

A meeting of the Federal Reserve Board was held in Washington on Wednesday, August 10, 1932, at 2:45 p. m.

PRESENT: Governor Meyer  
Mr. Miller  
Mr. James  
Mr. Magee  
Mr. Pole

Mr. McClelland, Assistant Secretary  
Mr. Harrison, Assistant to the Governor  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief, Division of Bank Operations.

The Board considered and acted upon the following matters:

Telegram dated August 10, 1932, from Deputy Governor Paddock of the Federal Reserve Bank of Boston stating that the board of directors, at its meeting today rescinded the action taken by the executive committee on August 8, in establishing a rate of 5 1/2% on paper discounted for individuals, partnerships and corporations in accordance with the provisions of section 13 of the Federal Reserve Act as amended, and established a rediscount rate of 6% on such paper, effective the first business day following that on which approved by the Federal Reserve Board.

The rate of 6% established by the board of directors of the Boston bank was approved, effective August 11, 1932.

In view of the contemplated absence of certain of the members of the Board from Washington during the period of the next ten days or two weeks, the executive committee was authorized, in the absence of a quorum of the Board, to approve rates of discount established by Federal reserve banks on paper for individuals, partnerships and corporations.

Telegram dated July 29, 1932, from the Chairman of the Federal Reserve Bank of Cleveland advising of the election of Mr. Ben R. Connor, President of the First National Bank, Ada, Ohio, as a Class A director of the Cleveland bank for the unexpired portion of the term ending December 31, 1933, to succeed Mr. O. N. Sams, deceased.

Noted.

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Reply to a letter dated August 2, 1932, from the Federal Reserve Agent at Boston advising of the resignation of Mr. Albert F. Bemis, as a Class B director of the bank effective as of December 31, 1932, and stating that it is proposed to hold a special election of a class B director for the balance of Mr. Bemis' unexpired term ending December 31, 1933, at the same time as the regular elections of Class A and B directors are held. The reply stated that the Board sees no objection to this proposal.

Approved.

Memorandum dated August 9, 1932, from Mr. Goldenweiser, Director of the Board's Division of Research and Statistics, stating that if agreeable to the Board, he desires to take a vacation beginning August 16 and ending August 27, 1932, and, at the termination of that period, to remain at Cape Cod, Massachusetts, for another ten days for the purpose of working without interruption on the report of the Committee on Branch, Group, and Chain Banking.

Approved.

Memorandum dated August 4, 1932, from Mr. Noell, as Fiscal Agent, submitting the statements received from the Federal Reserve Banks of Boston, Philadelphia, Cleveland and Richmond, covering the expenses of, and allowances to, employees of those banks who were detailed to assist the Board's examiners in the examination of the Federal Reserve Bank of New York as of June 18, 1932; the memorandum stating that the statements have been verified by the examiner in charge and recommending that the Board approved payment thereof.

The Fiscal Agent was authorized to pay the Federal reserve banks referred to, the amounts shown in the respective statements submitted by them.

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Reply to a letter dated July 14, 1932, from the Chairman of the Federal Reserve Bank of Richmond written in response to the Board's letter of July 9, 1932, with regard to the comments made by the Board's examiners in the report of examination of the bank as of May 9, 1932; the reply stating that the Chairman's letter appears to cover fully the several matters referred to in the Board's letter of July 9, and that the attention which has been given by the bank to the comments and suggestions of the examiners is appreciated.

Approved.

Letter to The Exchange National Bank, Columbia, Missouri, stating that in addition to the authority heretofore granted to the bank to act as trustee, executor, administrator, and registrar of stocks and bonds, the Federal Reserve Board has approved the bank's application for permission to act, when not in contravention of State or local law as guardian of estates, assignee, receiver, and committee of estates of lunatics, the exercise of such rights being subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

Approved.

Reply to a letter dated July 13, 1932, from the Federal Reserve Agent at Philadelphia transmitting the application of the Lock Haven Trust Company, Lock Haven, Pennsylvania, for membership in the Federal reserve system; the reply stating that the Board has reviewed the information submitted, but in the absence of a report of an examination of the applicant institution, which was formed through the consolidation on June 11, 1932, under a new charter, of the Lock Haven Trust Company, a member, and the Clinton Trust Company of Lock Haven, a nonmember, the Board will defer action on the application for

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membership pending receipt of a report of the examination of the trust company, which it is understood was scheduled to be conducted on August 1, 1932. The reply also requested that upon completion of the examination, the agent forward a copy of the report to the Board, together with his recommendation, and suggested that consideration be given to the advisability of permitting the institution to continue its account with the Federal reserve bank as a nonmember clearing bank pending the Board's action on its application for membership.

Approved.

Reply dated July 26, 1932, to the letter received from the President of the United States, and presented at the meeting of the Board on that date, with regard to discounts by Federal reserve banks for individuals, partnerships and corporations under section 13 of the Federal Reserve Act as amended.

The reply, as follows, was approved:

"I have your letter of July 23 and have brought it to the attention of the other members of the Federal Reserve Board.

"You will recall that the exact scope of the amendment to section 13 of the Federal Reserve Act which was contained in the emergency relief and construction bill was not determined until the conference report was submitted, that the bill itself was not passed by Congress until July 16, and that it did not become law until last Thursday, July 21. Nevertheless, while the amendment was still pending and although Congress made material changes in it afterward, its provisions were discussed with the Governors of the Federal reserve banks during the meeting of the Open Market Policy Conference with the Federal Reserve Board at Washington on Thursday and Friday, July 14 and 15. A tentative draft of a circular governing discounts under this amendment was sent to the Chairmen and Governors of all Federal reserve banks on July 16 (before the conference report was adopted by Congress) in order that the important questions of policy and law involved might be developed and covered properly. In this connection, I may say that there were a number of difficult questions which required careful study and upon which there were differing ideas. The replies were obtained as rapidly as possible, in

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"nearly every instance by wire, and were carefully analyzed, and the circular was revised without delay. Its contents and the views of the Federal Reserve Banks were studied by members of the Board over the week end and today its final form was prescribed and approved by the Board. It was wired at once to all Federal Reserve Banks, with the advice that it will be given to the press on Saturday, for release on Monday, August 1, when it will become effective. It will be held confidential in the meantime. In this circular, the Board, recognizing the unusual and exigent circumstances which now exist, authorizes all Federal reserve banks, for a period of six months beginning August 1, to discount paper for individuals, partnerships and corporations as contemplated by the amendment.

"It may be added that there were no forms in existence which could be utilized for the purpose of handling applications under this new authority, but in order to expedite matters suggested forms have been drafted by the Board's staff and sent to the Federal Reserve Banks with the understanding that they may be adopted by each bank as soon as they are approved by its counsel.

"As you know, this amendment to the Federal Reserve Act enlarges in a fundamental way the scope of the activities of the Federal Reserve Banks to include a type of business which they were not organized to handle. Naturally, in such circumstances, time is required for the determination of questions of law, policy and procedure, but when it is recalled that the law did not become effective until July 21 and that the Board's instructions are being issued within five days thereafter, it is apparent that the matter has been handled very expeditiously.

"In addition to the other steps which the Board has taken, I may say, for your confidential information, that on July 19 a letter was sent to the Chairman of each Federal Reserve Bank stating that the Board desired that the bank, in cooperation with the Banking and Industrial Committee in its district and such other agencies as it might select, ascertain the extent to which there may be demands for loans which are not being met by other banking institutions and which properly might be granted by the Federal Reserve Bank under the provisions of the amendment, with the view of taking steps to meet the need for loans of this character."

Memorandum dated August 3, 1932, from Mr. Wingfield, Assistant Counsel, submitting for the approval of the Board a copy of Regulation "G", with sections I and III thereof revised in accordance with the provisions of the Act of July 21, 1932, amending section 502 of the World War Adjusted Compensation Act, and in accordance with the revised regulations promulgated

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by the Veterans Administration; the memorandum recommending that, upon approval by the Board, the revised Regulation "G" be printed and distributed to all member banks through the Federal reserve banks.

Sections I and III were amended to read as follows, and the amended Regulation "G" was ordered printed in accordance with the recommendation contained in Mr. Wingfield's memorandum:

"REGULATION G, SERIES OF 1932  
(Superseding Regulation G of 1931)

REDISCOUNT OF NOTES SECURED BY ADJUSTED SERVICE  
CERTIFICATES

Section I. Statutory Provisions

"Under the terms of the World War adjusted compensation act as amended, loans may lawfully be made to veterans upon their adjusted service certificates only in accordance with the provisions of section 502 thereof, as amended.

"Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia is authorized, at any time after the date of the certificate, to loan to any veteran upon his promissory note secured by his adjusted service certificate any amount not in excess of the loan value of the certificate, which is (a) 50 per cent of the face value of the certificate, or (b) the loan value stated on the face of the certificate, whichever is the greater amount. The law provides that the rate of interest charged upon the loan by the lending bank shall not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located and, as to loans made on or after July 21, 1932, shall in no event exceed 3 1/2 per cent per annum compounded annually. (1)

"Upon the indorsement of any bank, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, and subject to regulations

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(1) Loans made on or after February 27, 1931, but prior to July 21, 1932, could be made at a rate of interest not exceeding 4 1/2 per cent per annum compounded annually.

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"to be prescribed by the Federal Reserve Board, any such note secured by an adjusted service certificate and held by a bank is made eligible for rediscount with the Federal reserve bank of the Federal reserve district in which such bank is located, whether or not the bank offering the note for rediscount is a member of the Federal reserve system and whether or not it acquired the note in the first instance from the veteran or acquired it by transfer upon the indorsement of any other bank; provided that at the time of rediscount such note has a maturity not in excess of nine months, exclusive of days of grace, and complies in all other respects with the provisions of the law, the regulations of the United States Veterans' Bureau, and the regulations of the Federal Reserve Board.

### Section III. Eligibility.

"In order to be eligible for rediscount at a Federal reserve bank, any such note must--

- (a) Arise out of a loan made by a bank to a veteran in full compliance with the provisions of the act and of any regulation which the director may prescribe;
- (b) Be secured by the certificate issued to the maker, which certificate must accompany the note;
- (c) Be held by the offering bank in its own right at the time it is offered for rediscount;
- (d) Be in the form approved by the director;
- (e) Have a maturity at the time of rediscount not in excess of nine months, exclusive of days of grace; provided, however, that when such note contains, in the form approved by the director, a provision for the extension of the maturity thereof from year to year, at the option of the holder evidenced by his indorsement thereon, the maturity of said note (after the first maturity stated thereon) shall, for the purpose of determining its eligibility for rediscount, be deemed to be that stated in the latest extension indorsed thereon by the holder;
- (f) Evidence a loan the amount of which does not exceed (a) 50 per cent of the face value of the certificate or (b) the loan value stated on the face of the certificate for the year in which such loan was made, whichever amount is greater;
- (g) Be payable with interest accruing after the date of the note at a rate stated in the face

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"of the note, which rate must not exceed by more than 2 per cent per annum the rate charged at the date of the loan for the discount of 90-day commercial paper by the Federal reserve bank of the Federal reserve district in which the lending bank is located; provided, however, that, if the loan or any extension thereof was made on or after July 21, 1932, the rate must not in any event exceed 3 1/2 per cent per annum, compounded annually;

(h) Bear the indorsement of the bank offering it for rediscount, which indorsement shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively;

(i) Be accompanied by the evidence of eligibility required by this regulation and such other evidence of eligibility as may be required by the Federal reserve bank to which it is offered for rediscount; and

(j) Comply in all other respects with the requirements of the law and of this regulation."

Memorandum dated July 23, 1932, from Mr. Vest, Assistant Counsel, discussing in detail, in so far as they affect the Federal Reserve Board, certain rulings of the Comptroller General on questions arising under the so-called Economy Act of June 30, 1932.

The memorandum, having been previously circulated among the members of the Board, was noted.

Letter dated August 10, 1932, from the Treasurer of the United States stating that an application has been filed by the Comptroller of the Currency, on behalf of certain national banks which are in the hands of receivers, to have sold, in accordance with the provisions of section 18 of the Federal Reserve Act, certain United States bonds held by the Treasurer of the United States as security for the national bank note circulation of such banks; the letter also submitting a list of the national banks and of the amounts and kinds of bonds offered for sale on behalf of each bank.

After a brief discussion, the Governor stated that he would take the matter up with



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the Federal Reserve Bank of New York while he is in New York tomorrow and report to the Board the views of that bank regarding the proposal. Accordingly, action was deferred.

Letter dated August 3, 1932, from Assistant Secretary of State Rogers stating that pursuant to a resolution adopted by the Lausanne Conference on July 9, 1932, to invite the League of Nations to convoke at a convenient date and at a place to be fixed, a Conference on Monetary and Economic Questions, the Council of the League, on July 15, 1932, established an organizing committee for such a conference; that the Government of the United States has accepted invitations to be represented on the organizing committee and on a committee of experts to which will be entrusted the preliminary examination of the questions to be discussed; and that the Department of State deems it important to commence a systematic study of the interest of the United States in the Conference, which may best be formulated by an informal working committee appointed from the interested departments of the Government, which committee should help to define the position of the Government of the United States with reference to the different items which may be included in the Conference agenda and will be free also to make proposals as to what topics should be included in the agenda. The letter requested that the Board designate one representative to serve on the informal working committee, the first meeting of which it is proposed to hold as soon as the nominations have been received.

After a brief discussion, Mr. Goldenweiser, Director of the Board's Division of Research and Statistics, was designated to serve as the Board's representative on the informal working committee.

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Reference was then made to the question of whether the three year limitation contained in section 29 of the Federal Home Loan Bank Act, providing for the issuance of national bank notes on the security of United States Government bonds bearing interest at a rate not exceeding 3 3/8%, is to be interpreted to mean that all notes issued under the authority of this section must be retired on or before the termination of the three year period, or that no notes may be issued after the expiration of the period, with no limitation on the length of time which the notes issued during the period may remain outstanding. Mr. Pole stated that, because of the large number of requests which have been received by his office for an interpretation of the question, the Secretary of the Treasury has requested the Attorney General for an opinion on the matter.

The discussion which followed emphasized the importance and possible effects of the Attorney General's opinion, and Mr. Miller was requested, with such members of the Board's staff as he may wish to have participate, to discuss the matter with the Attorney General from the standpoint of the interests of the Federal Reserve System.

Reports of Standing Committee dated August 8 and 9, 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. 3.</u>		
Merchantville National Bank & Trust Company, Merchantville, N. J. (Increase in surplus)	60	60
<u>District No. 8.</u>		
Seymour National Bank, Seymour, Ind. (Increase in capital, partly offset by decrease in surplus)	12	
First National Bank, Carlyle, Ill. (Increase in surplus)	<u>2</u>	14
<u>District No. 11.</u>		
Texas Bank & Trust Company, Brownsville, Texas. (Increase in surplus)	<u>1</u>	<u>1</u>
	Total	75

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<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 3.</u>		
Clearfield National Bank, Clearfield, Pa. (Insolvent)	270	270
<u>District No. 5.</u>		
First National Bank, Spartanburg, S. C. (Insolvent)	330	330
<u>District No. 6.</u>		
Bank of Dawson, Dawson, Ga. (Decrease in surplus)	18	
Capital National Bank, Jackson, Miss. (Decrease in surplus)	60	
First National Bank, Reynolds, Ga. (Decrease in surplus)	15	
Calcasieu National Bank, Lake Charles, La. (Decrease in surplus)	<u>63</u>	156
<u>District No. 7.</u>		
Kaspar American State Bank, Chicago, Ill. (Insolvent)	1,200	
Woodlawn Trust & Savings Bank, Chicago, Ill. (Insolvent)	450	
First National Bank, Wilmette, Ill. (Insolvent)	120	
Lake County National Bank, Libertyville, Ill. (V. L. abs. by First National Bank)	<u>90</u>	1,860
<u>District No. 8.</u>		
First National Bank, Aberdeen, Miss. (Decrease in surplus)	24	
First National Bank, Springfield, Ky. (Decrease in surplus)	35	
First National Bank, Pinckneyville, Ill. (Decrease in surplus)	15	
First State Bank, Brownsville, Tenn. (Decrease in surplus)	<u>72</u>	146
<u>District No. 10.</u>		
First National Bank, Crofton, Nebraska. (Insolvent)	20	20
<u>District No. 11.</u>		
Sabinal National Bank, Sabinal, Texas. (Decrease in surplus)	6	6
<u>District No. 12.</u>		
First National Bank, Artesia, Calif. (Insolvent)	53	53
	<u>Total</u>	<u>2,841</u>

Approved.

Thereupon the meeting adjourned.

*E. W. W. C. C. C. C.*  
Assistant Secretary.

Approved:

*E. W. W. C. C. C.*  
Governor.