

A meeting of the Federal Reserve Board with the Governors of Federal Reserve Banks was held in Washington on Saturday, April 22, 1933, at 11:50 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. Snead, Chief, Division of Bank Operations
Mr. Goldenweiser, Director, Division of Research
and Statistics
Mr. Paulger, Chief, Division of Examinations.

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 Chairman of the Board was confined to his home by illness and would not be able to attend the meeting.

Governor Harrison stated that a meeting of the Open Market Policy Conference was held this morning at which the following resolution was adopted, Deputy Governor McKay not voting:

"It is the sense of the Open Market Policy Conference that, subject to the approval of the Federal Reserve Board, the executive committee be authorized to arrange with the Secretary of the Treasury from time to time to purchase up to \$1,000,000,000 of Government securities to meet Treasury requirements."

Governor Harrison stated that the resolution was approved in this form with the idea, not that all purchases of securities made pursuant thereto would be made directly from the Treasury Department, but that purchases would also be made in the open market whenever conditions made such action

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desirable; that it was the feeling of the conference that the resolution was necessary to prepare the System to make arrangements with the Secretary of the Treasury along the lines proposed in the Thomas Bill; and that, even if that bill is not enacted into law, it is felt that the committee should be free to act if a situation developed which would require the Treasury Department to turn to the Federal reserve banks for assistance.

Governor Harrison then presented the following resolutions which he stated had been unanimously approved by the Conference:

"It is the sense of the conference that while, as a general principle, the average maturity of Government securities held in the System account should be kept as short as possible, nevertheless, in the present emergency, and especially in view of the need of full cooperation with the Treasury in meeting its fiscal problems, the executive committee should be authorized from time to time to shift maturities in the System account as conditions in the market or requirements of the Treasury appear to make that advisable. Furthermore, it is understood that in replacing maturities in the System account, the executive committee will use its discretion in the light of existing conditions and this resolution in selecting replacements."

"It is the sense of the conference that the executive committee be instructed to work out a system of allotment of existing holdings as well as new purchases of Government securities with a view to arriving at a more equitable relationship of reserve percentages of the several Federal reserve banks."

Governor Harrison stated that, in approving the first of the two resolutions quoted above, it was not intended that there should be any change in the fundamental policy of maintaining a portfolio of Government securities with short maturities, but that the resolution would give to the committee authority to adopt a more liberal policy as to longer maturities than it has had in the past, and, as there does not seem to be much need

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to anticipate a major liquidation of the System account, it was felt that consideration might be given to the advisability of acquiring longer maturities, at the appropriate time, for the purposes (1) of avoiding the wide spread between the yields on short and long term maturities, and (2) of toning up the market for short maturities which would enable the Treasury Department to market an issue of securities without the assistance of the Federal reserve banks, where such assistance might otherwise be necessary. Governor Harrison added that it was not considered that the situation required immediate action by the Federal Reserve Board on these resolutions.

At this point Mr. Wingfield, Assistant Counsel, joined the meeting.

It was stated that the Governors' Conference, in separate session, had given consideration to the policy now being followed by the Board in prescribing conditions for admission to membership in the Federal Reserve System, and that it was felt exceptions to the present requirements might be made in certain cases. Governor Harrison stated that there are factors which must be taken into consideration at the present time which may make it necessary to be a little more liberal in considering applications for membership, and that, in his opinion, it is essential, in connection with the consideration of such applications, that (1) as prompt action as possible be taken, and (2) that, in view of the present banking situation, as liberal a policy be followed as sound banking principles will permit.

All of the governors indicated that, with the exception of one or two cases where it appeared that delay was occasioned by the consideration of questions of policy involved, the Federal Reserve Board had acted as

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promptly as could be expected on the applications submitted to it. Governor Harrison then left the meeting.

A general discussion ensued, during which the opinion was expressed that the present policy with regard to admission of State banks and trust companies to membership is sound and should be continued, but Governor Norris and Governor Young referred to certain cases where they thought exceptions might be made.

It was pointed out that when membership applications are received by the Board they are given very careful consideration and every effort made to meet each individual situation; that perhaps the greatest difficulty being experienced in the procedure is the failure of the applicant banks to understand the reasons for, and benefits of, the present requirements; that admission to membership in the Federal Reserve System is understood by the public as a representation that the bank is in good condition; and that any lowering of the standard which would result in the admission of unsound banks would only result in discrediting membership in the Federal Reserve System.

Governor Meyer suggested that the Federal reserve banks, in the present situation, have an unusual opportunity to emphasize to banks applying for membership the desirability of putting their affairs in sound condition in order to come into the System, and that he feels that the governors and Federal reserve agents should personally interview the representatives of the banks whenever possible and explain to them the reasons for the Board's policy.

The governors expressed themselves as being in favor of such

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flexibility in meeting the problems of individual banks as does not impair the policy of admitting only sound banks to membership, and Governor Meyer pointed out that the Board cooperates in every way possible in working out the problems presented by individual applications, and makes such changes in the requirements as may be justified in special cases, when such changes do not involve a lowering of the standards now required for admission to membership in the Federal Reserve System.

Thereupon the meeting adjourned.

C. Lester Merrill
Secretary.

Approved:

Ernest C. Meyer
Governor.