

A meeting of the Federal Reserve Board was held in Washington on Thursday, March 2, 1933, at 12:10 p. m.

PRESENT: Mr. Mills, Chairman
Mr. Meyer, Governor
Mr. Hamlin
Mr. Miller
Mr. James

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

Governor Meyer stated that Governor Harrison of the Federal Reserve Bank of New York advised him last night that the board of directors of the bank, at its meeting this afternoon, undoubtedly will consider the advisability of voting to increase the discount rate of the bank to 3 1/2%.

After discussion, during which Mr. Hamlin stated that he would not be able to be at the office this afternoon and that, therefore, a quorum of the Board would not be available should action be taken by the New York bank, the Governor was authorized, in the event such a rate is voted by the board of directors of the bank this afternoon, to advise the bank that the Board approves for the Federal Reserve Bank of New York a rediscount rate of 3 1/2% on all classes of paper of all maturities, effective March 3, 1933; Mr. Miller voting "no".

The following reply to the letter dated February 28 from the President of the United States which was presented at the meeting of the Board yesterday was then approved, having been submitted previously to the individual members of the Board for their consideration:

"The Board has received and carefully considered your letter of February 28, 1933.

"In response to your first inquiry, the Board has requested me to advise you that it is not at this time prepared to recommend any form of Federal guarantee of banking deposits. You are, of course, thoroughly familiar with the history of such experiments in some of the States and the inherent dangers in a proposal of this kind.

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"With respect to your second inquiry, it is understood that, in referring to the establishment of clearing house systems, you have in mind the possibility of the issuance of clearing house certificates or scrip in different communities throughout the country. This, of course, would require the voluntary and wholehearted cooperation of the bankers in particular areas, and, under conditions like these, the matter is one that presents a number of complications from the standpoint of practical operation. The possibility of issuing such certificates has been discussed with some of the leaders in several important communities where critical situations have developed, including Detroit, Cleveland, and Baltimore, and information regarding mechanics and procedure has been furnished to them. Similar information also has been transmitted to the chairmen and governors of all Federal reserve banks. In addition, we are advised that the Finance Department of the United States Chamber of Commerce recently sent to the presidents of clearing houses, the governors of the Federal reserve banks, and to some individual bankers, considerable material relating to clearing house certificates and other substitutes for cash, with the statement, however, that the Chamber is not urging the adoption of particular devices to meet current situations which necessarily change from day to day.

"We know that the question of issuing clearing house certificates has been or is being considered in the communities named and others, including the District of Columbia, but, for a number of reasons, many of which relate directly to their local situations, they have not felt, up to this time, that it would be feasible or desirable for them to resort to such a device. In Cleveland, it is our understanding that a committee has been appointed by the Clearing House Association for the purpose of canvassing all aspects of the matter in the light of the situation there.

"Answering your third inquiry, the Board has requested me to point out that the question is not whether the situation should be allowed to drift along under the sporadic state and community solutions now in progress, but whether any other step can properly be taken now which would produce better results and which at the same time would not create greater difficulty or alarm. All sorts of proposals and possibilities for dealing with the general situation with which we are confronted have been and are being canvassed and discussed, but so far no additional measures or authority have developed in concrete form which, at the moment, the Board feels it would be justified in urging.

"I may add that these matters are dealt with here only in summary form, because it is understood that you are familiar with the results of the discussions that have taken place recently, including the conference that was held Tuesday evening."

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Governor Meyer stated that Governor Geery of the Federal Reserve Bank of Minneapolis called him on the telephone this morning and advised that the First National Bank of St. Paul is contemplating a statement to the public; that, in order that it might be in a position to show additional cash resources, it had requested the Federal reserve bank to take over temporarily as a cash item approximately \$10,000,000 of overdue notes secured by veterans' adjusted service certificates; and that Governor Geery desired to know the attitude of the Board in the matter. It was pointed out that since the notes are overdue they are immediately redeemable by the Veterans Administration and that in all probability the bank does not wish to redeem them at this time for the reason that they represent a sound investment which nets 3 1/2 per cent. Mr. Wyatt stated that on the basis of the facts presented there is some question as to the eligibility of the notes and as to the title which would be acquired by the Federal reserve bank as a result of the transaction proposed.

After discussion, Mr. Wyatt was requested to discuss the matter with Governor Geery over the telephone.

Governor Meyer also stated that Governor Fancher of the Federal Reserve Bank of Cleveland had advised him this morning that the banking situation in Cleveland is quieter than it has been for two or three days and that the reserve position of the Federal Reserve Bank of Cleveland is stronger than had been expected in the light of recent developments in that district.

The Secretary then presented a memorandum dated March 1, 1933, from Mr. Smead, Chief of the Division of Bank Operations, stating that owing to

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extraordinarily large currency payments by the Federal reserve banks, particularly during the past week, a number of the banks are finding it difficult to keep within the margin fixed by the Board in its letter of May 2, 1932 (as later amended for the Federal Reserve Banks of New York and San Francisco) with regard to the pledging of Government securities as collateral for outstanding Federal reserve notes; and that in view of existing conditions it is recommended that, for the period from March 1 to April 30, 1933, inclusive, the margin for each bank, as fixed by the Board, be increased by 50%, which would increase the margin for the System from \$400,000,000 to \$600,000,000. Mr. Smead stated that the necessary adjusting entries, which must be made by some of the banks under present conditions in order to keep within the present margins, are an operating inconvenience and that it is felt, because of tremendous burden which is being placed upon the personnel of the banks at the present time, they should not be put to the necessity of this additional work.

After discussion, the Secretary was requested to send a telegram to the governors and Federal reserve agents at all Federal reserve banks stating that, owing to the extraordinarily large currency demands at this time, the Board has increased from \$400,000,000 to \$600,000,000, until and including April 30, 1933, the margin fixed in its letter of May 2, 1932, and has correspondingly increased the margin fixed for each bank by 50%.

Mr. Wyatt stated that Mr. John S. Sinclair, of counsel for the Federal Reserve Bank of Philadelphia, had advised him over the telephone that New Jersey, Pennsylvania, and Delaware have adopted similar legislation restricting the withdrawal of deposits and allowing the banks to accept new deposits, which, under the law, must be segregated and kept in liquid funds;

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that the superintendent of banks of Pennsylvania has prescribed a regulation that the new deposits are to be kept in cash in the vaults of the banks or in Government securities; and that the superintendent of banks realizes the impracticability of this regulation and has expressed a willingness to amend it to permit the banks to hold the new deposits in the form of balances with the Federal reserve bank, but that he is asking that the Federal reserve bank accept such deposits from nonmember as well as member banks. Mr. Sinclair reported, Mr. Wyatt said, that the Federal Reserve Bank of Philadelphia intends to accept such accounts from nonmember banks as nonmember clearing accounts, unless there is objection on the part of the Federal Reserve Board.

Mr. Wyatt was requested to advise Mr. Sinclair that the Board will interpose no objection to the suggested procedure.

Mr. Wyatt also stated that Mr. Robert S. Parker, counsel for the Federal Reserve Bank of Atlanta, had called him on the telephone to advise that all States in the Atlanta district, with the exception of Florida and Georgia, have adopted bank holidays or have applied restrictions on the withdrawal of deposits; that it is practically impossible for the Federal reserve bank to collect checks on the banks in those states, and that, if the Board has no objection, the Federal reserve bank intends to adopt the practice of giving credit for transit items when it has received payment in actually and finally collected funds, rather than to give credit in accordance with interdistrict time schedule.

Mr. Wyatt was authorized to advise Mr. Parker that the Federal Reserve Board will interpose no objection to the proposed procedure.

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Governor Meyer then reported briefly, for the information of the other members of the Board, the matters which were considered at a meeting held last night in New York City at which he, Mr. Mills, the Secretary of the Treasury, Mr. Woodin, the Secretary of the Treasury designate, Mr. George W. Davison, Chairman of the Central Hanover Bank and Trust Company, New York City, and Governor Harrison and Deputy Governors Burgess and Logan of the Federal Reserve Bank of New York, were present, and at which extended consideration was given to possible methods of meeting the present acute banking situation.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board, held on January 25 and 26 and February 1, 1933, were approved, and the actions recorded therein were ratified unanimously.

The minutes of the meetings of the Federal Reserve Board held on February 6, 9 and 16, 1933, were approved.

The Board then considered and acted upon the following matters:

Telegraphic reply to a telegram dated March 1, 1933, from the Federal Reserve Agent at Kansas City, requesting approval of the appointment of Messrs. T. Gordon Sanders, Judd W. Jones and J. C. Clark, Jr., as acting assistant Federal reserve agents at the Omaha, Denver and Oklahoma City branches, respectively. The reply stated that the Board approves the temporary appointment of Messrs. Sanders, Jones and Clark as acting assistant Federal reserve agents at the respective branches upon condition that before the temporary appointments become effective they resign their respective positions as audit clerks, with the understanding that during such periods as they are not engaged with their duties as acting assistant

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Federal reserve agents they may be detailed by the Federal reserve agent to perform such functions in the auditing department of the bank as the agent may consider advisable. The reply also explained the reasons for the condition imposed by the Board in connection with the appointments, and stated that each appointee should execute the usual form of oath of office and a surety bond in the amount of \$50,000, and that the appointees should not assume their new duties until the agent has been advised that the bonds have been approved by the Federal Reserve Board.

Approved.

Letter to Deputy Governor Helm of the Federal Reserve Bank of Kansas City, stating that in accordance with the recommendation contained in his letter of February 20, 1933, the Federal Reserve Board approves a change in the personnel classification plan of the bank to provide for the new position of "clerk-typist" in the failed banks-rediscount department.

Approved.

Letter to the chairman of the Federal Reserve Bank of Dallas stating that in accordance with the recommendation contained in his letter of February 16, 1933, the Federal Reserve Board approves changes in the personnel classification plans at each of the branches of the bank to provide for the position of "acting assistant Federal reserve agent" in the Federal reserve agent's department.

Approved.

Telegram dated March 1, 1933, from the Secretary of the Federal Reserve Bank of Minneapolis advising of the establishment on that date of the following schedule of buying rates on acceptances:

Bankers' Acceptances:

| | |
|-----------------|--------|
| 1 to 90 days | 1 1/2% |
| 91 to 120 days | 1 5/8% |
| 121 to 180 days | 2% |
| Repurchase | 1 1/2% |
| Trade Bills | 2 1/2% |

Without objection, noted with approval.

Telegram dated March 2, 1933, from Deputy Governor Kenzel of the Federal Reserve Bank of New York stating that in view of further increases in dealers bid and asked rates on bills, the New York bank this morning established the following schedule of effective buying rates on acceptances:

Bankers' Acceptances:

| | |
|-----------------|--------|
| 1 to 90 days | 2% |
| 91 to 120 days | 2 1/8% |
| 121 to 180 days | 2 1/2% |
| Repurchase | 2% |
| Trade Bills | 2 1/2% |

Without objection, notes with approval.

Telegrams dated March 2, 1933, from the Chairmen of the Federal Reserve Banks of Richmond and Chicago advising of the establishment at those banks today of the following schedule of effective buying rates on bankers' acceptances:

| | |
|-----------------|--------|
| 1 to 90 days | 2% |
| 91 to 120 days | 2 1/8% |
| 121 to 180 days | 2 1/2% |

Without objection, noted with approval.

Telegraphic reply to a telegram dated March 1, 1933, 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, to the First National Bank, Secaucus, New Jersey, in the amount of \$25,000, for a period of ninety days, with interest at the

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rate of 5% per annum, and on the security of miscellaneous domestic bonds, customers' collateral notes and unsecured notes with a margin of at least 25%; Deputy Governor Rounds stating that the bank has been notified of additional withdrawals of deposits in the near future and is in need of funds to meet such withdrawals. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Unanimously approved.

Telegraphic reply to a telegram dated March 2, 1933, from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for an additional advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act to the Clinton Trust Company, Newark, New Jersey, in the amount of \$50,000, for a period of ninety days, with interest at the rate of 5% per annum, and on the security of miscellaneous customers' collateral notes with a margin of at least 25%; Deputy Governor Rounds stating that the bank is urgently in need of funds to improve its cash position in anticipation of further withdrawals of deposits. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Unanimously approved.

Telegraphic reply to a telegram dated March 1, 1933, from Governor Norris of the Federal Reserve Bank of Philadelphia, requesting authority for an advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, to the Integrity Trust Company, Philadelphia, Pennsylvania, in the amount of \$300,000, for a period of ninety days, with interest at the rate of 5% per annum, and on the security of stocks and

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bonds with a market value of \$677,000; Governor Norris stating that the advance is desired to enable the bank to meet the demands for currency being made on it because of the unusual conditions existing in the community. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Unanimously approved.

Telegraphic reply to a telegram dated March 1, 1933, from Deputy Governor Johns of the Federal Reserve Bank of Atlanta requesting authority for an additional advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, to the Georgia Savings Bank and Trust Company, Atlanta, Georgia, in the amount of \$50,000, with interest at the rate of 5% per annum, payable on demand, and on the security of bills receivable aggregating \$75,840.36; Deputy Governor Johns stating that the advance is desired to meet continued withdrawals of deposits. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended, and that in the event the advance is not repaid nor demand for payment made within 90 days from this date, the matter should again be brought to the Board's attention with a statement of the circumstances which in the opinion of the Federal reserve bank justify the continuance of the advance without demand for payment.

Unanimously approved.

Telegraphic reply on March 1, 1933, approved by three members of the Board, to a telegram of that date from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority to purchase from the First National Bank, Spring Lake, New Jersey, \$61,000 of tax notes of

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the Borough of Seagirt, New Jersey. The reply stated that the Board authorizes the purchase with the understanding that the notes meet all requirements of Regulation E except that the population of the issuing municipality is less than 10,000 and the amount offered represents the entire issue outstanding.

Approved.

Telegraphic reply to a telegram dated March 1, 1933, from Deputy Governor Rounds of the Federal Reserve Bank of New York requesting authority to purchase from the Orange National Bank, Orange, New Jersey, a tax anticipation bond of the City of Orange in the amount of \$40,000. The reply stated that the Board authorizes the purchase with the understanding that the warrant meets all requirements of Regulation E except Section III(b) of that regulation which requires that the warrant be issued in anticipation of taxes or revenues which are due and payable on or before the date of maturity of the warrant.

Approved.

Telegraphic reply to a telegram dated February 21, 1933, from the Governor of the Federal Reserve Bank of San Francisco stating that as few banks in the district are availing themselves of the Federal reserve exchange and transfer draft at the present time, and in view of the uncertainties of the Federal reserve bank's legal obligation in connection with the payment or dishonor of such drafts in the event of suspension of the drawer, it is felt that the Federal Reserve Bank of San Francisco should withdraw the privilege as it is not believed that the service warrants the risks involved. The reply stated that, in view of the questions raised in

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previous correspondence between Mr. Wyatt and counsel for the San Francisco bank, it appears that the subject is one to which consideration should be given as a matter of System policy by the Governor's Conference; that the question as to what action should be taken in the meantime with respect to the withdrawal of the privilege in individual cases is one which the Board feels should be considered carefully in the light of any disturbances that might be caused in the present circumstances; but that if, after such consideration, the Federal Reserve Bank of San Francisco feels justified in withdrawing the privilege in particular cases, the Board will not object. The reply also stated that copies of the correspondence regarding this matter are being sent to all other Governors for their information in advance of the next conference.

Approved.

Reports of Standing Committee dated March 1, 1933, recommending approval of the following changes in stock at Federal reserve banks:

| <u>Application for ADDITIONAL Stock:</u> | <u>Shares</u> | |
|--|---------------|-----|
| <u>District No. 10.</u> | | |
| First National Bank, Anthony, Kansas. (Increase in surplus) | 1 | 1 |
| <u>Application for SURRENDER of Stock:</u> | | |
| <u>District No. 2.</u> | | |
| Bank of Depew, Depew, New York. (Insolvent) | 120 | 120 |

Approved.

Thereupon the meeting adjourned.

Chester Moulton
Secretary.

Approved:

Augustus C. ...
Governor.