

A meeting of the Federal Reserve Board with Governors of Federal Reserve Banks was held in Washington on Wednesday, April 19, 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. Goldenweiser, Director, Division of
Research and Statistics
Mr. Smead, Chief, Division of Bank Operations
Mr. Vest, Assistant Counsel

ALSO PRESENT: Messrs. Young, Harrison, Norris, Fancher, Seay,
Black, Martin, Geery, Hamilton, McKinney and
Calkins, Governors of Federal reserve banks
Mr. McKay, Deputy Governor of the Federal Reserve
Bank of Chicago
Mr. Strater, Secretary of the Governors' Conference.

Governor Meyer stated that the Secretary of the Treasury would join the meeting shortly to discuss with the Governors the matters which he had in mind. He also stated that the Secretary had advised him, for the information of the meeting, that it had been decided that further gold exports, other than the export of gold already under earmark, would not be permitted for the present, and that a public statement to that effect was being made by the President of the United States today.

There were then distributed copies of a preliminary memorandum prepared by the Chairman of the Open Market Policy Conference for consideration at a meeting of the conference to be held while the Governors are in Washington, and a report of open market operations since the last meeting of the conference on January 4 and 5, 1933.

Reference was then made to the conditions of membership prescribed

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by the Federal Reserve Board for State banks and trust companies admitted to the Federal Reserve System. Governor Harrison stated that, while he is in complete agreement with the Board's general policy embodied in these conditions, there are relatively few State banks which are able to meet the Board's requirements at the present time, with the result that few banks are being admitted to membership, and, in some cases, membership cannot be obtained by banks which are in a better condition than banks in the same community which are already members and have been licensed by the Secretary of the Treasury to resume normal banking operations. He suggested that if the policy is to be maintained it may become necessary to take steps toward requiring banks which are already members of the System to conform to the requirements which are being prescribed for new member banks.

Governor Meyer stated that the matter presents a question as to the policy which should be followed by the System in the light of the best interests of the country; that there is a growing sentiment towards requiring that bank statements shall be absolutely reliable; that the Board has taken the position that admission to membership in the System should mean that the bank is in sound condition; that a responsibility rests upon the Federal reserve agents and officers of the Federal reserve banks to explain and advocate the merits of the Board's policy; and that if they would follow this course it should not be difficult to get applicants to take the action necessary to meet the requirements. There followed a general discussion of the Board's policy, which was suspended upon the entry into the room of the Chairman of the Board.

During the discussion Mr. Wyatt, General Counsel, and Mr. Paulger,

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Chief of the Division of Examinations, joined the meeting.

The Chairman expressed his appreciation of the cooperation of the Federal reserve banks during the recent banking crisis and stated that the principal reason for calling the Governors to Washington at this time was to confer with them regarding conditions in the various districts and what further action might be taken to improve the banking situation.

At the request of the Chairman, the Governors reviewed the situation in their respective districts with regard to member and nonmember banks which have been licensed to reopen, the policies followed by the State banking authorities in the various States in licensing the opening of non-member State banks, and the efforts which are being made to reopen unlicensed banks. They also reviewed briefly the present business conditions in their respective districts. Some of the Governors suggested that the most important problem to be considered at the present time is that presented by banks which have been licensed to reopen but which are in a weakened condition. Others suggested that active consideration must be given to the question how banks which have not been licensed to reopen, and which are not hopelessly insolvent, may be reorganized and licensed to resume normal banking functions; that unless such banks are licensed without unreasonable delay the resulting loss of confidence in such institutions will require that they be liquidated; and that the immediate and vital problem in connection with these banks is not one of credit, for consideration by the Federal reserve banks, but one of recapitalization in which the Federal reserve banks cannot take the initiative or be of assistance except by way of counsel and advice.

At the conclusion of the Governors' statements at 1:00 p.m. the Chairman suggested that the meeting reconvene this afternoon for a discussion

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of the methods now being employed, and which might be used, in effecting the reorganization of closed banks and what can be done to aid licensed banks which are in need of assistance. Accordingly, the meeting recessed and reconvened at 2:45 p.m. with the same attendance as the morning session, except the Chairman of the Board; and, in addition, Mr. Awalt Acting Comptroller of the Currency, and Mr. Walter J. Cummings, Executive Assistant to the Secretary of the Treasury.

Mr. Awalt stated that his office, following the passage of the Bank Conservation Act on March 9, 1933, set up in Washington a division for the purpose of assisting in the reorganization of unlicensed national banks, and that the Chief National Bank Examiners and the Federal reserve agents were cooperating in this work in the various Federal reserve districts. He also stated that, while it is the general policy of his office to require reorganizing national banks to mark-down their securities to market values, a uniform plan of reorganization has not been prescribed, as it is felt that each institution must be given separate consideration and the plan applied which is best suited for the particular situation. There then ensued a general discussion as to plans which might be adopted in connection with the reorganizing of banks to meet the different conditions existing in the various Federal reserve districts.

During the discussion Mr. George P. Barse, Counsel for the Insolvent Banks Division of the Comptroller's office, joined the meeting at the request of Mr. Awalt for a short period.

Mr. Cummings stated that, in his opinion, the pressing question at the present time is what is going to be done to assist banks which have

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already been licensed and are now facing the possibility, because of their unsatisfactory condition, of being forced to close their doors.

Mr. James suggested that as the Reconstruction Finance Corporation, as well as the Federal reserve banks, may be called upon to assist these banks, a meeting should be arranged, while the Governors of Federal reserve banks are in Washington, with representatives of the Reconstruction Finance Corporation and the office of the Comptroller of the Currency for the purpose of determining, if possible, upon a definite program in this connection which the Governors may submit to their respective boards of directors for consideration.

General agreement was expressed with Mr. James' suggestion and Governor Meyer stated that he would submit the suggestion to the Secretary of the Treasury. He then left the room for that purpose and, upon his return, stated that the Secretary of the Treasury had advised that he would ask the directors of the Reconstruction Finance Corporation to meet with the Board, the Governors of Federal reserve banks and representatives of the Comptroller's office at 10:00 a.m. tomorrow morning.

Mr. Awalt inquired whether the Governors thought that, in connection with examinations of licensed national banks, there should be a more rigid requirement by his office as to charging off bond depreciation, or whether the policy followed by the Comptroller of the Currency prior to the banking holiday, of requiring the charge off of depreciation only on defaulted bonds, should be continued. No opinion was expressed by the Governors, it being pointed out that the problem was one with which the Acting Comptroller was entirely familiar and which should be determined by his office.

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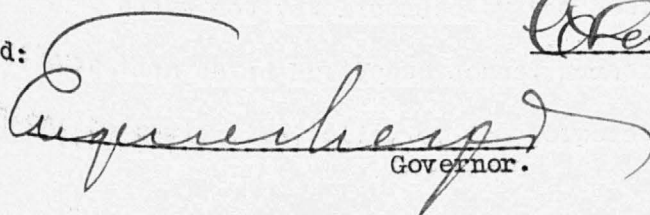
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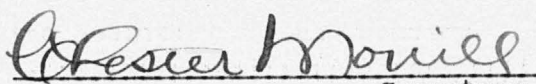
Consideration was also given to the extent to which Federal reserve bank notes should be issued by Federal reserve banks. Mr. Smead pointed out that approximately \$610,000,000 of such notes have been printed; that an additional supply could be printed in a very short period; but that, in his opinion, because of the emergency character of the notes, they should not be paid out in large volume unless an emergency arises, which is not likely unless there is an increased demand for currency and the Federal reserve banks are called upon to make 10(b) advances in substantial amounts. The matter was discussed and it was expressed as the sense of the meeting that Federal reserve bank notes should at least be issued by the Federal reserve banks at the present time in amounts sufficient to accustom the general public to their circulation along with other forms of currency, so that, in the event an emergency arises requiring their issuance in larger amounts, the public will be familiar with them.

There was some further discussion as to the assistance to be given to licensed banks which are in an unsatisfactory condition and Mr. Awalt suggested, as a part of that problem, the possibility of Federal reserve banks adopting a more liberal policy of making section 10(b) advances to member banks. The Governors pointed out that their banks had not rejected any applications submitted to them by member banks for such advances.

Thereupon the meeting adjourned.

Approved:


Governor.


Secretary.