

A meeting of the Federal Reserve Board was held on Tuesday, July 26, 1932, at 11:35 a. m.

PRESENT: 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 Board considered and acted upon the following matters:

Letter dated July 21, 1932, from the Secretary of the Federal Reserve Bank of New York, and telegrams dated July 20, 1932, from the Federal Reserve Agent at Philadelphia, July 21, 1932, from the Secretary of the Federal Reserve Bank of Kansas City, and the Chairman of the Federal Reserve Bank of San Francisco, and July 22, 1932, from the Chairman of the Federal Reserve Bank of Chicago, all 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.

Memorandum dated July 22, 1932, from Assistant Secretary Noell recommending approval of a leave of absence without pay for W. T. Fletcher, mimeograph operator, from August 17 to September 3, 1932, inclusive.

Recommendation approved.

Reply, approved by five members of the Board on July 20, to a letter dated March 10, 1932, from the Chairman of the Federal Reserve Bank of New York advising that the board of directors had granted to Mr. George W. Ferguson, Assistant General Auditor of the bank, a leave of absence of one week beginning May 9, 1932, in addition to his annual vacation period of

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four weeks; the reply stating that because of the misfiling of the agent's letter it had not been presented previously to the Board for consideration, but that the Board has now approved the salary payment involved in the additional leave of absence granted to Mr. Ferguson.

Reply approved.

Reply, approved by three members of the Board on July 25, to a letter dated July 20, 1932, from the Federal Reserve Agent at Cleveland requesting approval by the Board of the designation of Mr. James M. Miller as an examiner at the bank, with salary at the rate of \$3,900 per annum; the reply stating that the Board approves the designation and salary as recommended.

Reply approved.

Letter dated July 8, 1932, from the Chairman of the Federal Reserve Bank of Atlanta advising of the appointment of Mr. John H. Frye, formerly a director of the Birmingham branch, as managing director of the branch to fill the unexpired term of Mr. A. E. Walker, deceased; Mr. Frye's salary having been fixed by the directors of the Atlanta bank at \$6,500 per annum, subject to approval by the Federal Reserve Board.

In this connection, consideration was also given to a letter dated July 25, 1932, from the Chairman of the Atlanta bank in reply to an inquiry as to whether or not Mr. Frye has severed his connections with certain financial concerns in the city of Birmingham with which he has been affiliated; the reply inclosing copy of a letter dated July 23, 1932, addressed to the Chairman of the Atlanta bank by Mr. Frye, stating that, with the exception of his services as President of the Central Investment Company and three small holding corporations which are entirely inactive,

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he has severed all outside connections, and that if these services are contrary to the policy of the Board he will discontinue them without delay.

After a brief discussion, the salary fixed by the directors for Mr. Frye as managing director of the Birmingham branch was approved, and the Secretary was requested to advise the Chairman of the Atlanta bank that, in accordance with the policy expressed in its letter of May 7, 1924, (X-4048), the Board believes it is desirable for Mr. Frye to terminate the outside connections referred to.

Telegram dated July 19, 1932, from Deputy Governor Crane of the Federal Reserve Bank of New York stating that all of the participants in the credits to the Hungarian National Bank, with the exception of the National Bank of Roumania, have agreed to a further renewal of the credits for a period of three months from July 18, 1932, on the same terms and conditions as governed the previous renewal; that pending a final decision by the National Bank of Roumania the credits in the amount of \$20,270,000 have been provisionally renewed from day to day on the old terms; and that the Board will be advised when final action is taken.

Noted.

Telegraphic reply, approved by five members of the Board on July 25, 1932, to a telegram of that date from Deputy Governor Rounds of the Federal Reserve Bank of New York requesting authority for an advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, as amended, to the Salt Springs National Bank, Syracuse, New York, in the amount of \$200,000, for a period of ninety days, at a rate of 5 1/2% per annum, and on the security of miscellaneous bonds, collateral notes and unsecured notes; the advance being desired to meet the expected withdrawal of

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deposits aggregating \$200,000 following the cancellation of bonds thereon by a surety company. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Reply unanimously approved.

Letter to the Wahoo State Bank, Wahoo, Nebraska, approved by five members of the Board on July 21, 1932, stating that the Federal Reserve Board has approved the bank's application for membership in the Federal Reserve System and for 27 shares of the capital stock of the Federal Reserve Bank of Kansas City subject to certain conditions set forth in the letter.

Letter approved.

Letter to the Federal Reserve Agent at Richmond, approved by four members of the Board on July 22, referring to his letter of June 17, 1932, with which he inclosed an analysis of the report of an examination of the Baltimore Trust Company, Baltimore, Maryland, as of March 28, 1932, and stating that, although the Board is in accord with the suggestion that the management of the trust company be given time to work out its affairs and that no action be taken affecting its membership in the Federal Reserve System, it is felt that the situation is one which requires close attention and the agent is requested, therefore, to keep in touch with the bank and advise the Board of any developments. The letter also stated that the Board is particularly interested in the status of advances to the trust company's affiliated corporations, and requested certain additional information in that connection.

Letter approved.

Reply, approved by five members of the Board on July 21, to a letter dated July 5, 1932, from Deputy Governor Paddock of the Federal Re-

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serve Bank of Boston advising of the establishment of two temporary currency depots in the New Haven Bank, National Banking Association, New Haven, Connecticut, and in the Merchants National Bank Building, recently taken over by the First National Bank and Trust Company of New Haven; the reply stating that the Board approves the action of the Boston bank in establishing the depots in accordance with the procedure outlined in Deputy Governor Paddock's letter, it being noted that the bank has been advised by its insurance and surety bond companies that the custody arrangements are covered completely by the policies now in force. The reply also noted that it was expected to discontinue the arrangements within a week from the date of Deputy Governor Paddock's letter and requested that the Board be advised as to the dates on which the currency depots were established and discontinued.

Reply approved.

Letter to Assistant Secretary of the Treasury Douglas, approved by four members of the Board on July 21, transmitting, in accordance with his request of June 15, 1932, a proposed letter, for the signature of the Secretary of the Treasury, also approved by four members of the Board on July 21, to the Chairman of the Banking and Currency Committee of the Senate, containing a report on S. 4779, "providing for the use of silver as security for Federal reserve notes in certain cases"; the report stating that the primary purpose of the bill appears to be to enlarge the market for silver bullion and thereby to enhance its price; that it is proposed to accomplish this purpose by imposing upon the Federal reserve banks the obligation to become purchasers of silver bullion to the extent indicated by the bill; that there is no more justification for requiring the Federal

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reserve banks to assume the function of providing a market for silver bullion than in the case of any other commodity; and that the Treasury Department and Federal Reserve Board do not approve the use of Federal reserve banks and their assets for this purpose, and do not favor the enactment of the bill.

Letters approved.

Letter, approved by four members of the Board on July 25, 1932, to Mr. N. Musher, Vice-President of the Van Camp Milk Company, Incorporated, New York City, New York, stating that the subject matter of his letter of June 24, 1932, has been taken up with the Federal Reserve Bank of Chicago; that it appears that the officers of the Chicago bank have not questioned the eligibility for rediscount under the provisions of the Federal Reserve Act and the regulations of the Board of the paper of the Van Camp Milk Company, referred to in Mr. Musher's letter, but have pointed out that the acceptability of any particular paper can be determined only when the paper comes to the Federal reserve bank from a member bank and that it must be accompanied by satisfactory credit statements; and that since the acceptability from a credit standpoint of eligible paper when offered for rediscount at any Federal reserve bank is a matter which must be decided by the proper officers of the Federal reserve bank, the Board cannot undertake to pass on that question.

Letter approved, together with a letter, also approved by four members of the Board on July 25, 1932, to the Governor of the Federal Reserve Bank of Chicago, stating that without intending to indicate any opinion as to the correctness of the position which the Chicago bank has taken in this particular case it is felt that attention should be called to the fact that section 4(b) of Regulation A does not require a financial statement of the borrower to be on file

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with the member bank when the paper offered for rediscount is secured by warehouse, terminal, or other similar receipt covering goods in storage, but that the Federal reserve bank has the right, in its discretion, to require a financial statement in any case and must exercise its own judgment as to whether the statement discloses a condition which justifies discounting the paper.

The Governor then presented the following letter received by him from the President of the United States under date of July 23, 1932:

"I am in receipt of your letter of July 22nd enclosing the results of a survey conducted by the banking and industrial commission of the 4th Federal Reserve District. This statement is a complete indictment of the banking situation because its conclusions are that loans have been refused through the district and probably others of the type subject to rediscount by the Federal Reserve system, and that the result of these restrictions has been to increase unemployment and to stifle business activity in the country.

"The conviction I get from this document is that the Federal Reserve system should at once instruct the Federal Reserve Banks to undertake direct rediscount under authorities provided in the Relief Bill. We cannot stand by and see the American people suffering as they are today and to the extent that may imperil the very stability of the government because of the unwillingness of the banks to take advantage of the facilities provided by the government. I deem it necessary to call the attention of the Board to the fact that an emergency of the character denominated in Section 210 of the 'Emergency Relief and Construction Act of 1932' has now arisen.

"I should be glad if you would bring this directly to the attention of the Board."

Noted.

At this point the Chairman joined the meeting.

Consideration was given to a revised draft of a proposed circular letter to all Federal reserve banks setting forth the requirements of the law and the procedure which the Federal Reserve Board will expect the banks to follow in connection with the discounting of paper for individuals, partnerships and corporations, in accordance with the provisions of section 13

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of the Federal Reserve Act, as amended by the Emergency Relief and Construction Act which was signed by the President on July 21, 1932. The Board was advised that certain changes in the preliminary draft of the circular were considered advisable in view of comments received from the Federal reserve banks to whom copies had been forwarded.

Mr. Miller stated that in his opinion there is some question as to the extent of the authority granted by the amendment to section 13. While it clearly authorizes the discount for individuals, partnerships or corporations of paper of the kinds now eligible for rediscount for member banks, it is not clear that the amendment authorizes Federal reserve banks to make direct advances to borrowers. Mr. Miller stated that, while the amendment might be so construed by the Board, he thought the better course would be to see what results could be obtained under the first method and, should that prove ineffective, inadequate or impracticable, the Board would be in a very much better position to adopt the broader construction necessary to give effect to the remedial purposes of the amendment. He added that he thought a very short period of time, perhaps not over two or three weeks, would be sufficient to clarify the situation. He expressed the opinion that there should be no assumption of authority and responsibilities not clearly conveyed by the amendment unless and until such a course appeared to be the only practicable way of making the law effective. Accordingly, he submitted the following substitute for Sections II and III of the proposed circular:

"II. AUTHORIZATION BY THE FEDERAL RESERVE BOARD.

"The Federal Reserve Board, being satisfied that unusual and exigent circumstances exist which justify such action, hereby

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"authorizes all Federal reserve banks for a period of six months from the date of this letter to discount for individuals, partnerships and corporations, with their indorsement, notes, drafts and bills of exchange which are now eligible for discount for member banks under the provisions of Section 13 or 13(a) of the Federal Reserve Act and Regulation A of the Federal Reserve Board, and which are also secured to the satisfaction of the Federal reserve banks."

A discussion followed during which the other members of the Board expressed themselves as favoring the adoption at this time of the broader construction of the amendment set forth in section III of the proposed circular as submitted, and the substitute submitted by Mr. Miller was not adopted.

Further discussion was had and after certain modifications, the circular was approved in the form hereinafter set forth. Thereupon the Secretary was requested to forward the circular letter to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta and Chicago by special delivery mail and to the Federal Reserve Banks of St. Louis, Minneapolis, Kansas City, Dallas and San Francisco by telegraph so that it may be in the hands of the banks tomorrow, and to advise the banks that the circular will be given to the press on Saturday, July 30, 1932, for release on Monday, August 1, 1932, and until the latter date should be treated as confidential:

CIRCULAR LETTER TO FEDERAL RESERVE BANKS

"The third paragraph of Section 13 of the Federal Reserve Act, as amended by the Act of July 21, 1932, provides as follows:

"In unusual and exigent circumstances, the Federal Reserve Board, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks under other provisions of this Act when such notes, drafts, and bills of exchange are indorsed and otherwise secured to the satisfaction of the Federal reserve bank: Provided, That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the Fed-

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"ederal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe."

"In view of the fact that the power conferred by this provision can be exercised only in 'unusual and exigent circumstances', the Federal Reserve Board has not prescribed any formal regulations governing the exercise of this power; but the requirements of the law and the procedure which the Federal Reserve Board will expect to be followed are outlined below for the information of the Federal reserve banks and any individuals, partnerships or corporations that may contemplate applying to them for discounts.

"I. LEGAL REQUIREMENTS.

"It will be observed that, by the express terms of the law:

"1. The power conferred upon the Federal Reserve Board to authorize Federal reserve banks to discount eligible paper for individuals, partnerships or corporations may be exercised only:

- (a) In unusual and exigent circumstances,
- (b) By the affirmative vote of not less than five members of the Federal Reserve Board, and
- (c) For such periods as the Federal Reserve Board may determine.

"2. When so authorized, a Federal Reserve Bank may discount for individuals, partnerships or corporations only notes, drafts and bills of exchange of the kinds and maturities made eligible for discount for member banks, under other provisions (Sections 13 and 13a) of the Federal Reserve Act. (Such paper must, therefore, comply with the applicable requirements of Regulation A of the Federal Reserve Board).

"3. Paper discounted for individuals, partnerships or corporations must be both (a) indorsed and (b) otherwise secured to the satisfaction of the Federal reserve bank.

"4. Before discounting paper for any individual, partnership or corporation, a Federal reserve bank must obtain evidence that such individual, partnership or corporation is unable to secure adequate credit accommodations from other banking institutions.

"5. Such discounts may be made only at rates established by the Federal reserve banks, subject to review and determination by the Federal Reserve Board.

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"6. All discounts for individuals, partnerships or corporations are subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe.

"II. AUTHORIZATION BY THE FEDERAL RESERVE BOARD.

"The Federal Reserve Board, pursuant to the power conferred upon it by the amendment hereinbefore quoted, hereby authorizes all Federal reserve banks, for a period of six months beginning August 1, 1932, to discount eligible notes, drafts and bills of exchange for individuals, partnerships and corporations, subject to the provisions of the law, the Board's regulations, and this circular.

"III. FOR WHOM PAPER MAY BE DISCOUNTED.

"A Federal reserve bank may discount for individuals, partnerships or corporations notes, drafts or bills of exchange, which are the obligations of other parties actually owned by such individuals, partnerships or corporations and indorsed by them, or the promissory notes of such individuals, partnerships, or corporations indorsed by other parties whose indorsements are satisfactory to the Federal reserve bank.

"Within the meaning of this circular, the term 'corporations' does not include banks.

"IV. APPLICATIONS FOR DISCOUNT.

"Each application of an individual, partnership or corporation for the discount of eligible paper by the Federal reserve bank must be addressed to the Federal Reserve Bank of the District in which the principal place of business of the applicant is located, must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain, or be accompanied by, the following:

"1. A statement of the circumstances giving rise to the application and of the purposes for which the proceeds of the discount are to be used;

"2. Evidence sufficient to satisfy the Federal reserve bank as to (a) the legal eligibility of the paper offered for discount under Section 13 or Section 13(a) of the Federal Reserve Act and Regulation A of the Federal Reserve Board and (b) its acceptability from a credit standpoint;

"3. A statement of the efforts made by the applicant to obtain adequate credit accommodations from other banking institutions, including the names and addresses of all other banking institutions to which applications for such credit accommodations were made, the dates upon which such applications were made, whether such applications were definitely refused and the reasons, if any, given for

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"such refusal;

"4. A list showing each bank with which the applicant has had banking relations, either as a depositor or as a borrower, during the preceding year, with the approximate date upon which such banking relations commenced and, if such banking relations have been terminated, the approximate date of their termination;

"5. Complete credit data regarding the financial condition of the principal obligors and indorsers on the paper offered for discount;

"6. A list and description of the collateral or other security offered by the applicant;

"7. A waiver by the applicant of demand, notice and protest as to applicant's obligation on all paper discounted by the Federal reserve bank or held by the Federal reserve bank as security; and

"8. An agreement by the applicant, in form satisfactory to the Federal reserve bank, (a) to furnish additional credit information to the Federal reserve bank, when requested, (b) to submit to audits, credit investigations or examinations by representatives of the Federal reserve bank at the expense of the applicant, whenever requested by the Federal reserve bank, and (c) to furnish additional security whenever requested to do so by the Federal Reserve Bank.

"V. GRANT OR REFUSAL OF APPLICATION.

"Before discounting notes, drafts, or bills of exchange for any individual, partnership or corporation, the Federal reserve bank shall ascertain to its satisfaction by such means as it may deem appropriate:

"1. That the financial condition and credit standing of the applicant justify the granting of such credit accommodations;

"2. That the paper offered for discount is acceptable from a credit standpoint and eligible from a legal standpoint;

"3. That the security offered is adequate to protect the Federal reserve bank against loss;

"4. That there is a reasonable need for such credit accommodations; and

"5. That the applicant is unable to obtain adequate credit accommodations from other banking institutions.

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"A special effort should be made to determine whether the banking institution with which the applicant ordinarily transacts his banking business or any other banking institution to which the applicant ordinarily would have access is willing to grant such credit accommodations.

"A Federal reserve bank should not discount such paper unless it appears that the proceeds of such discounts will be used to finance current business operations and not for speculative purposes, for permanent or fixed investments, or for any other capital purposes. Except with the permission of the Federal Reserve Board, no such paper should be discounted if it appears that the proceeds will be used for the purpose of paying off existing indebtedness to other banking institutions.

"In discounting paper for individuals, partnerships or corporations, a Federal reserve bank should not make any commitment to renew or extend such paper or to grant further or additional discounts.

"VI. LIMITATIONS.

"Except with the permission of the Federal Reserve Board, no Federal reserve bank shall discount for any one individual, partnership or corporation paper amounting in the aggregate to more than one per cent of the paid-in capital stock and surplus of such Federal reserve bank.

"VII. ADDITIONAL REQUIREMENTS.

"Any Federal reserve bank may prescribe such additional requirements and procedure respecting discounts hereunder as it may deem necessary or advisable; provided that such requirements and procedure are consistent with the provisions of the law, the Board's regulations and the terms of this circular.

"By order of the Federal Reserve Board."

Reports of Standing Committee dated July 21, 22, and 25, 1932, recommending approval of the following changes in stock at Federal reserve banks:

| <u>Applications for ADDITIONAL Stock:</u> | <u>Shares</u> | |
|--|---------------|----|
| <u>District No. 6.</u> | | |
| Bank of Statesboro, Statesboro, Georgia. | 39 | |
| Liberty National Bank & Trust Company, Savannah, Ga. | <u>1</u> | 40 |

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| <u>Applications for SURRENDER of Stock:</u> | <u>Shares</u> | |
|--|---------------|------------|
| <u>District No. 6.</u> | | |
| First National Bank, Waynesboro, Miss. (Insolvent) | 45 | |
| First National Bank, Etowah, Tenn. (Insolvent) | <u>42</u> | 87 |
| <u>District No. 7.</u> | | |
| Lincoln National Bank and Trust Co., Fort Wayne, Indiana. (Decrease in surplus) | 180 | |
| First National Bank, Sheffield, Iowa. (Insolvent) | <u>30</u> | 210 |
| <u>District No. 9.</u> | | |
| Baraga County National Bank, L'Anse, Michigan. (Insolvent) | 45 | |
| First National Bank, Mooreton, North Dakota. (V.L.Terminal) | <u>17</u> | 62 |
| <u>District No. 10.</u> | | |
| First National Bank, Loup City, Nebraska. (Suc. by First National Bank in Loup City, Nebraska) | 36 | |
| First National Bank, Waynoka, Oklahoma. (Decrease in surplus) | <u>3</u> | 39 |
| <u>District No. 11.</u> | | |
| First National Bank, Iowa Park, Texas. (V.L.Abs. by State National Bank of Iowa Park) | 90 | 90 |
| <u>District No. 12.</u> | | |
| Lebanon National Bank, Lebanon, Oregon. (V.L.Abs. by First National Bank of Lebanon) | 21 | 21 |
| | <u>Total</u> | <u>509</u> |

Approved.

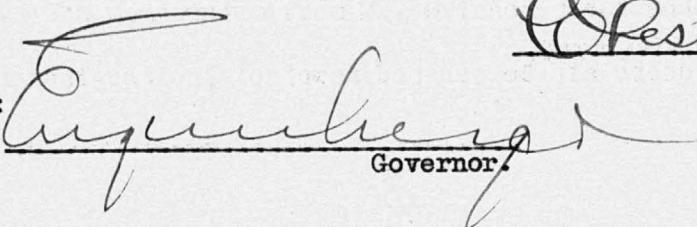
Report of Standing Committee dated July 21, 1932, recommending approval of the following Clayton Act application:

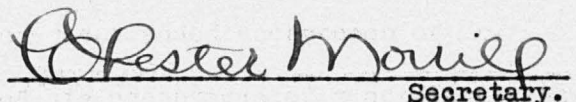
Mr. W. H. Berry, for permission to serve at the same time as director of the First Greenwood National Bank of Seattle, Washington, and as officer of the First National Bank of Seattle, Washington.

Approved.

Thereupon the meeting adjourned.

Approved:


Governor.


Secretary.