

A meeting of the Federal Reserve Board was held in Washington on Friday, March 10, 1933, at 12:00 noon.

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

Mr. Morrill, Secretary
Mr. Harrison, Assistant to the Governor
Governor Harrison, Federal Reserve Bank
of New York

The Secretary of the Treasury brought to the attention of the members of the Board a draft of a statement which he had under consideration regarding a plan of procedure for reopening banks. There was some discussion of the statement but no action upon it by the Board was requested by the Secretary of the Treasury and no action was taken.

During the course of the meeting Mr. Ballantine came in.

Governor Harrison said that if, as he understood to be the case, banks were not to be open generally until Monday, he would like to know what was going to be done between now and Monday and referred to regulation No. 10 of the Secretary of the Treasury. He said that he understood that it would be amended so as to make it possible to make payments for payroll purposes anywhere and that if this were the case there would still be areas where that authority could not possibly cover all the situations. He raised the question whether it would be helpful between now and Monday, in order to make necessary payroll payments to authorize the Federal reserve banks, under the new act of March 9, 1933, to make advances to individuals, partnerships and corporations on the security of Government bonds. After some discussion, with the understanding that the Secretary of the Treasury who, as Chairman of the Board, was present at the meeting, would cover the matter in his regulations, Mr. Morrill was authorized to send the following telegram to all Federal reserve banks:

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"Section 403 of the Act of March 9, 1933, amends section 13 of the Federal Reserve Act as amended by adding at the end thereof the following new paragraph: QUOTE Subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe, any Federal reserve bank may make advances to any individual, partnership, or corporation on the promissory notes of such individual, partnership, or corporation secured by direct obligations of the United States. Such advances shall be made for periods not exceeding 90 days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Federal Reserve Board UNQUOTE. Pursuant to a regulation issued by the Secretary of the Treasury under the President's proclamations of March 6 and March 9, 1933, any Federal reserve bank may make advances complying with the foregoing amendment in order to enable individuals, partnerships and corporations to meet their immediate payroll requirements. It will be observed that all such advances must be secured by direct obligations of the United States; that they may not be made for periods longer than ninety days and that the interest rate thereon is subject to review and determination of the Federal Reserve Board. Pending further action the Board approves a discount rate of 5% per annum upon advances made under this section to individuals, partnerships or corporations."

Attention was also directed to the amended section 10(b) of the Federal Reserve Act contained in section 402 of the act of March 9, 1933, and with the understanding that the Secretary of the Treasury would cover this matter also in his regulations, Mr. Morrill was authorized to transmit to all Federal reserve banks the following telegram:

"Section 10(b) of the Federal Reserve Act was amended by the Act of March 9, 1933, to read as follows: QUOTE: In exceptional and exigent circumstances, and when any member bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal reserve bank or any other method provided by this Act other than that provided by section 10(a), any Federal reserve bank, under rules and regulations prescribed by the Federal Reserve Board, may make advances to such member bank on its time or demand notes secured to the satisfaction of such Federal reserve bank. Each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal reserve bank on the date of such note. No advance shall be made under this section after March 3, 1934, or after the expiration of such additional period not exceeding one year as the President may prescribe. UNQUOTE. You will note from the foregoing quotation that the authority to make an advance to a member bank under section 10(b) is no longer subject to the condition that such bank have a

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capital not exceeding \$5,000,000 nor to the requirement of consent to such advance by affirmative action by not less than five members of the Federal Reserve Board but that no change has been made in the provision that such advance may be made only in exceptional and exigent circumstances and only when the member bank has no further eligible or acceptable assets available to enable it to obtain adequate credit accommodations from the Federal reserve bank through rediscounts or any other method provided by the Federal Reserve Act other than that provided by section 10(a). Likewise there is no change in the requirement that all such advances be secured to the satisfaction of the Federal reserve bank. Your attention is also directed to the fact that obligations of member banks acquired by Federal reserve banks under section 10(b) are not eligible for use as collateral for Federal reserve notes but that under section 401 of the Act of March 9, 1933, they may be used as security for the new issues of Federal reserve bank notes to an extent not more than 90% of the estimated value of such obligations deposited as security. Pending further action the Federal Reserve Board approves a discount rate of 5% per annum upon advances made under this section except where such rate would be less than 1 per centum per annum higher than the highest discount rate in effect at the Federal reserve bank, in which case the Federal Reserve Board approves a discount rate 1 per centum in excess of such highest rate. Until further action by the Board Federal reserve banks may make advances in accordance with section 10(b) under the conditions hereinbefore set out for such purposes as have been or hereafter may be authorized by regulations of the Secretary of the Treasury pursuant to the President's Proclamations of March 6 and March 9, 1933, and the Board's circular letter of March 10, 1932 (X-7115), as far as it relates to section 10(b) is hereby canceled. Reports on Schedule B D four of loans under section 10(b) of the Federal Reserve Act, as amended, should be continued in accordance with the Board's telegram of June 23, 1932 (Trans. No. 1478) and telegraphic advice of such advances should be made in accordance with the Board's letter of March 21, 1932 (B-721)."

As a result of further discussion, it was suggested to Governor Harrison that he prepare, for the consideration of the Board, a draft of a telegram which might be sent by the Board to all Governors of Federal reserve banks, incorporating therein his ideas as to the policy which should be followed by the Federal reserve banks with respect to making loans and advances to member banks which may be permitted to reopen for the resumption of normal business operations under the authority of the President's proclamations of March 6 and 9, 1933.

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The following regulations issued by the Secretary of the Treasury under the authority conferred upon him by the President's proclamations of March 6 and 9, 1933, declaring and continuing a bank holiday, which had previously been brought to the attention of the individual members of the Board were presented for the record:

(16) "All banking institutions are hereby authorized to take such steps and carry through such transactions as may be necessary to complete for their own account, or the account of their customers, payment on any subscriptions for Treasury bills of the United States for which payment was due on March 6, 1933."

(17) "Any banking institution may, when the owners consent thereto, pay checks issued prior to March 6, 1933, and received in due course of business by the drawee banking institution, by charging the amounts thereof to the accounts of the drawers and crediting such amounts to the accounts of such owners on the books of the drawee banking institution."

(10 as amended) "Any national or State banking institution may exercise its usual banking functions to such extent as its situation shall permit and as shall be absolutely necessary to meet the needs of its community for food, medicine, other necessities of life, for the relief of distress, for the payment of usual salaries and wages, for necessary current expenditures for the purpose of maintaining employment, and for other similar essential purposes. Banking institutions may carry out such transactions as may be necessary to aid banking institutions in other communities to meet the necessities set forth above. Provided, however, That (1) every precaution shall be taken to prevent hoarding or the unnecessary withdrawal of currency; (2) No State banking institution shall engage in any transaction under this regulation which is in violation of State or Federal law or of any regulation issued thereunder; (3) No National banking association shall engage in any transaction under this section which is in violation of any Federal law or of any order or regulation issued by the Comptroller of the Currency; and (4) No gold or gold certificates shall be paid out. Each banking institution and its directors and officers will be held strictly accountable for faithful compliance with the spirit and purpose as well as the letter of this regulation.

"Federal reserve banks may carry on such functions as may be necessary to facilitate transactions authorized by this regulation.

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"In order to enable member banks of the Federal reserve system to meet the needs of their respective communities to the extent authorized by this regulation Federal reserve banks may make advances to such member banks under the conditions set forth in Section 10 (b) of the Federal Reserve Act as amended by the act of March 9, 1933, and in accordance with authority granted by the Federal Reserve Board.

"In addition, in order to enable individuals, partnerships and corporations to meet their immediate payroll requirements, Federal reserve banks may make temporary advances to such individuals, partnerships and corporations on their promissory notes secured by direct obligations of the United States in accordance with authority granted by the Federal Reserve Board."

Thereupon the meeting adjourned.

Walter Howell
Secretary.

Approved:

W. H. C. ...
Governor.