

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, March 10, 1932, at 11:30 a. m.

PRESENT: The Chairman
Governor Meyer
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Magee

Mr. Morrill, Secretary
Mr. McClelland, Assistant Secretary
Mr. Harrison, Assistant to the Governor
Mr. Wyatt, General Counsel.

The following matters were considered and acted upon by the Board:

Telegrams dated March 9, 1932, from the Chairman of the Federal Reserve Bank of Boston, and March 10, 1932, from the Chairman of the Federal Reserve Bank of Richmond, both advising that at meetings of their Boards of Directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Letters dated March 2 and 3, 1932, from the Comptroller of the Currency recommending approval of salaries for recently appointed national bank examiners and of increases in the salaries of other national bank examiners, as follows:

New appointments

Howell B. Voight	\$3,300	per annum
Wilfred H. Blanz	2,700	" "
Louis I. Rasmussen	2,400	" "
Edmund H. Galvin	2,400	" "
Robert S. Beatty	4,300	" "

Increases

	From	To
Lewis H. Clark	\$2,400	\$3,000 per annum
Walter E. Julius	3,900	4,500 " "
B. J. Bleakley	4,800	5,500 " "

Recommendations approved.

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Draft of a letter to the Chairman of the Committee on Banking and Currency of the Senate, prepared for the signature of the Secretary of the Treasury, with regard to S. 197, "A bill to restore and maintain the level of wholesale commodity prices"; the proposed letter stating that price levels and price movements are dependent upon a wide variety of factors of which the most important lie beyond the range of control or influence of the Federal Reserve System; that even were it admitted that an artificially produced stability of prices is possible, it would not be wise to impose upon the Federal Reserve System a function which it would not be able to fulfil; that besides proving futile in the accomplishment of the intended purpose, the efforts of the System to achieve stability of price levels would introduce new elements of uncertainty, disturbance and unsettlement in the general economic situation and, therefore, would be inimical to the general economic interest and tend to undermine confidence in the Federal Reserve System; and that, in the circumstances, the Treasury Department feels it would not be justified in reporting favorably on the bill.

Letter approved.

Draft of a letter to the Chairman of the Committee on Banking and Currency of the Senate, prepared for the signature of the Secretary of the Treasury and approved by five members of the Board on March 9, 1932, with regard to S. 3324, "A bill to insure deposits made in Federal banks or state banks with Federal reserve membership"; the letter being along the same lines as the letter to Assistant Secretary of the Treasury Lowman, approved at the meeting of the Board on March 9, 1932, with regard to S. 3826, "A bill providing for the establishment and maintenance of the bank depositors' guaranty fund".

Letter approved.

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Consideration was then given to a proposed circular letter to the Governors of all Federal reserve banks and a proposed circular letter to be sent by the Federal reserve banks to all member banks, on the subject of the Procedure to be followed in making advances to member banks under Sections 10(a) and 10(b) of the Federal Reserve Act, as amended February 27, 1932.

After discussion, the proposed circular letters were approved in the following form:

LETTER TO THE GOVERNORS OF THE FEDERAL RESERVE BANKS

"In view of the fact that advances to member banks under the provisions of Sections 10(a) and 10(b) of the Federal Reserve Act, as amended by the Act of February 27, 1932, will be limited to cases where there are conditions of an unusual and temporary character, the Federal Reserve Board has not prescribed any regulations governing such advances but will consider each case separately and will decide, on the basis of the facts and circumstances in each particular case, whether or not to permit the Federal reserve bank to make the advance applied for.

However, in order that the member banks may be informed of the provisions of these sections and of the procedure contemplated thereunder, a committee of officers of Federal reserve banks appointed pursuant to action taken by the Conference of Governors of Federal reserve banks held in Washington on February 24 and 25, 1932, has prepared, with the assistance of counsel, a circular letter to be sent by the Federal reserve banks to all member banks as soon as possible.

While it would seem that the law would permit the Board to grant blanket consent for Federal reserve banks to make loans under the provisions of Section 10(a), the Board prefers for the present at least to consider each case separately; and the law requires separate action by the Board in the case of each specific loan under the terms of Section 10(b). Before making any loan or any renewal or extension thereof under the provisions of either section, therefore, the Federal reserve bank should obtain the Board's consent.

The Board is prepared to give prompt consideration to any application received under these sections. Each request for its permission to make such an advance must include a recommendation of the Federal reserve bank and should contain the following information:

- A. Name and location of borrowing bank.
- B. Capital stock.
- C. Surplus and undivided profits.
- D. Whether the bank which is to receive the proceeds of the loan has an adequate amount of eligible and acceptable assets to enable it to obtain

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sufficient credit accommodations from the Federal reserve bank under other provisions of the Federal Reserve Act.

- E. Amount of the loan applied for.
- F. Maturity of loan applied for.
- G. Proposed rate.
- H. Nature and face amount of security offered.
- I. Total deposits of borrowing bank.
- J. Total amount of rediscounts and other borrowings (including repurchase agreements) from Federal reserve bank, exclusive of this loan.
- K. Amount of rediscounts and borrowings (including repurchase agreements) from others.
- L. Concise statement of exceptional and exigent circumstances which occasioned the application, together with any other facts having a bearing upon the case.
- M. Whether the application is for a loan under section 10(a) or Section 10(b).
- N. In the case of loans applied for under Section 10(a), name and address of each participating bank and the amount of liability assumed by it, together with the nature and face amount of additional security, if any, required of it.

When the information is transmitted by telegraph, each item listed above may be indicated by using the letter preceding such item, in lieu of stating the text of the question.

The Board has not prescribed any limitation on the aggregate amount of such loans which may be made by any Federal reserve bank; but, in acting upon requests for its permission to make such loans, will give consideration, among other things, to the aggregate amount of such loans which the Federal reserve bank has outstanding.

In making loans to groups of banks under Section 10(a), the Federal reserve bank should require the trustee representing the group of banks to pledge with the Federal reserve bank the note of each bank which is to receive the proceeds of the loan and the security therefor. The Federal reserve bank should assure itself that the trustee has been properly authorized to pledge such note and security to the Federal reserve bank. In addition to the note of the borrowing bank and such security as it may provide, the Federal reserve bank may, if it deems it advisable, require the other members of the group to give such other security as the Federal reserve bank may consider necessary for its protection.

In the absence of regulations and in order to insure uniformity of procedure, the Federal Reserve Board has approved the inclosed circular for use by the Federal reserve banks. It will be observed that the Board has made certain modifications in the proposed circular which was transmitted to the Governors with the Committee's report of March 6, 1932. If any Federal reserve bank desires to

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"make any further changes, in order to conform to local conditions or practices, it should communicate with the Federal Reserve Board and obtain its approval before transmitting the circular to member banks. The Board will give prompt consideration to such changes.

This letter is solely for the information and guidance of the Federal reserve banks."

CIRCULAR LETTER TO BE SENT BY THE FEDERAL RESERVE BANKS
TO MEMBER BANKS

"The Act of February 27, 1932, adds two new sections to the Federal Reserve Act, Section 10(a) and Section 10(b). Section 10(a) authorizes the making of loans to groups of member banks and is a permanent provision, whereas Section 10(b) authorizes until March 3, 1933, advances to individual member banks having a capital stock not exceeding \$5,000,000 each. Under both sections, the banks receiving the proceeds of such advances must be without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient credit accommodations from the Federal Reserve Banks under other provisions of the Federal Reserve Act.

The full text of these two sections of the Federal Reserve Act is printed at the end of this circular.

In view of the fact that it is contemplated that applications for such advances will be made only in unusual circumstances, the Federal Reserve Board has not prescribed any regulations governing such advances, but, for the information of all member banks, the principal requirements of the law are analyzed and the general procedure contemplated thereunder is outlined below.

SECTION 10(a)
ADVANCES TO GROUPS OF MEMBER BANKS

This section provides in effect that, upon receiving the consent of not less than five members of the Federal Reserve Board, any Federal Reserve Bank may make advances, in such amount as the board of directors of such Federal Reserve Bank may determine, upon the following conditions:

- (a) Advances may be made on the promissory notes of groups of five or more member banks within the district of the loaning Federal Reserve Bank, a majority of them independently owned and controlled; except that advances may be made to a lesser number of such member banks (but not less than two) if the aggregate amount of their deposit liability constitutes at least 10 per centum of the entire deposit liability of the member banks within such district.
- (b) Advances may be made only if the bank or banks which receive the proceeds thereof have no adequate amounts

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of eligible and acceptable assets available to enable such bank or banks to obtain sufficient credit accommodations from the Federal Reserve Bank through rediscounts or advances other than as provided in Section 10(b) of the Act.

- (c) The liability of the individual banks in each group must be limited to such proportion of the total amount advanced to such group as the deposit liability of the respective banks bears to the aggregate deposit liability of all banks in such group. (The liability of each individual bank on the note of a group under this provision of the law should be determined on the basis of its gross deposit liabilities at the opening of business on the date of the written application by the group to the Federal reserve bank for the advance, computed by adding together, (1) in the case of national banks, the figures corresponding to those called for by items 21, 22, 23 and 24 on the Comptroller of the Currency's call report form No. 2130, as revised in November, 1931, or, (2) in the case of State member banks, the figures corresponding to those called for by items 19, 20, 21 and 22 on the Federal Reserve Board's call report form No. 105, as revised in November, 1931.)
- (d) The proceeds of an advance to a group may be distributed only to banks which are members of such group, and before receiving such proceeds such banks must deposit with a suitable trustee, designated by and representing the entire group, their individual notes made in favor of the group protected by such collateral security as may be agreed upon.
- (e) No obligations of any foreign government, individual, partnership, association or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.
- (f) No note upon which such advances are made will be eligible as collateral security for Federal Reserve notes.

The rate at which advances may be made under the provisions of this section will be fixed from time to time, subject to the approval of the Federal Reserve Board and the condition specified in the law.

The maturities of notes accepted under this section must be satisfactory to the Federal Reserve Bank. There must be deposited and pledged with the Federal Reserve Bank, as security for any advance made by the Federal Reserve Bank to a group of banks under the provisions of Section 10(a), the note or notes of the bank or banks

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"to which the proceeds of such advance are distributed by the group, together with all the security for such note or notes. Such security must, of course, be acceptable to the Federal Reserve Bank, which may require the group or any member thereof to provide such additional security as may be deemed necessary.

For the convenience of member banks desiring to apply for loans under Section 10(a), the following suggested forms are being prepared.

1. Resolution to be adopted by board of directors of each of the banks desiring to form a group, authorizing their officers to sign an agreement with other banks for this purpose.
2. Agreement to be entered into by banks desiring to form a group. This form of agreement includes the designation of a trustee for the group.
3. Resolution to be adopted by board of directors of individual borrowing bank authorizing it to borrow from the group and to pledge security therefor.
4. Application to be used by individual borrowing bank in requesting loan from the group. This must include a certificate to the effect that such bank has no adequate amount of eligible and acceptable assets available to enable it to obtain sufficient credit accommodations from the Federal Reserve Bank through rediscounts or advances other than as provided in Section 10(b).
5. Note to be used by the individual borrowing bank in borrowing from the group.
6. Resolution to be adopted by the board of directors of each of the banks in the group, authorizing the group to borrow from the Federal Reserve Bank upon the note of the group and to pledge the note or notes of the individual borrowing bank or banks and the security therefor.
7. Application to be used by group in requesting advance from the Federal Reserve Bank.
8. Note to be used by the group in borrowing from the Federal Reserve Bank. This form contemplates that the group shall give to the Federal Reserve Bank a single note for the full amount of the advance, such note, or counterparts thereof, being signed by all members of the group and stating on the face thereof the dollar amount of the proportion of the principal of such note for which each bank in the group is liable.

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"Banks desiring to form groups, or contemplating the possibility of forming groups at some future time, should so advise this bank, which will be glad to furnish them with copies of the suggested forms. It is suggested that each group be formed under the name "Member Bank Loan Group No. _____ of the _____ Federal Reserve District." In order to prevent possible duplication of numbers in the names of groups this bank will assign numbers when advised of the desire to form groups.

The forms used in different cases may vary to some extent to meet the needs and desires of the banks forming the particular group, but all forms used in connection with any advance made by this bank must, of course, be satisfactory to it.

SECTION 10(b)
ADVANCES TO INDIVIDUAL MEMBER BANKS

Under the terms of this section Federal Reserve Banks may, until March 3, 1933, and in exceptional and exigent circumstances, and subject in each case to affirmative action by not less than five members of the Federal Reserve Board, make advances to individual member banks upon the following conditions:

- (a) Advances may be made only to member banks having capital stock of not exceeding \$5,000,000 each.
- (b) Advances may be made only to banks which have no further eligible and acceptable assets available to enable them to obtain adequate credit accommodations through rediscounting at the Federal Reserve Bank or any other method provided by the Federal Reserve Act other than that provided by Section 10(a).
- (c) No obligations of any foreign government, individual, partnership, association, or corporation organized under the laws thereof shall be eligible as collateral security for advances under this section.
- (d) Advances under this section may be made only upon the promissory notes of member banks secured to the satisfaction of the lending Federal Reserve Bank.
- (e) No note accepted for any such advance shall be eligible as collateral security for Federal reserve notes.

The rate at which advances may be made under the provisions of this section will be fixed from time to time, subject to the approval of the Federal Reserve Board and the condition specified in the law.

A special form of application is being prepared for the use of member banks desiring to apply for loans under Section 10(b). Copies will be provided upon request.

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"Each such application must include a certificate to the effect that the applying bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal Reserve Bank or any other method provided by the Federal Reserve Act other than that provided by Section 10(a); and it must also be supported by a statement of facts sufficient to satisfy the Federal Reserve Bank and the Federal Reserve Board that there are exceptional and exigent circumstances which would justify the making of such loan under the provisions of Section 10(b).

The regular form of member bank promissory note may be used for advances made under this section. Maturities must be satisfactory to the Federal Reserve Bank.

GENERAL

In conformity with the purposes of this legislation, advances under Sections 10(a) and 10(b) of the Federal Reserve Act will be limited to cases where there are conditions of an unusual and temporary character which appear to justify such action and when the member banks receiving the proceeds lack adequate amounts of eligible and acceptable assets with which to secure sufficient credit accommodations from the Federal Reserve Bank under other provisions of the Federal Reserve Act. When and if such circumstances exist it is hoped that this bank may be able to render helpful service for temporary periods. It is suggested, however, that before making applications for such advances member banks should communicate with this bank and ascertain its views as to the collateral or other security which should be offered and as to the other conditions upon which this bank would be disposed to give favorable consideration to the application.

APPENDIX

(Here print title and first two sections of Act)."

Thereupon, the meeting adjourned.

Wesley Howell
Secretary.

Approved:

Wm. L. Smith
Chairman.