

A meeting of the Federal Reserve Board was held in Washington on Thursday, March 2, 1933, at 9:30 p.m.

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

Mr. Morrill, Secretary
Mr. Harrison, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director, Division of
Research and Statistics
Mr. Smead, Chief, Division of Bank Operations.

Governor Meyer presented to the Board the following letter dated March 2, from the President of the United States, which had been delivered to his office during the dinner hour:

"To the Governor and Directors of
The Federal Reserve Board,
Washington, D. C.

Gentlemen:

"I understand that the Board is meeting this evening to consider recommending to me the use of the emergency powers under Section 5 of the Enemy Trading Act as amended, for the purpose of limiting the use of coin and currency to necessary purposes. I shall be glad to have the advice of the Board. If it is the view of the Board that these powers should be exerted I would be glad to have your recommendation accompanied by a form of proclamation, as it would seem to me it should be issued by me before banking hours tomorrow morning.

"I also take this occasion to acknowledge the receipt of your letter of February 28th. I am familiar with the inherent dangers in any form of federal guarantee of banking deposits, but I am wondering whether or not the situation has reached the time when the Board should give further consideration to this possibility. I am enclosing herewith a rough outline of a method upon which I should like to have the Board advise me.

Yours faithfully,

(Signed) Herbert Hoover."

"The plan for government guarantee of bank deposits

1. All member banks shall be eligible. All member banks shall be eligible upon appraisal by the Federal Reserve Banks or by the Comptroller or such agencies as he may designate that the net assets of such bank exceeds 50% of the deposits. Joining of the plan to be voluntary with the banks.
2. For purposes of the plan, deposits in the joining banks are to be divided into two categories, that is 'active deposits' and 'inactive deposits.'
3. The government to guarantee 100% of the 'active deposits'.
4. The 'active deposits' to be
 - a. new deposits made in the bank
 - b. 50% of the existing deposits of all depositors except secured or guaranteed deposits.
5. The 'active deposits' to be a first charge of all assets of the bank including stockholders liabilities. 'Inactive deposits' to be subordinated entirely to the 'active deposits' and not be available to depositors so long as the guarantee is outstanding.
6. The percentage of credit to the individual 'active depositor' may be increased beyond 50% if on examination of the assets of the bank such assets prove to be more than 50%, but no such increase to exceed more than 75% of the value of existing assets.
7. The banks to pay into a common fund one-half of one percent of the average of their 'active deposits' for the reimbursement of losses to the government.
8. No dividends to be paid by the banks joining in the plan and no payments to be made on 'inactive accounts' during the period of the guarantee. New loans made by the banks to be of such character as may be determined by general regulations to be issued by the Comptroller. Such regulations to exclude speculative use.
9. Banks may come out from under the guarantee at any time with the consent of 75% of the deposits on 'active account' but in any event the guarantee ends in 5 years.
10. Loans from the Reconstruction Finance Corporation in cases of inability of the banks to meet currency demands in the ordinary way."

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Action upon the President's letter was deferred so that the members of the Board might give it further consideration, although various aspects of the plan referred to therein, which is attached to the letter in the files of the Board, were discussed.

Governor Meyer reported that, shortly before the dinner hour, Secretary Mills had communicated with Attorney General Mitchell with regard to the authority of the President to declare a bank holiday under the provisions of the Trading with the Enemy Act of October 6, 1917, and had arranged for Mr. Harlan, Legal Assistant to the Undersecretary, and Mr. Wyatt, to discuss the matter with him. He stated, also, that Mr. Wyatt had reported to him that, after considerable discussion of the legal and other aspects of the question, the Attorney General had authorized Messrs. Harlan and Wyatt to tell the Secretary of the Treasury that there is sufficient color of authority under section 5 of the Trading with the Enemy Act to justify the President in taking action under it if he felt that the emergency justified it; and that the Attorney General was then in Mr. Mills' office working on a draft of a proclamation or executive order, with the assistance of Mr. Wyatt, Mr. Morrill, and Mr. Harlan.

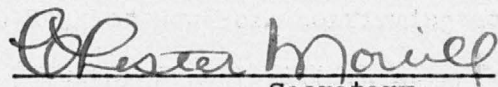
During the course of the meeting, all phases of the banking situation were canvassed, and Mr. Mills advised the Board that the Attorney General had stated that while he thought the President could act under the provisions of section 5 of the Trading with the Enemy Act if he deemed the emergency great enough, the matter was not free from doubt and he did not feel that he should advise the President to do so without the consent and approval of the incoming administration.

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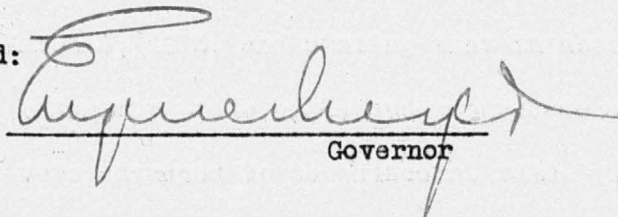
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It was the unanimous view of the Board that the situation demanded that a banking holiday be declared for Friday, Saturday, and Monday, and that such action should be taken with the understanding that Congress would be called in session on Monday for the purpose of passing not later than Tuesday some form of legislation that would be agreed upon not later than Monday morning. Mr. Mills, who had been in touch by telephone earlier with the President and Mr. Woodin, Secretary of the Treasury designate, so advised Mr. Woodin over the telephone at 11:10 p.m., in the presence of all those named, and of Mr. Ballantine, Mr. Awalt, and Mr. Douglas, who had entered the meeting a short time prior thereto. Subsequently word was received that no action would be taken in the matter tonight, and thereupon the meeting adjourned.


Secretary

Approved:


Governor