

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Saturday, April 1, 1933, at 11:30 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.

The Committee considered and acted upon the following matters:

Letter dated March 31, 1933, from Messrs. Shearman and Sterling, attorneys for the National City Bank of New York, stating that the national bank has advised that it has been decided not to open a branch in Geneva, Switzerland, at this time, and that should permission be desired at a later time for the establishment of such a branch, a new application will be made to the Federal Reserve Board.

Noted.

Letter dated March 31, 1933, from the Chairman of the Federal Reserve Bank of New York referring to the Board's letter of March 27, 1933, and stating that the board of directors of the bank has approved a salary at the rate of \$6,000 per annum, without deductions in accordance with the share-the-work plan in effect at the bank, for Mr. Todd G. Tiebout, Assistant Counsel, effective as of March 15, 1933.

Approved.

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Telegram dated March 31, 1933, from Mr. William A. Comstock, Governor of the State of Michigan, stating that it is vital to one hundred Michigan member banks that the plan approved by Michigan authorities for the reorganization of State member banks have the concurrent approval of Washington and that licenses to open be issued immediately.

Noted.

In connection with the telegram referred to above, Mr. Paulger stated that he met yesterday with representatives of the Traverse State Bank of Traverse City, Michigan, and the Alpena Trust and Savings Bank of Alpena, Michigan, and discussed with them at length the plan approved by the Governor of Michigan and the Commissioner of Banking providing for the issuance of preferred stock by State banks in Michigan. He stated that, while the banks are interested primarily in having the proposed plan approved by the Treasury Department so that they may obtain licenses to reopen, they are also interested in determining whether the application of the plan to them would have any effect upon their status as member banks or their relations with the Federal reserve bank. Mr. Paulger stated that he had advised the representatives that he did not see how that question could be determined until the banks were actually opened for business and counsel for the Federal reserve bank has passed on the matter.

Mr. Harrison stated that he had discussed briefly with the Acting Comptroller of the Currency the principle involved in the Michigan plan, as outlined in the letter received from the Federal Reserve Agent at Chicago under date of March 30, 1933, and presented at the meeting of the

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Board yesterday, and that Mr. Awalt had stated that the Comptroller's office is not permitting national banks to issue preferred stock except against sound assets; that in cases where a percentage of deposits is converted into preferred stock with the consent of depositors his office requires that the criticized assets first be eliminated so that the preferred stock will be represented only by sound assets.

There was some further discussion of the Michigan plan, but no action was taken.

Telegrams dated March 31 and April 1, 1933, from Mr. Stevens, Federal Reserve Agent at Chicago and Governor Geery of the Federal Reserve Bank of Minneapolis, respectively, stating that their attention has been called to the fact that the bill now pending in Congress providing for the regulation of the sale of securities in interstate commerce may apply to the sale of commercial paper and bankers' acceptances which would seriously handicap the acceptance and commercial paper markets; Mr. Stevens suggesting that in his opinion it is important the the attention of the committees of Congress be called to this feature of the bill which, as now drafted, would amount to a prohibition of the sale of commercial paper by dealers.

After discussion, the telegrams were referred to Mr. Wyatt with the request that he look into the matter with a view to determining what action should be taken.

Telegram to the Governors of all Federal reserve banks referring to the Board's telegrams of March 16, 1933, and stating that deposits with Federal reserve banks representing funds received by member and nonmember banks under Regulation 7, by conservators of national banks under section 206 of the Bank Conservation Act and by State

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officials in charge of State banks under similar circumstances, should be included in items "special deposits-member bank" and "special deposits-nonmember bank" on form 34. The telegram also stated that amounts reported against the item "members-reserve account" should include all balances due member banks except those reported against the item "special deposits-member bank" even though certain accounts of officials in charge of such banks are kept separately on the Federal reserve bank's books, and that all amounts due nonmember banks except those reported against the item "special deposits-nonmember bank" should be reported against form 34 item "nonmembers-clearing account".

Approved.

Telegraphic reply on March 31, 1933, approved by four members of the Board, to a telegram dated March 30, 1933, from Governor Hamilton of the Federal Reserve Bank of Kansas City, and telegraphic reply to a telegram dated March 31, 1933, from Deputy Governor Sailer of the Federal Reserve Bank of New York, requesting permission to waive penalties for deficiencies in reserves of member banks in certain States in those districts during the periods beginning with the dates of the respective State bank holidays and ending on the dates stated in the Board's telegram of March 30, 1933, with regard to the assessment of penalties for deficiencies in reserves, the reason for such requests being the inability of banks in those States to replenish their reserves during the State holidays. The replies stated that the Board interposes no objection to non-assessment of penalties on deficiencies in reserves of member banks during the early part of March when banks were closed under State holidays proclaimed by proclamation of the respective Governors.

Approved.

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Telegrams to the respective Federal reserve agents, stating that the Board has approved the applications filed by the following State banking institutions for membership in the Federal Reserve System and for Federal reserve bank stock, subject to the conditions prescribed in the respective telegrams:

<u>Name of Bank</u>	<u>Number of Shares</u>	<u>Federal Reserve Bank</u>
Adirondack Trust Company, Saratoga Springs, New York.	300	New York
State Bank of Clearing, Chicago Illinois	81	Chicago

Approved.

Telegraphic reply to a telegram dated March 29, 1933, from Mr. Walsh, Federal Reserve Agent at Dallas, with regard to the application of the First State Bank of Abernathy, Texas, 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 First State Bank, the Federal Reserve Bank of Dallas is authorized to cancel such stock and make a refund thereon.

Approved.

Draft of a reply, prepared for the signature of the Secretary of the Treasury, to a letter addressed to him under date of March 11, 1933, from Congressman Louis Ludlow inclosing a telegram received from nine banks in Indiana, suggesting that nonmember banks be granted the privileges of member banks of the Federal Reserve System. The

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reply summarized the methods that have been provided by which nonmember banks, during the present emergency period, may either borrow directly from the Federal reserve banks or obtain credit accommodations from member banks and the latter may obtain advances from the Federal reserve banks, on the basis of security provided by the nonmember banks, and advised that under the authority of law not limited to the emergency period, nonmember banks may obtain credit direct from the Federal reserve banks on the security of Government obligations. The reply also stated that the question whether a loan or advance should be made in any particular case upon the basis of the security offered, and the other factors involved, must be determined by the Federal reserve bank to which the application for the extension of credit is made.

Approved.

Mr. Ballantine joined the meeting at this point and stated that he had read the proposed executive order prohibiting the hoarding of gold and the press statement to be issued in connection therewith, in the form in which they were considered by the Executive Committee of the Board at its afternoon session yesterday, and that he had no further comments to make with regard thereto. After a brief discussion of the order and statement, Mr. Ballantine left the meeting.

Reference was then made to the applications now before the Board from the Lynchburg Trust and Savings Bank, Lynchburg, Virginia, and the Personal Loan and Savings Bank, Chicago, Illinois.

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The ensuing discussion developed the consensus that the Personal Loan and Savings Bank, even in the light of the recent amendments to the Federal Reserve Act, is not engaged in the type of business contemplated by the Act for a member bank and that its application for membership in the Federal Reserve System should not, therefore, be approved.

With regard to the application of the Lynchburg Trust and Savings Bank it was agreed that as the bank is in good condition and would be a desirable member of the System, and as it has a reasonable amount of Government securities on which it could obtain accommodation from the Federal reserve bank should the need arise, and, in addition, is in a position to engage in commercial business, it might well be admitted to membership in the Federal Reserve System.

Accordingly, it was requested that there be prepared for consideration by the Board drafts of letters to the Federal Reserve Agent at Chicago with regard to the policy of the Board as stated above in connection with applications for membership on the part of institutions doing the type of business conducted by the Personal Loan and Savings Bank of Chicago, and to the Lynchburg Bank and Trust Company advising of approval of its application for membership in the Federal Reserve System subject to the usual conditions of membership and such additional conditions as are necessary to carry out the policies of the Board in connection with the admission of State banks and trust companies to membership.

Mr. Morrill then submitted a report dated April 1, 1933, from Mr. Wyatt, General Counsel, stating that after a preliminary review of the report of the investigation made by one of the Board's examiners

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of irregularities in the fiscal agency department of the Federal Reserve Bank of Chicago he is of the opinion that the complete report should be transmitted to the Department of Justice. During the ensuing discussion, it was the consensus that when the report is submitted to the Department of Justice, a copy of the transcript of the testimony given by Deputy Governor McKay at the meeting on March 30 should also be transmitted to the Department.

Mr. Hamlin moved that the complete report be transmitted immediately to the Department of Justice.

After discussion, Mr. Hamlin concurring, action on the motion was deferred until it could be considered at a full meeting of the Board.

Reference was then made as to what further administrative action should be taken by the Board in connection with the matters referred to in the report, and it was suggested that a letter be addressed to Mr. James Simpson, Deputy Chairman and Class C director of the bank, regarding the handling of certain subscriptions to Government securities made by him. It was also proposed, in view of the importance of the matter, and the fact that Mr. McKay in his testimony stated that the various matters referred to in the report were informally considered at the meeting of the board of directors of the Chicago bank on February 24, 1933, that the Chairman and a committee of the board of directors be requested to come to Washington for a further discussion with the Board.

The Secretary was requested to prepare, for consideration at a meeting of the Board to

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be held on Monday, April 3, 1933, drafts of letters to Mr. Simpson and the Chairman of the board of directors of the bank, in accordance with the above suggestions, and also, a draft of a letter to the Attorney General of the United States transmitting complete information in the premises.

During the discussion referred to above, Mr. Vest, Assistant Counsel, joined the meeting.

Mr. Wyatt then stated that in connection with the preparation of certain instructions to conservators of national banks, which are to be issued by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, numerous questions have arisen with regard to the services to be rendered by Federal reserve banks for such conservators. He stated that at meetings held on March 27 and 28, at which representatives of the Comptroller's office; Mr. Walden, Controller of the Federal Reserve Bank of Richmond; Mr. Strater, Cashier of the Federal Reserve Bank of Cleveland; Mr. Sinclair, Counsel for the Federal Reserve Bank of Philadelphia; Mr. Parker, Counsel for the Federal Reserve Bank of Atlanta; and Mr. Dunn, Counsel for the Federal Reserve Bank of Chicago; and Messrs. Wyatt, Vest and Chase of the Board's Counsel were present, instructions were drafted covering the relations of conservators with Federal reserve banks. Mr. Wyatt also stated that these instructions have been approved by the Acting Comptroller of the Currency and it is planned that, upon approval by the Secretary or Under Secretary of the Treasury, the regulations will be issued; but that it is felt that the instructions having to do with the relations of conservators to Federal reserve banks should be approved also by the Federal

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Reserve Board before being issued. Mr. Wyatt outlined the provisions of these instructions and presented a draft of a proposed letter to the Governors of all Federal reserve banks, inclosing copies thereof and stating that the Federal reserve banks will be advised promptly upon the issuance of the complete instructions, and that the Comptroller of the Currency will forward to the Federal reserve banks complete copies of the instructions as soon as issued, and will request the Federal reserve banks to handle accounts for conservators of national banks in accordance with the terms and conditions of the instructions. The letter also stated that the Board considers it desirable that the Federal reserve banks cooperate in this matter by opening and maintaining accounts for conservators in accordance with the terms of the conditions of the inclosed instructions.

The instructions in so far as they relate to the Federal reserve banks, and the proposed letter submitted by Mr. Wyatt, were approved.

Telegram dated April 1, 1933, from the Secretary of the Federal Reserve Bank of Cleveland stating that the executive committee of the bank had established, subject to approval by the Federal Reserve Board, a rate of 5% on all advances to nonmember State banks and trust companies under the provisions of Section 404 of the Act of March 9, 1933, as amended by the Act of March 24, 1933.

The rate of 5% established by the executive committee of the Cleveland bank was approved, effective April 1, 1933.

The Assistant Secretary called attention to the fact that in accordance with the regular order of rotation, Messrs. Miller and James

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will serve with Governor Meyer as members of the executive committee of the Board during the second quarter of 1933.

Thereupon the meeting adjourned.

Walter Mowbray  
Secretary.

Approved:

Augustus C. Meyer  
Governor.