and \$5,395,000 for January 1927.

Mr. Hamlin moved that the Board advise Governor Talley that the situation which he describes exists elsewhere, and suggest that he ask Governor Harding to advise him how he is trying to handle the matter in the first district and also whether he can be furnished with a copy of the letter to certain member banks in the first district which Governor Harding sent to the Board.

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

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

A further discussion then ensued during which it was suggested that it might be advisable to hold a conference of all Governors of the Federal reserve banks here next week for the purpose of discussing the situation in the various districts, and the methods being employed by the various Federal reserve banks in an effort to control the abuse of their credit facilities by member banks.

It was the consensus of opinion that such a procedure would be inadvisable and that the Board should await replies from the boards of directors of the Federal reserve banks to the inquiries made in its letter of February 2nd.

Mr. Hamlin suggested that the Board request Governor Harding's permission to furnish all Federal reserve banks with a copy of his letter to member banks in the first district.

He moved reconsideration of the motion previously made by him.

Carried.

He then moved that, if Governor Harding has no objection, the Board send a copy of his letter to all Federal reserve banks.

No action on this motion was taken as Mr. Hamlin requested that it be laid on the table for further consideration.

Mr. Cunningham then referred to the motion made by him at the meeting of the Board on January 19th, regarding an amendment to Section 4 of the Federal Reserve Act, and submitted the following resolution with the request that copies thereof be furnished to each member of the Board before action is taken thereon.

Mr. James stated that, should the matter come up for consideration during his absence, he wished to be recorded as endorsing the resolution.

"BE IT RESOLVED, That, the Federal Reserve Board recommend to Congress enactment of the following Bill as an amendment to Section 13 of the Federal Reserve Act:

A BILL

To amend Section 13 of the Federal Reserve Act and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Section 13 of the Federal Reserve Act, as amended, (Section 343, Title 12, United States Code) be further amended by inserting therein, immediately after the second paragraph thereof, a new paragraph reading as follows:

'Except with the permission of the Federal Reserve Board, granted upon the affirmative vote of not less than five members of said Board, no member bank shall be permitted to borrow from, or rediscount with, any Federal reserve bank while such member bank has loans outstanding to, or holds the notes, drafts or bills of exchange of, any person, firm, partnership, corporation or association, or the agent or representative of any person, firm, partnership, corporation or association, whose principal business it is to deal in, or to negotiate purchases or sales of, stocks, bonds, or other investment securities (except bonds and notes of the Government of the United States), either for itself or for the account of others; Provided, however, That notwithstanding the provisions of this paragraph, a member bank may, subject to such rules, regulations, limitations, restrictions, and conditions as may be prescribed by the Federal Reserve Board, borrow from, or rediscount with, a Federal Reserve Bank for temporary periods in emergencies, in order to restore its lawful reserve when such reserve has been depleted through extraordinary circumstances.'

Mr. Platt, Chairman of the Committee on Examinations, then submitted an application of the Peoples Savings and Trust Company of Pittsburgh, Penn., for membership in the Federal reserve system and for 7,800 shares of stock in the Federal Reserve Bank of Cleveland. He referred to a letter dated January 28th from the Chairman of the Cleveland Bank, transmitting copy of a letter from the President of the applicant bank, calling attention to the past policy of the institution with respect to acquiring stock, even to the extent of control, in other banks in Pittsburgh and the immediate vicinity, and inquiring whether membership can be granted without the im-

2/8/29

-5-

sition of the condition of membership now being imposed by the Board under Regulation H, Series of 1928, that "Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust company shall not acquire an interest in any other bank or trust company through the purchase of stock in such other bank or trust company."

Mr. Platt recommended either that the condition of membership in question be waived or, if imposed, that the applicant bank be advised that the condition is not to be interpreted as an effort to prohibit the purchase of stock in another bank, even to the extent of acquiring control, in all circumstances.

Several members of the Board expressed objection to any waiver of the condition, and the Governor requested Mr. Platt to prepare and submit to the Board this afternoon a proposed letter to the applicant bank, setting forth his ideas as to the proper interpretation of the condition.

Mr. James then referred to the fact that the Board has not yet acted upon the 1929 salaries fixed by the directors of the Federal Reserve Bank of New York for Mr. W. W. Schneckenburger, Managing Director of the Buffalo Branch, and Mr. Carl Snyder, Statistician, on which action was deferred at the meeting on January 11th. He stated that the salary proposed for Mr. Schneckenburger would put the position of Managing Director at the Buffalo Branch out of line with other branches and that he could not justify approval of the proposed salary.

Mr. James moved that the salary of \$18,000 per annum recommended for Mr. Schneckenburger be disapproved and that the directors of the Federal Reserve Bank of New York be advised that the Board will approve for Mr. Schneckenburger for the year 1929, the same salary paid him during the year 1928, namely, \$15,000.

Mr. James' motion, being put by the chair, was carried, Mr. Platt voting "no."

2/8/29

-6-

Mr. Hamlin then moved that the salary of \$12,000 per annum recommended by the New York directors for Mr. Carl Snyder, Statistician, be approved.

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

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

Mr. Cunningham moved that the directors of the New York Bank be advised that the Board will approve for Mr. Snyder for the year 1929, the same salary paid him during 1928, namely \$11,000.

Mr. Cunningham's motion, being put by the chair, was carried, Mr. James voting "no".

At 2:00 p. m. the meeting recessed and reconvened at 3:30 p. m., the same members being present as attended the morning session with the exception of Messrs. James and Pole.

Letter dated February 7th from the Secretary of the Federal Reserve Bank of New York; telegram dated February 6th from the Chairman of the Federal Reserve Bank of Philadelphia; telegram dated February 8th from the Secretary of the Federal Reserve Bank of Cleveland; telegram dated February 8th from the Secretary of the Federal Reserve Bank of Atlanta; telegram dated February 6th from the Deputy Chairman of the Federal Reserve Bank of St. Louis and telegram dated February 7th from the Chairman of the Federal Reserve Bank of San Francisco, all advising that their boards of directors, at meetings on the dates stated, made no changes in the banks' existing schedules of rates of discount and purchase.

Noted.

Reports of Committee on Salaries and Expenditures on lists submitted

2/8/29

-7-

135

by the Federal Reserve Banks of St. Louis and Dallas of employees for whom the directors of those banks approved leaves of absence with pay, on account of illness, during the month of January in excess of thirty days; the Board's Committee recommending approval of the salary payments involved.

Approved.

Report of Executive Committee on memorandum dated February 2nd from the Acting Comptroller of the Currency, recommending approval of an application of the First National Bank of Davis, Oklahoma, for permission to reduce its capital from \$50,000 to \$30,000, on condition that no money be returned to the shareholders, but that the amount of the reduction be used to remove \$20,000 of objectionable assets listed in the memorandum, which are to be trusteeed for the benefit of shareholders on the date of the reduction; the Board's Committee recommending approval subject to the conditions suggested by the Acting Comptroller.

Approved.

Memorandum from Counsel dated February 5th submitting application of the National City Bank of New York for permission to establish a branch in Mexico City, Republic of Mexico; Counsel stating that the application is in proper form and that he knows of no legal reason why it should not be granted. The Secretary also submitted a memorandum from the Comptroller of the Currency advising that he knows of no reason why the Board should not grant the application, if it wishes to do so.

Upon motion, the following was adopted and ordered spread upon the minutes, Mr. Cunningham voting "no".

"THE NATIONAL CITY BANK OF NEW YORK, having on or about February 2, 1929, filed an application with this Board for the purpose of obtaining authority to establish a Branch in MEXICO CITY, REPUBLIC OF MEXICO, and the said Application having been considered; and it appearing that the

2/8/29

-8-

136

"said Application is properly made under the laws of the United States of America and should be granted, NOW, THEREFORE, IT IS ORDERED, that the said Application be and it hereby is approved, and that the said Bank be and it hereby is authorized to establish a Branch in MEXICO CITY, REPUBLIC OF MEXICO."

Memorandum dated February 6th from the Chief of the Division of Bank Operations, submitting statements of expenditures by the Federal reserve banks for educational and welfare work, etc., during the month of December and during the year 1928.

Ordered circulated.

Memorandum dated February 5th from the Secretary's Office, advising that the weekly bulletin of the New York State Banking Department dated February 1, 1929, announced that the Equitable Trust Company of New York, a member bank, has been authorized to establish an additional branch office in the City of Paris, France.

Referred to Counsel.

Matter approved on initials on February 6th, namely, telegram dated February 6th from the Assistant Federal Reserve Agent at St. Louis, suggesting March 14th as the date for opening the polls in a special election of a Class B director to succeed Mr. Rolla Wells, recently appointed Class C director, Chairman and Federal Reserve Agent.

Formally approved.

Letter dated January 29th from the Chairman of the Federal Reserve Bank of San Francisco, advising of the resignation of Mr. C. E. McBroom, one of the bank's appointees to the directorate of the Spokane Branch.

Noted.

Memorandum from Counsel dated February 4th, submitting draft of reply to letter dated January 19th from the Mississippi Valley Trust Co.,

2/8/29

-9-

St. Louis, Missouri, inquiring whether sight and demand drafts, documentary drafts, bonds and coupons forwarded for collection may be included among amounts due from banks, and, accordingly, deducted from amounts due to banks in computing reserves; the proposed reply, prepared in accordance with previous rulings of the Board, advising that such items may not be included as balances due from banks, except in case of an agreement by the correspondent bank to give immediate credit.

Upon motion, the letter submitted by Counsel was approved.

Memorandum from Counsel dated February 1st submitting draft of letter to Mr. James F. Toy advising that service by him as a member of the Advisory Board of the Toy National Bank, Sioux City, Iowa, as outlined in a letter addressed to the Board under date of January 23rd, does not come within the prohibitions of the Clayton Act.

Upon motion, the proposed letter was approved.

Memorandum from Counsel dated February 6th, submitting draft of letter to the Vice President of the Continental National Bank and Trust Company, Chicago, Illinois, ruling that pecans in the shell are not to be regarded as readily marketable staples and that bankers' acceptances secured by warehouse receipts conveying or securing title covering such pecans do not comply with the provisions of Section 13 of the Federal Reserve Act, and the Board's regulations pursuant thereto, as to eligibility for rediscount with Federal Reserve Banks; the letter stating that, from information received by the Board, it appears clearly that pecans in the shell are not the subject of constant dealings in ready markets nor easy to realize upon by sale at any time, as required by the Board's definition of a readily marketable staple.

2/8/29

-10-

138

Upon motion, the ruling contained in the above letter was adopted and the letter approved.

Memorandum from Counsel dated February 5th submitting draft of letter to the Attorney General of the United States, transmitting report received from the Assistant Federal Reserve Agent at Philadelphia of an apparent violation of the Act of May 24, 1926, by certain advertisements of the United Strength Bank and Trust Company of Philadelphia, Pennsylvania; together with a letter to the Assistant Federal Reserve Agent at Philadelphia, requesting that he report the matter to the local United States Attorney.

Upon motion, the letters submitted by Counsel were approved.

Memorandum from Counsel dated February 7th, with reference to charter granted by the Banking Commissioner of the State of Maryland for an institution in Baltimore to be known as the "United States Trust Company of Maryland"; Counsel stating that the Attorney for the proposed institution called upon him and advised that their attention had not been called to the Act of May 24, 1926, that application would be made immediately for a change of title and that the words "United States" would be eliminated from the title before the bank opens for business. In his memorandum, Counsel stated that, in the circumstances, he believes it unnecessary to report the matter to the Department of Justice as it is only a technical violation of law, committed unwittingly.

Noted.

Memorandum from Counsel dated January 22nd submitting, in accordance with the motion by Mr. Cunningham adopted at the meeting on January 19th, draft of a bill to amend Section 4 of the Federal Reserve Act so as to provide that:

"Except with the permission of the Federal Reserve Board, granted upon the affirmative vote of not less than five members of said Board, no member bank shall be permitted to borrow from, or rediscount with, any Federal reserve bank, for a period exceeding three days within any consecutive thirty days, while such member bank has loans outstanding to, or holds the notes, drafts or bills of exchange of, any person, firm, partnership, corporation or association, or the agent or representative of any person, firm, partnership, corporation or association, whose principal business it is to deal in, or to negotiate purchases or sales of, stocks, bonds, or other investment securities, either for itself or for the account of others."

In view of the resolution submitted by him at the morning session to amend Section 13 of the Act, Mr. Cunningham moved that the above matter be laid on the table.

Carried.

Mr. Platt then referred to the consideration at the morning session of the application for membership in the Federal reserve system and for 7,800 shares of stock in the Federal Reserve Bank of Cleveland by the Peoples Savings and Trust Company, Pittsburgh, Pennsylvania.

He moved that the application be approved subject to the regular conditions of membership, but that the following additional paragraph be inserted in the Board's usual form of advice:

"Condition No. 3 above (referred to in Mr. Robinson's letter of January 25th to Mr. DeCamp) is not to be interpreted as an effort to prohibit the purchase of stock in another bank, even to the extent of acquiring control, in all circumstances. The Board considers each request on its merits, and in case of a request for further purchases by your bank, would doubtless take into account the fact that your bank has carried out this policy successfully for a number of years, to the apparent advantage, as Mr. DeCamp informs us, of the outlying banks, whose stock you hold, as well as to the advantage of your own bank. The Board does not believe that Mr. Robinson is warranted in his belief that the requirement of permission before purchasing stock would necessarily operate to prevent the acquisition of any further banks or bank stock."

Mr. Cunningham moved as a substitute that the application be approved subject to the regular conditions of membership as set out in the Board's Regulation H.

A detailed discussion then ensued with respect to the proper interpretation of the condition of membership being imposed under Regulation H, Series of 1928, that - "Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust Company shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company."

Mr. Vest, the Board's Assistant Counsel, was called into the meeting and stated that, in his opinion, the mere fact that the condition of membership was included in Regulation H indicates doubt on the part of the Board as to the advisability of member banks acquiring stock in other banks.

It was pointed out that at the time Regulation H, Series of 1928, was adopted, the Board was considering the question of chain banking within the Federal reserve system and the condition in question was formulated as a means of control over that development.

Question was raised as to the legality of the condition - whether it is one "pursuant to" the Federal Reserve Act. Attention was called to a statement contained in a letter addressed under date of May 18, 1927 to the Chairman of the Committee on Banking and Currency of the House of Representatives, that the Board appears to be without authority to impose such a condition, as Section 9, as amended by the McFadden Act, provides that the Board may permit state banks to become members of the Federal Reserve System, subject to the provisions of the Federal Reserve Act "and such conditions as it may prescribe pursuant thereto."

In this letter to Congressman McFadden it was stated that, as there is no provision in the Federal Reserve Act which seems expressly or by necessary implication to authorize the imposition of a condition of membership designed to control or prohibit chain banking among state member banks, the Federal Reserve Board would be unable, in the future, to prescribe such a condition.

At the conclusion of the discussion, action was deferred on the motions before the Board regarding the application of the Peoples Savings and Trust Company of Pittsburgh, and Mr. Vest was requested to study and report to the Board on the question of the legality of the condition of membership, which the applicant bank requests the Board to waive.

2/8/29

REPORTS OF STANDING COMMITTEES:

- 5th
Dated, February 6th, Recommending changes in stock at Federal Reserve Banks, as set forth in the Auxiliary Minute Book of this date.
7th, Recommendations approved.
- 8th,
Dated, February 4th, Recommending action on an application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.
Recommendation approved.
- Dated, February 4th, Recommending approval of the application of Mr. S. J. T. Straus, for permission to serve at the same time as director of the Straus National Bank and Trust Co., New York, N. Y., as director and officer of the Straus National Bank and Trust Company, Chicago, Ill., and as director and officer of the Franklin Trust and Savings Bank, Chicago, Ill.
Approved
- Dated, February 5th, Recommending approval of the application of Mr. Paul Shoup, for permission to serve at the same time as director of the Anglo-California Trust Co., San Francisco, as director of the Anglo & London Paris National Bank, San Francisco, Cal., and as director of the First National Bank, Los Altos, California.
Approved.
- Dated, February 7th, Recommending approval of the application of Mr. W. B. Young, for permission to serve at the same time as director of the Commerce Union Bank, Nashville, Tenn., and as director of the First National Bank, Sparta, Tenn.
Approved.

The meeting adjourned at 5:00 p. m.

C. M. Mc Clelland
Assistant Secretary

Approved:

W. B. Young
Governor.