

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, May 2, 1932, at 11:20 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
Mr. Smead, Chief, Division of Bank Operations.

The Governor stated that the services of Mr. Leo H. Paulger, Chief of the Division of Examinations, who has been assisting in the work of the Reconstruction Finance Corporation, will be required by the Corporation for an additional period and the Governor suggested that the Board grant Mr. Paulger a leave of absence, without pay, for a period of three months beginning May 1, 1932, or for such shorter period as his services shall be required by the Reconstruction Finance Corporation, during which his salary will be paid by the Corporation.

Upon motion, Mr. Paulger was granted a leave of absence without pay for a period of three months beginning May 1, 1932, or for such shorter period as his services shall be required by the Reconstruction Finance Corporation.

Consideration was then given to a draft of a proposed circular letter to the chairmen of all Federal reserve banks with regard to the pledging of direct obligations of the Government by Federal reserve banks as collateral security for Federal reserve notes, under the provisions of section 16 of the Federal Reserve Act, as amended by section 3 of the Act of February 27, 1932.

The proposed letter was discussed in detail and was approved in the following form:

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"Since the passage of the Glass-Steagall Act of February 27, 1932, which empowers the Federal Reserve Board, when it deems it in the public interest, to authorize the use of direct obligations of the United States as collateral security for Federal reserve notes, there has been a gradual decline in the margin between the amount of Federal reserve notes in circulation and the amount of eligible paper and gold available as collateral for such notes. This has resulted from the fact that the open market operations of the system have enabled member banks to make substantial reductions in their borrowings from the Federal reserve banks, which are reflected by the decrease in the system's holdings of eligible paper.

After careful consideration, the Board feels that it will be in the public interest to exercise the power granted it by section 3 of the Act of February 27, 1932, when the margin between (a) total cash reserves and eligible paper and (b) the amount of Federal reserve notes in circulation and the minimum 35 per cent reserve required against deposits declines to \$400,000,000 for the twelve Federal reserve banks. This margin is made up of the following amounts for the respective banks, which are considered to be adequate in present circumstances:

Boston	\$ 25,000,000	Chicago	\$65,000,000
New York	110,000,000	St. Louis	15,000,000
Philadelphia	25,000,000	Minneapolis	10,000,000
Cleveland	35,000,000	Kansas City	20,000,000
Richmond	15,000,000	Dallas	10,000,000
Atlanta	30,000,000	San Francisco	40,000,000
		Total	\$400,000,000

In arriving at these amounts it was considered that, after providing for collateral against Federal reserve notes in circulation and the minimum reserve of 35 per cent against deposits, each Federal reserve bank should have a sufficient amount of eligible assets to provide (1) an adequate working balance of notes in its vaults and its branches to enable it to meet current requirements, (2) the gold redemption fund held by the United States Treasury, (3) such margin of excess reserves against deposits as is deemed necessary for operating purposes, and (4) a small amount of excess collateral with the Federal reserve agent. In determining the amount of margin for each bank allowance was made for the fact that, as you know, gold pledged as collateral for Federal reserve notes also counts as reserve against notes in circulation.

From data currently compiled the Board is in position to review from day to day the situation in respect to this matter at each Federal reserve bank and for the system as a whole, and when the margin for the twelve banks shall have declined to \$400,000,000 the Board will notify the Federal reserve agent and the governor at each Federal reserve bank by wire. These wires will authorize each

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"bank to offer, and the Federal reserve agent at such bank to accept, as collateral security for Federal reserve notes direct obligations of the United States, at par value, provided total cash reserves and eligible paper plus the amount of United States securities pledged with the Federal reserve agent do not, at any time, exceed the amount of Federal reserve notes in circulation and the minimum 35 per cent reserve against deposits, by more than the amount stated above for such Federal reserve bank. As you are aware, under the terms of section 3 of the Glass-Steagall Act, such authority will terminate on March 3, 1933, or sooner should the Federal Reserve Board so decide.

By order of the Federal Reserve Board."

In this connection, the Secretary reported that a letter has been received from the Governor of the Federal Reserve Bank of Chicago under date of April 29, 1932, requesting authority to pledge Government securities as collateral for Federal reserve notes issued to that bank.

Noted.

Memorandum dated April 19, 1932, from the Chief of the Division of Bank Operations recommending that if and when United States securities are pledged with Federal reserve agents as collateral security for Federal reserve notes, the amounts of such securities pledged be shown against the caption "U. S. securities" immediately following the caption "Eligible paper" in the Federal reserve note statement, which is included in the Board's weekly press statement of the condition of Federal reserve banks.

Recommendation approved.

At this point the Chairman and Mr. Smead left the meeting.

The minutes of the meeting of the Federal Reserve Board held on April 25, 1932, were approved.

The Board then considered and acted upon the following matters:

Telegraphic reply, approved by five members of the Board on April 30, to a telegram dated April 29, 1932, from Deputy Governor Rounds of the

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Federal Reserve Bank of New York requesting authority for the purchase from the Bank of Depew, New York, of a tax note of the Village of Depew in the amount of \$20,000; the reply stating that the Board authorizes the purchase with the understanding that the note meets all requirements of Regulation E except that the population of the issuing municipality is less than 10,000, and that the amount of the note offered, together with a note in the amount of \$30,000 now held by the Federal reserve bank, exceeds 25% of the total outstanding warrants of the municipality.

Reply approved.

Telegraphic reply, approved by five members of the Board on April 29, 1932, to a telegram of the same date from Deputy Governor Rounds of the Federal Reserve Bank of New York recommending approval of the application of the Citizens National Bank and Trust Company, Hornell, New York, for an advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, in the amount of \$75,000, for a period of ninety days, at a rate of 5 1/2% per annum, and secured by miscellaneous customers' paper totaling \$150,000; the reply stating that the Board authorizes the advance, subject to the terms and conditions recommended.

Reply approved.

Letter dated April 22, 1932, from Deputy Governor Crane of the Federal Reserve Bank of New York stating that the deposit which the New York bank has been carrying with the Bank for International Settlements was further reduced in the amount of \$1,000,000 on April 21, 1932, leaving a balance of approximately \$5,000,000 on deposit at sight and about \$2,000,000 invested in bills.

Noted.

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Letter to the First Capital State Bank, Iowa City, Iowa, stating that the Federal Reserve Board has approved the bank's application for membership in the Federal Reserve System and for 69 shares of the capital stock of the Federal Reserve Bank of Chicago, subject to certain conditions contained in the letter.

Letter approved.

Letter to the Chairman of the Federal Reserve Bank of Dallas, stating that the Federal Reserve Board has received the report of examination of the bank made by the Board's examiners as of February 13, 1932, from which it is noted that the bank desires a ruling by the Board on the question whether the prohibition against discounting "part of an excess line" applies only to paper offered by State member banks or whether it applies also to paper offered by national banks; the Board's letter stating that the provision in question, contained in Section 9 of the Federal Reserve Act, clearly applies only to State member banks and not to national banks, but that in determining whether, in any particular case, paper of a borrower, whose liability to a national bank is in excess of the limitations of Section 5200 of the Revised Statutes, should be discounted for a national bank, the Federal reserve bank should give consideration to the fact, among other things, that the discount of paper for a State bank under such circumstances is not permissible and that the making of loans by a national bank in excess of the limitation is unlawful.

The letter also referred to the statement contained in the report of examination that as a result of the practice of many member banks in the district of failing to take up their discounted bills at maturity, the Federal Reserve Bank of Dallas is considering the adoption of a plan which

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will penalize member banks through an increase over the current rediscount rate for such time as the paper remains past due, and stated that, while the Board will give consideration to any plan which may be submitted for the purpose of effecting a reduction in the amount of past due paper held by the bank and the ultimate elimination of such paper, it is suggested that consideration be given to the questions whether this purpose should not be accomplished through administrative action rather than through the imposing of a penalty rate upon overdue paper, and whether the establishment of such a special rate for past due paper might not be taken as an indication of a willingness on the part of the Federal reserve bank to carry past due paper and thus tend to encourage member banks not to take up their discounted paper at maturity.

The letter also requested that, in addition to advising the Board as to any action which may be taken by the bank with regard to other matters which were discussed with the officers of the bank by the examiners, the chairman report to the Board, in order that the Treasury Department may be advised, the attitude of the bank toward the examiners' recommendation that approval of bills payable of a correspondent bank pledged by a depository bank and accepted by the Federal reserve bank as security for Government deposits under the provisions of Treasury Department Circular No. 92, be based upon the acceptability of the underlying collateral as evidenced by security pledged thereto or by financial statements supporting the same, and not solely upon the margin of collateral, the indorsement of the pledging bank, and the fact that only 75% of the face value of the obligation is allowed.

Letter approved.

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Reports of Standing Committee dated April 29, 1932, recommending approval of the following changes in stock at Federal reserve banks:

<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 6.</u>		
First National Bank, Lyons, Ga. (Insolvent)	21	21
<u>District No. 7.</u>		
Forest City National Bank, Rockford, Ill. (Insolvent)	300	300
<u>District No. 11.</u>		
San Angelo National Bank, San Angelo, Texas. (V.L.Suc. by San Angelo National Bank)	300	300
<u>District No. 12.</u>		
First National Bank, Salt Lake City, Utah. (Cons. Deseret National Bank and Security National Bank, under the above title)	375	375
	<u>Total</u>	<u>996</u>

Approved.

Thereupon the meeting adjourned.

Peter Moriel
Secretary.

Approved:

C. J. Coughlin
Governor.