

A meeting of the Executive Committee of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, August 18, 1931, at 10:45 a. m.

PRESENT: Governor Meyer
Mr. Hamlin
Mr. Miller
Mr. James
Mr. McClelland, Assistant Secretary.

ALSO PRESENT: Mr. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. L. R. Rounds, Deputy Governor of the Federal Reserve Bank of New York
Mr. Winfield Riefler, Secretary, System Committee on Member Bank Reserves
Mr. Parry, Assistant Director of the Division of Research and Statistics.

Mr. Smead, Chairman of the Committee on Member Bank Reserves, stated that the Committee at the beginning of its study on reserves, had carefully considered the scope of the study and felt that, while it would be desirable to have information available on various matters with which the question of member bank reserves is associated, if the Committee were to make a seasonable report, it would be necessary to confine its activities to the study of member bank reserves only. He stated that consideration was given in the study to the theory and purpose of reserves and to the question of the adequacy of reserves under the present methods of computation, and that it was felt by the Committee that the volume of reserves now carried by member banks is adequate and that it was not necessary or desirable that a new plan for the computing of reserves should provide for any increase in the aggregate amount. Mr. Smead presented tentative drafts of a proposed amendment to Section 19 of the Federal Reserve Act and of a proposed regulation covering member bank reserves which has been agreed to by the Committee. He then outlined to the Board the salient features of the plan for calculating member bank reserves, provided for in the proposed

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amendment and regulation, and stated that in deciding on this plan the Committee considered three major problems: (1) whether the calculations should be based on net or gross deposits, (2) whether the reserves should be entirely in the form of balances with the Federal Reserve banks, or partly in the form of such balances and partly in the form of cash in vault, and (3), what classifications, if any, should be made of the deposits of member banks. He stated that on the first point the Committee decided that it would work an unjustifiable hardship on certain banks if required reserves were based on gross deposits, which include in some cases a large amount of uncollected items. As to the second question, he said the Committee had reached the conclusion that in view of the necessity of country banks carrying a larger amount of vault cash than is necessary in the case of member banks in Federal Reserve and branch cities, it would be a more satisfactory arrangement to permit reserves to consist in part of cash in vault, with a proviso that city banks carry at least 80% of their reserves in the form of balances at the Reserve bank, and country banks at least 40%. On the third question, Mr. Smead stated, it was felt that the present difficulty which is being experienced in connection with the classification of time and demand deposits could be avoided, and the reserves of member banks could be made to work automatically in the direction of credit control, if no classification of deposits were made but the member banks were required to carry a flat reserve of 5% on all net deposits, plus a reserve of 50% of the average daily debits to deposit accounts during the eight-weeks period preceding the beginning of the current reserve computation period, with a maximum required reserve of 13% of gross deposits. The proposed plan was then discussed, consideration being given to the reasons for the changes suggested and the possible effects of the plan. Mr. Smead also outlined to the Board an

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alternate plan which had been considered by the Committee. He then stated that it is now planned to have representatives of the Committee on Member Bank Reserves visit the various Federal Reserve banks and discuss the proposed plan with the officers of the Federal Reserve banks, and to submit the Committee's final report to the Board and the banks by October 15th. He requested, on behalf of the Committee, that authority be given to visit the Federal Reserve banks as proposed.

After some further discussion, upon motion, it was voted to authorize visits to the various Federal Reserve banks by members of the Committee on Reserves to secure the reaction of the banks to the proposed plan.

Messrs. Smead, Goldenweiser, Rounds, Riefler and Parry then left the meeting.

The Assistant Secretary presented the following matters which were considered and acted upon by the Committee:

Memorandum from Counsel dated August 17th, submitting draft of a reply to a letter dated July 21, 1931 from the Federal Reserve Agent at San Francisco, inquiring whether the Board has granted permission to Mr. I. W. Hellman to serve as a director of the Farmers and Merchants National Bank of Los Angeles, Calif., and as an officer and director of the Wells Fargo Bank & Union Trust Company of San Francisco, Calif.; the proposed reply advising that, for reasons stated, an application filed by Mr. Hellman in 1923 was not considered by the Board and Mr. Hellman is, therefore, serving the two banks without the Board's permission and that he should be requested to file an application for permission to serve the two banks involved.

After discussion, upon motion, the proposed letter was approved.

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Letter dated August 12th from the Assistant Federal Reserve Agent at Philadelphia, submitting an application for permission to exercise full fiduciary powers, filed by the Hatboro National Bank, Hatboro, Penna., which plans to acquire certain assets and assume the deposit liabilities of the Hatboro Trust Company, an institution having approximately \$700,000 of trust assets which the national bank would like to qualify to handle. In this connection, the Assistant Secretary called attention to the action taken at the meeting of the Executive Committee on July 17th in advising the Federal Reserve Agent at Philadelphia that, in view of information submitted by him at the time as to the condition of the bank, the Committee was of the opinion that under the circumstances the Hatboro National Bank would be justified in filing an application for trust powers.

After some discussion as to the condition of the applicant bank, upon recommendation of Mr. James and Mr. Hamlin, it was voted to authorize the bank to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which state banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of Pennsylvania, only in specific trusts held by the Hatboro Trust Company, which may hereafter be acquired by the Hatboro National Bank, and to defer action on the application for full trust powers pending the next examination of the bank.

Telegrams dated August 14th from the Secretary of the Federal Reserve Bank of Atlanta, and the Chairman of the Federal Reserve Bank of Chicago, advising that at meetings of the board of directors at Atlanta and the executive committee at Chicago on that date, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

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Letter dated August 14th from the Secretary of the Federal Advisory Council, advising that the next meeting of the Council will be held in Washington on Tuesday, September 15th, and requesting a list of the topics which the Federal Reserve Board desires the Council to discuss at that meeting.

Referred to Executive Committee.

Memorandum dated August 13th from the Governor, advising that, upon request, he had returned the letter dated August 12th from the Acting Comptroller of the Currency on the subject of depreciation in investments of national banks, which was read at the meeting of the Board on that date, and had addressed the following letter to Mr. Awalt under date of August 13th:

"At the meeting of the Federal Reserve Board held on August 11, 1931, the matter of current bond depreciation in member banks was discussed, and the Board recorded its attitude in the minutes of the meeting as follows:

'It was the sense of the Board that while defaulted bonds could properly be written down to market values, the Comptroller of the Currency would be justified in adopting an attitude of forbearance in dealing with depreciation in the case of interest-paying bonds, it being the belief of the Board that in many instances bonds not in default have depreciated out of line with their probable present and future real values.'

"This expression of the sense of the Board I personally discussed at a meeting of the twelve Governors of the Federal Reserve Banks, which was taking place on August 11, and the Governors expressed themselves in harmony with the sense of the Board.

"I am submitting this for your consideration in connection with the formulation of policy under present unusual conditions."

Noted with approval.

Letter dated August 15th from the Federal Reserve Agent at Dallas, submitting copy of a letter received under date of August 11th from Professor R. B. Westerfield, requesting certain information with regard to the practice of the bank in requiring additional collateral in connection with paper discounted by the bank; the Federal Reserve Agent inquiring whether it will be agreeable to the Board to answer the questions contained in the letter. In

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this connection, the Assistant Secretary called attention to a letter received from Deputy Governor Rounds under date of August 17th, enclosing copy of a reply made by the New York bank to a similar inquiry from Professor Westerfield, commenting briefly on the practice of requiring additional collateral as a necessary part of the function of granting credit, and stating that it is not possible to answer categorically the several questions contained in the inquiry.

After discussion, upon motion, it was voted to submit a copy of the reply made by the Federal Reserve Bank of New York to the Federal Reserve Agent at Dallas.

Letter dated August 14th from the Federal Reserve Agent at Cleveland, advising that the Board's letter of July 16th, inquiring whether the present is an appropriate time to institute proceedings looking to forfeiture of membership in the System against a member bank which is in an unsatisfactory condition, was presented at the meeting of the board of directors of the Cleveland bank on August 7th in connection with the recommendations of their executive committee that the State Bank of Bowling Green, Ohio, and the Farmers Bank, McCutchenville, Ohio, be cited to show cause why their membership should not be forfeited; the Federal Reserve Agent advising that his board feels that all possible protection to depositors is a matter of greatest importance, that, in view of all the facts, the action of their executive committee is proper and its definite conclusion should be a matter of record with the Federal Reserve Board; that it further feels that the time as to when action may be most appropriately taken is a matter to be determined by the Federal Reserve Board, and that in this particular the board of directors defers to the judgment of the Federal Reserve Board.

After discussion, upon motion, it was voted to advise the Federal Reserve Agent that while the Board agrees that the recommendations of the executive

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committee of the bank are fundamentally correct, it also feels that the board of directors of the Cleveland bank is in a better position to determine, on the basis of the banking situation in that district, when action should be taken and the Board will, therefore, be guided by their recommendation in the matter.

Memorandum from Counsel dated August 10th with regard to letter dated June 9th from the Assistant Federal Reserve Agent at Chicago calling attention to the fact that trust companies in Indiana previously granted perpetual charters by the State, were on February 24, 1921, granted general banking powers, and that the Attorney General of Indiana has ruled that the charters of these trust companies will terminate at the end of twenty years from that date under a provision of the Indiana Constitution which provides that the charters of banks and banking companies shall be terminated within twenty years. With his memorandum Counsel submitted draft of letter to the Federal Reserve Agent at Chicago, advising that under the circumstances outlined, Indiana trust companies which are members of the Federal Reserve System should reorganize and make new applications for membership at the end of the twenty-year period; the letter also requesting that the Board be advised immediately of any decision with regard to this question which may hereafter be rendered by the courts of Indiana.

Upon recommendation of the Law Committee, the proposed letter was approved and ordered transmitted.

Draft of letter to the Chief Clerk of the Treasury Department, submitting lists of old reports now on file in the Board's Division of Bank Operations which are no longer needed by the division, and recommending that all papers indicated in the lists be destroyed in the discretion of the Secretary of the Treasury under any arrangement which shall be in accordance with the law.

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Upon motion, the proposed letter was approved.

Report by Mr. James with reference to the question of a nonmember bank which has been designated as a special depository of public funds advertising as a "United States Depository", which at the meeting on August 11th, he was requested to discuss with the Treasury Department. He stated that having gone over the file with the Board's Counsel, he has reached the conclusion that the merits of the case do not warrant its being taken up with the officials of the Treasury Department, and he submitted draft of letter to the President of the First National Bank of Gardner, Mass., who raised the question, advising that while the Board is at all times anxious to protect the interest of member banks, there would appear to be no legal or moral ground upon which the Federal Reserve Board or member banks can validly object to a nonmember bank which is actually acting as a depository of public funds under the Act of September 24, 1917, advertising that it is a "United States Depository", because there is no law prohibiting it and it is a truthful statement of fact.

Upon motion, the proposed letter was approved.

The Governor then referred to the letter to the Chairman of the Open Market Policy Conference, approved at the meeting on August 13th, transmittal of which was withheld at the meeting of the Board on August 14th pending its further consideration.

At the conclusion of the discussion which followed, the following amended letter was approved and ordered transmitted:

"The Federal Reserve Board has considered the Report and Recommendation of the Open Market Policy Conference held August 11, 1931.

"I am desirous to advise you that the Board is in accord with the position of the Conference as expressed in the following statement:

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'It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose.'

"In consequence, the Board is prepared to give favorable consideration to any open market proposal or program which is designed to improve matters in the existing economic and financial exigency and to accelerate business recovery. The Board regards these as appropriate and valid objectives in determining the character and scope of open market operations of the Federal Reserve System in the present extraordinary and depressed state of business.

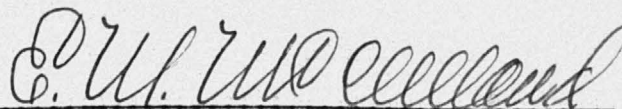
"The Board, therefore, gives a general approval to the contemplated purchase of Government securities for System account, and in order that it may be prepared to act promptly on the current application of this policy of purchase, it has authorized the Governor of the Board, until such time as the matter of open market policy shall be reviewed and further considered, to act in its behalf with respect to the purchase of an aggregate amount of \$120,000,000 of Government securities as fixed in the Recommendation of the Conference. The Board is not authorizing the Governor to exercise its approval with regard to sales of open market securities acquired for System account. In the event that conditions should take such a turn as to make sales of securities from System account advisable, in the judgment of the Executive Committee of the Conference, the Board would wish to consider the matter."

REPORTS OF STANDING COMMITTEES:

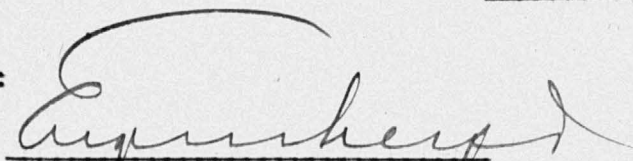
Dated, August 14th Recommending changes in stock at Federal Reserve Banks,
15th as set forth in the Auxiliary Minute Book of this date.
17th Recommendations approved.
18th

Dated, August 14th Recommending approval of the application of Mr. Clifford A. Spoerl, for permission to serve at the same time as director of the First National Bank of Eatontown, New Jersey, and as director and officer of the First National Bank of Jersey City, New Jersey.
Approved.

The meeting adjourned at 1:45 p. m.


Assistant Secretary.

Approved:


Governor.

(Executive
Committee)AUXILIARY MINUTES
(August 18, 1931)

Reports of Standing Committee dated August 14th, 15th, 17th and 18th, recommending changes in stock at Federal Reserve Banks, approved as follows:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 11.</u>		
Pearsall National Bank in Pearsall, Texas	21	21
<u>Application for ADDITIONAL Stock:</u>		
<u>District No. 7.</u>		
First National Bank, Wauwatosa, Wis.	3	3
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 1.</u>		
Limerick National Bank, Limerick, Maine. (V.L.Abs. by Fidelity Trust Company)	90	
Fall River National Bank, Fall River, Mass. (Decrease in surplus)	60	
Springfield National Bank, Springfield, Mass. (Reduction in capital)	<u>300</u>	450
<u>District No. 4.</u>		
First National Bank, Watertown, Ohio. (V.L. terminal)	30	
Third National Bank, New London, Ohio. (Insolvent)	<u>42</u>	72
<u>District No. 5.</u>		
First National Bank, Federalsburg, Md. (Insolvent)	20	20
<u>District No. 6.</u>		
First National Bank, Arcadia, Fla. (Decrease in sur- plus)	36	
First National Bank, Gulfport, Miss. (V.L.Suc. by First National Bank in Gulfport)	<u>271</u>	307
<u>District No. 7.</u>		
Bennett Savings Bank, Bennett, Iowa. (Cons. with Farmers Savings Bank)	36	36
<u>District No. 10.</u>		
First National Bank, Bonner Springs, Kans. (V.L.Abs. by Commercial State Bank)	18	
Oklahoma National Bank, Cushing, Okla. (V.L.Abs. by First National Bank of Cushing)	<u>36</u>	54

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Applications for SURRENDER of Stock: (Cont'd)

Shares

District No. 11.

First-Taylor National Bank, Taylor, Tex. (Cons. First National Bank and Taylor National Bank)

120

American National Bank, Shreveport, La. (V.L.Suc. by Commercial-American Bank & Trust Co.)

216

336

Total

1,275

E. W. Woodland
Assistant Secretary.

Approved:

Eugene S. ...
Governor.