

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Thursday, March 30, 1933, at 10:30 a.m.

PRESENT: 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. Paulger, Chief, Division of Examinations

ALSO PRESENT: Mr. C. R. McKay, Deputy Governor, Federal Reserve Bank of Chicago

Governor Meyer stated that the Chairman of the Board had been advised of this meeting, but that he was not expected to return to his office until after 12:30 p.m.

He then referred to the investigation made by one of the Board's examiners in connection with certain irregularities in the Fiscal Agency Department of the Federal Reserve Bank of Chicago. He requested Mr. McKay to review, for the information of the members present, the history of his association with the Federal Reserve Bank of Chicago and his present duties at the bank, and to make a statement to the committee with regard to the subscriptions through the fiscal agency department to issues of Government securities by officers, employees, and directors of the bank, the classification of such subscriptions and the allotment of securities thereunder. A stenographic transcript of Mr. McKay's statement, and the replies made by him to questions asked by members of the Board and its staff, with regard to various matters covered in the report of the investigation above referred to, will be found in the Board's files. At the conclusion of Mr. McKay's testimony, it was stated that the transcript will be in the hands of the Board tomorrow morning, and, as he asked permission to review his statements in order that he might correct any errors,

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it was suggested that he remain in Washington until tomorrow for that purpose.

Before leaving the meeting, Mr. McKay stated that Mr. McDougal, Governor of the Federal Reserve Bank of Chicago, is showing some improvement but is still too ill to be at the bank.

The Committee then considered and acted upon the following matters:

Letter to Mr. Stevens, Federal Reserve Agent at Chicago, referring to the Board's letter of January 13, 1933, in which the agent was advised that the Board had no objection to his waiting an additional period of 60 days before submitting a recommendation for the appointment of a receiver for the City National Bank, Lansing, Michigan, which was absorbed by the Capital National Bank of Lansing on December 26, 1931, and stating that as it now appears that the Capital National Bank was placed in charge of a conservator on March 23, 1933, and, as the period of 60 days referred to above has expired, it is suggested that the agent submit a further report with respect to the probability of the City National Bank going into voluntary liquidation in the near future, together with such recommendation as he may desire to make as to the appointment of a receiver for the institution.

Approved.

Telegram to Mr. Stevens, Federal Reserve Agent at Chicago, replying to Assistant Federal Reserve Agent Young's letter of March 28, 1933, with regard to the application of the St. Joseph Loan and Trust Company, South Bend, Indiana, for permission to withdraw immediately from membership in the Federal Reserve System. The reply stated that the Board waives the usual requirement of six months' notice and that, accordingly, upon surrender of the Federal reserve bank stock issued to the trust company the Federal Reserve Bank of Chicago is authorized to cancel such stock and make a refund thereon.

Approved.

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Reply to a letter dated March 23, 1933, from Acting Assistant Federal Reserve Agent Shepherd at the Federal Reserve Bank of Richmond, inquiring with respect to the procedure to be followed in the cancellation of Federal reserve bank stock outstanding in the name of the First National Bank of Hampstead, Maryland; it appearing that 24 shares of Federal reserve bank stock, the cancellation of which was approved by the Board on February 18, 1933, had not been canceled on March 10, 1933, the date on which a receiver was appointed for the national bank. The reply stated that, in the circumstances, it is suggested that the receiver's application for cancellation of the Federal reserve bank stock held by the First National Bank cover 81 shares, the total number of shares of stock outstanding, and that the cancellation of the 24 shares previously authorized be deferred until the receiver's application is approved.

Approved.

Telegram to the Governors of all Federal reserve banks, prepared following the receipt of inquiries from several Federal reserve banks, stating that penalties should not be assessed against a member bank for deficiencies in reserves for the period beginning March 6, and ending on the date next preceding March 13, 14 or 15, depending on which of those dates, according to its location, such bank might first have opened to perform usual banking functions under a license issued by the Secretary of the Treasury, regardless of whether such license was actually issued or not; that member banks licensed to open should maintain reserves in accordance with the usual requirements beginning with the effective date of license; that for the present and until further notice a bank not licensed to open, whether or not it is in the hands of a conservator appointed by the Comptroller of

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the Currency or in the hands of a State official having similar authority, should not be penalized for a deficiency in reserves against deposits which have not been made available for withdrawal by depositors; and that member banks not licensed to open on one of the above dates should, pending the receipt of a license to open, maintain reserves on new deposits and old deposits made available for withdrawal as follows:

"Deposits received in special trust accounts pursuant to provisions of Regulation 7 of the Secretary of the Treasury and deposits received while a bank is in the hands of conservator appointed by Comptroller of Currency or in the hands of a State official having similar authority are demand deposits and subject to demand deposit reserve.

The part of deposits made available for immediate withdrawal on a ratable basis under regulation 27 of Secretary of Treasury should be treated as demand deposits and subject to demand deposit reserve.

The part of deposits made available for withdrawal on a ratable basis from national banks in hands of conservators as provided in section 206 of the Bank Conservation Act or under similar conditions from State member banks in hands of conservators or other State officials having similar authority should be considered as demand deposits and subject to demand deposit reserve."

Approved.

Letter to the Chairmen of all Federal reserve banks, stating that at the present time certain Federal reserve banks send to the Board copies of reports of general audits of the banks made from time to time by their auditing staffs; that prior to the Board's letter of March 26, 1925, discontinuing report forms X-794 and X-794a, it appears it had been the custom of Federal reserve agents to submit with these report forms copies of audit reports rendered by the bank's auditing department; and that while it is not the desire of the Board that the discontinued report forms be restored, or that copies of all reports of the auditing departments be furnished to

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the Board, it will be appreciated if the Chairmen will transmit to the Board copies of all reports of general audits that are made by the auditing departments including the textual part thereof and a copy of any written comment made by the chairmen in submitting such reports to the boards of directors. The letter also stated that the Board will be glad to receive a statement setting forth in some detail the manner in which the auditing department is conducted, the nature of its review of the work of each department of the bank, its program as to general audits, the intensiveness of its efforts to ascertain irregularities and develop improvements of a constructive nature, the extent to which it goes in submitting recommendations, and what arrangements have been made for their systematic consideration by the officers and directors of the bank.

Approved.

Reply to a letter dated March 27, 1933, from S. J. Balassi, Treasurer of the Washington Irving Trust Company, Tarrytown, New York, referring to the company's recent application for membership in the system and stating that, while the company is willing to accept the first 14 conditions of membership prescribed by the Board, it is felt that the fifteenth condition requiring the charge off of bond depreciation is not fair, as it is believed to be unjust to require the trust company to charge off such depreciation, while competitive member banks are carrying similar investments at book value. The reply stated that the condition referred to represents the policy which has been consistently followed by the Board for a considerable period of time and is one that has been uniformly applied in all cases of banks admitted to membership during the period; and that the policy was

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determined only after careful consideration of all aspects of the question and the Board feels that it is sound and desirable. The reply also stated that a copy of Mr. Balassi's letter is being forwarded to the Federal Reserve Agent at New York with the request that he explain the Board's policy more fully, and that it is hoped that when he has done so, the trust company will see its way clear to accept condition number 15 as well as the other conditions on the basis of which the institution's application for membership was approved.

Approved.

Reply, prepared for the signature of the Secretary of the Treasury, to a letter received in his office under date of March 13, 1933, from Congressman D. C. Dobbins inclosing a telegram from Mr. Carl N. Weillepp, Decatur, Illinois, requesting that the Federal reserve banks be urged to accept as eligible for rediscount the notes of building and loan associations which are acceptable from a credit standpoint. The reply stated that under the provisions of the Federal Reserve Act notes, drafts, and bills of exchange, issued or drawn for agricultural, industrial or commercial purposes or the proceeds of which are used for such purposes, may be discounted by Federal reserve banks but "notes, drafts and bills covering merely investments" are not eligible for discount; that pursuant to this provision of the statute the regulations of the Federal Reserve Board provide that a note, draft or bill of exchange, the proceeds of which are used for permanent or fixed investments of any kind, such as land, buildings or machinery or any other capital purpose is not eligible for discount at a Federal reserve bank; and that accordingly, the notes

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of building and loan associations may not, under the law, be discounted by Federal reserve banks. The letter called attention to the fact, however, that classes of paper not eligible for rediscount at a Federal reserve bank may be used as collateral for advances under the provisions of the Glass-Steagall Act, as amended by the Act of March 9, 1933, and observed that the Reconstruction Finance Corporation Act specifically includes building and loan associations among the institutions which are eligible as applicants for loans by that corporation, and that the Federal Home Loan Bank Act has established a system of banks designed especially to afford rediscount facilities for building and loan associations and other financial institutions which make loans on first mortgages on dwellings.

Approved.

Reply, prepared for the signature of the Secretary of the Treasury to letters received in his office under date of March 13 and 18, 1933, from Mr. Edgar Bauman, President of the Madison Industrial Corporation, New York City, New York, with reference to the eligibility of finance company paper for rediscount by Federal reserve banks. The reply stated that this subject is one which has been considered by the Federal Reserve Board at various times in the past and that the Board has been advised uniformly by its counsel that such paper is not eligible for rediscount by Federal reserve banks under the terms of the Federal Reserve Act. The reply called attention, however, to the Glass-Steagall Act, as amended by the Act of March 9, 1933, authorizing advances to member banks which are without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient credit accommodations under

other provisions of the Federal Reserve Act, and to the Act of March 24, 1933, providing for loans by Federal reserve banks to nonmember State banks and trust companies on the security of eligible or ineligible paper. The reply further stated that the security accepted by the Reconstruction Finance Corporation for loans which it has made both to member and non-member banks has not been confined to paper which would be eligible for discount by Federal reserve banks, and that the question whether the Federal Reserve Act should be amended so that paper eligible for discount may include finance company and other similar paper is a matter of legislative policy for Congress to decide.

Approved.

Telegraphic reply to a telegram dated March 30, 1933, from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority to purchase from the First National Bank, Elmsford, New York, \$15,000 of tax notes of the Village of Elmsford. 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, the amount of the notes offered exceeds 25% of the total outstanding warrants of the municipality, and one of the notes offered, in the amount of \$5,000, becomes due and payable before the final date on which taxes can be paid without penalty.

Approved.

Mr. Morrill stated that Under Secretary of the Treasury Ballantine had advised him that he is very anxious to learn the Board's views with regard to the changes submitted by him at the meeting yesterday in the proposed executive order prohibiting the hoarding of gold, and it was suggested that a meeting be held this afternoon for the purpose of giving further consideration to the order.

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Accordingly, the meeting recessed and reconvened at 3:00 p.m., there being present the appointive members of the Board, Messrs. Morrill, McClelland, Harrison, Wyatt, Smead and Goldenweiser of the Board's staff, and Under Secretary of the Treasury Ballantine.

There was a resumption of the discussion with regard to the effect of the substitution for paragraphs (c), (d), and (e) in Section 2 of the form of executive order recommended by the Board on March 25, 1933, of the paragraph suggested by the Attorney General and presented by Mr. Ballantine at the meeting yesterday. It was pointed out that the substitute would require the issuance by the Secretary of the Treasury of licenses for all transactions referred to therein, including the holding under earmark of gold which was earmarked or held in trust prior to March 6, 1933, the date on which the Proclamation of the President of the United States, declaring a bank holiday, was issued. During the course of the discussion, Mr. Miller suggested that the purposes sought to be accomplished by the change proposed by the Attorney General might be achieved in a more satisfactory manner by eliminating paragraph 2(e) from the form of order as recommended by the Board; by transposing paragraphs 2(d) and 2(c); and at the same time changing the latter to read as follows:

"Gold coin and bullion licensed for other legitimate transactions (not involving hoarding), including gold coin and bullion imported for reexport or held pending action on applications for export licenses"

with a corresponding change in section 8 of the order, so as to contain a reference to paragraphs (a), (c), and (d) of Section 2. It was pointed out by Mr. Miller that this change would make available gold coin and bullion for legitimate transactions, both foreign and domestic, and would exempt from the requirement of a license earmarked gold coin and bullion held in

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this country on March 6, 1933, for recognized foreign governments, foreign central banks, or the Bank for International Settlements. During the discussion Mr. Ballantine left the room to talk over the telephone with Deputy Governor Burgess of the Federal Reserve Bank of New York and upon his return stated that Mr. Burgess had advised him that while the New York bank prefers the form of order as approved by the Board, it feels that the change suggested by the Attorney General is workable and would permit the delivery of gold to meet obligations payable in gold; also, that there is no strong objection to requiring a license covering gold now held under earmark in this country.

Mr. Ballantine also stated that the Attorney General feels that a form of order which, while not providing specifically for licenses for the delivery of gold for use in making payments upon contracts calling for gold, would be broad enough to permit the issuance of such licenses, would be acceptable to him; that the Secretary of the Treasury is of the opinion that the President would accept the order in such form, and he agreed that, while Mr. Miller's suggestion perhaps meets these requirements in a better way than the change suggested by the Attorney General, the former makes no change in substance except that it does not require the licensing of gold held under earmark at the present time, and that in view of the expression of opinion from the Federal Reserve Bank of New York that this does not appear to be an important factor, he would like to follow the Attorney General's suggestion.

It was expressed as the opinion of the members of the Board present that the exception from the requirement of licenses of gold now held under earmark is a very important consideration as it clearly demonstrates that

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it is the intention of the order to preserve the sanctity of obligations entered into before the holiday and leaves no doubt as to the validity and status of earmark transactions entered into before that date. It was the consensus that the form of order suggested by Mr. Miller should be submitted to the Attorney General for his consideration.

Attention was called to the assurance that was given privately, by the Federal Reserve Bank of New York under authority of the Secretary of the Treasury, shortly after the bank holiday was declared, to foreign central banks having earmarked gold in this market, and the Bank for International Settlements, that the export of such gold would be freely licensed, and it was pointed out that the executive order in the form suggested by Mr. Miller would amount to a public statement of that assurance, which would not be the case should the order be approved in the form suggested by the Attorney General.

In a discussion as to the licensing of gold earmarked in the future, Mr. Ballantine stated that he thought the President feels that such transactions should be licensed, but that after the license is once issued and the gold earmarked, it should be at the unlimited disposal of the institution for whose account earmarked.

Mr. Ballantine also stated that Mr. Burgess had suggested that in the light of the proposed changes in section 2, section 3 does not make clear that the licensing of gold in the hands of the payor does not permit the retention of the gold in the hands of the payee. The matter was discussed briefly and Mr. Wyatt was requested to prepare a revision of section 3 to cover the point.

At this point Mr. Ballantine left the meeting.

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At the request of Mr. James, Mr. Goldenweiser stated for the record that during conversations (previously reported to the members of the Board by Mr. Morrill) in which he had participated with Deputy Governor Burgess of the Federal Reserve Bank of New York and Under Secretary of the Treasury Ballantine at one time, and Assistant Secretary of the Treasury Douglas at another, Mr. Burgess had stated that he and Governor Harrison feel strongly that no licenses should be granted for the export of gold until some arrangement has been made with the Bank of England as to the course of action which England will pursue regarding the stabilization of the pound and that such an arrangement might possibly be made some time this week. Mr. Goldenweiser made it clear that the statement by Mr. Burgess was intended to apply only to gold earmarked in the future and not to gold now held under earmark. He stated that he had disagreed with Mr. Burgess' statement, and he suggested that the Board consider the advisability of recommending to the Secretary of the Treasury that licenses for the export of gold in legitimate transactions be granted very freely.

Mr. James stated that, in his opinion, the injection of an international question, as suggested by Mr. Burgess, into an endeavor to stop the hoarding of gold in the United States, at least entitles the Board to an explanation as to why the officers of the New York bank should assume the responsibility for such an attitude, especially before consulting the Board with regard to the matter.

Mr. Goldenweiser stated that he feels strongly that the issuance of the proposed order is an emergency matter, which has nothing to do with the international gold standard, and that this situation cannot properly be used as a lever in connection with the international situation.

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The members of the Board appeared to agree with Mr. Goldenweiser's statement, and there was further discussion of the matter, but no action was taken.

Mr. Morrill stated that Mr. Stevens, Federal Reserve Agent at Chicago, had called him on the telephone today and advised that the conservators and attorneys of two Michigan banks, together with the Superintendent of Banks of Michigan, had presented to Mr. Stevens a plan for reorganizing the two banks which apparently involves what appears to him to be an important question of future policy as to whether banks in Michigan reorganized in accordance with the plan will be permitted to continue as members of the Federal Reserve System; that the representatives of the banks are considering coming to Washington to present the situation to the Board; and that Mr. Stevens is writing the Board about the matter. Mr. Morrill also stated that he had advised Mr. Stevens that he would present the matter to the Board but that he did not think the Board would want to commit itself in any way until the facts had been laid before the Board, with a recommendation from Mr. Stevens, in a case requiring some action by the Board.

After discussion, it was decided that if the representatives of the banks come to Washington, they should be received by Mr. Paulger, Chief of the Division of Examinations, for a thorough discussion of the matter, following which Mr. Paulger would inform the Board as to any questions which might require its consideration.

Mr. Smead referred to the action taken at the meeting of the Board on March 21, 1933, with regard to the printing program for Federal reserve bank notes, stated that upon taking the matter up with the Bureau of Engraving and Printing it was found that the completion of work in process

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will bring the total printings of such notes up to approximately \$600,000,000 and suggested that in view of the situation the Board authorize the completion of the notes now in process. He also suggested that as the Federal Reserve Bank of Atlanta is in a position where, in the event it is called upon to make a substantial additional amount of 10(b) loans, it may need a larger amount of Federal reserve bank notes, the Board approve the printing of \$19,200,000 additional of such notes for the Atlanta bank bringing the total for that bank up to \$30,000,000 and the total for the System up to approximately \$610,000,000.

After discussion, Mr. Smead's suggestions were approved.

Mr. Smead then referred to telephone advice which has been received from the Federal Reserve Bank of San Francisco that it might be called upon at an early date to assist a large member bank in that district through the extension of 10(b) loans, which are not eligible collateral for Federal reserve notes. He stated that the member bank in question may require this assistance because of transfers of funds which are being made to other Federal reserve districts resulting in a loss of gold by the Federal reserve bank through the gold settlement fund; that the Federal reserve bank is not able at the present time to substantially improve its position by rediscounting with other Federal reserve banks or the sale of Government securities; and that it may be necessary for it not only to issue Federal reserve bank notes but, also, to request other Federal reserve banks to rediscount notes representing advances to member banks under the provisions of section 10(b). The questions of the policy to be adopted in connection with the issuance of Federal reserve bank notes, particularly under circumstances such as those existing at the Federal reserve banks

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of Atlanta and San Francisco, and regarding the rediscounting by one Federal reserve bank for another of notes representing 10(b) advances, were discussed but no action was taken.

Mr. Morrill then presented a letter dated March 28, 1933, from Governor Black of the Federal Reserve Bank of Atlanta stating that because of the limited banking facilities in Knoxville, Tennessee, the Federal reserve bank is working on a plan whereby some of the larger notes pledged as security for advances by the Federal reserve bank to the East Tennessee National Bank at Knoxville, which closed owing the Federal reserve bank approximately \$1,700,000, may be converted into direct loans under the provisions of the last paragraph of section 13 of the Federal Reserve Act as amended by the Act of March 9, 1933; that this action is being contemplated for the purpose of aiding people in Knoxville who need help now and for the purpose of keeping the notes alive instead of allowing them to become dormant; and that as the regulations of the Board do not permit the use of the proceeds of such direct advances to pay off indebtedness to other banking institutions without the approval of the Board, it is requested that the Board permit the application of the plan referred to to the Knoxville banks. In this connection Mr. James stated that he had discussed Governor Black's suggestion with representatives of the Knoxville bank, that they are contributing substantial sums in order to effect a reorganization of the bank, and that he feels approval by the Board of Governor Black's request would be of assistance in working out a solution of the problems in Knoxville.

After discussion, the matter was referred to Mr. Paulger for consideration and report to the Board.

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The following regulations issued by the Secretary of the Treasury on March 30, 1933, under the authority conferred upon him by the President's Proclamations of March 6 and 9, 1933, previously brought to the attention of the individual members of the Board were presented for the record:

(31) "Any banking institution which is a member of the Federal Reserve System and is not licensed to perform usual banking functions, but which is duly authorized to engage in the business of acting as trustee, executor, administrator, registrar of stocks and bonds, transfer agent, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity, may transact such business in the normal and usual manner and may make payments on account of the principal or income of trust or other fiduciary funds to the persons entitled thereto; provided, that, except to the extent permitted by other Emergency Banking Regulations, no such banking institution shall withdraw or pay out any trust or other fiduciary funds on deposit with any other department of such banking institution or make any other payment in connection with any trust or other fiduciary funds which would operate to discharge, as a whole or in part, any indebtedness, as distinguished from any trust or other fiduciary duty, of such institution.

This regulation supersedes Emergency Banking Regulation No. 13 of March 7, 1933, which is hereby revoked."

(32) "Any State bank which is a member of the Federal Reserve System, and is not licensed by the Secretary of the Treasury to perform usual banking functions, may permit withdrawals of deposits which are lawfully secured by collateral; provided, that such withdrawals are (a) permissible under applicable law, (b) duly authorized by the Board of Directors of such bank, upon such terms with respect to the release of collateral as will fully protect all depositors and other creditors against the creation of any preferences, and (c) approved by the appropriate State authority having supervision of such bank.

Any such bank is authorized to carry on such usual banking functions as may be essential to allow the withdrawals permitted by this regulation, subject to the provisions and restrictions above set forth and except as otherwise prohibited."

Reports of Standing Committee dated March 28 and 30, 1933, recommending approval of the following changes in stock at Federal reserve banks:

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<u>Application for ADDITIONAL Stock:</u>		<u>Shares</u>	
<u>District No. 5.</u>			
First National Bank, Bassett, Virginia.			
(Increase in surplus)	5		5
<u>Applications for SURRENDER of Stock:</u>			
<u>District No. 6.</u>			
Farmers National Bank, Monticello, Georgia.			
(Decrease in surplus)	9		
Maury National Bank, Columbia, Tennessee.			
(V.L., Abs. by Commerce Union Bank of			
Nashville, Tennessee, nonmember)	<u>180</u>		189
<u>District No. 7.</u>			
First National Bank, Lake Geneva, Wisconsin.			
(Decrease in surplus)	15		15
<u>District No. 9.</u>			
Ashland National Bank, Ashland, Wisconsin.			
(Insolvent)	105		105
<u>District No. 10.</u>			
Ft. Collins National Bank, Ft. Collins, Colorado.			
(Insolvent)	84		
Hominy National Bank, Hominy, Oklahoma.			
(V. L.Suc. by First State Bank, Fairfax,			
Oklahoma, nonmember)	<u>18</u>		102
	<u>Total</u>		<u>411</u>

Approved.

Thereupon the meeting adjourned.

Alfred Morier
Secretary.

Approved:

Ernest C. ...
Governor.