

A meeting of the Federal Reserve Board with Federal reserve agents and representatives of their departments was held in Washington on Wednesday, August 16, 1933, at 10:15 a. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. James
Mr. Thomas
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Paulger, Chief of the Division of Examinations
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Assistant Director of the Division of Research and Statistics
Mr. Wingfield, Assistant Counsel
Mr. Leonard, Federal Reserve Examiner

ALSO PRESENT: Messrs. Curtiss, Case, Austin, Williams, Hoxton, Newton, Stevens, Wood, Peyton, McClure, and Walsh, Federal reserve agents; Messrs. Fletcher, Fry, Young, Stewart, McAdams, and Sargent, assistant Federal reserve agents; Mr. Rounds, Deputy Governor of the Federal Reserve Bank of New York; and Mr. Gilson, Acting Chief Examiner of the Federal Reserve Bank of Boston.

Governor Black stated that he had received a letter from the President of the United States calling attention to the fact that at the present time there are several agencies of the Government all of which are making important and effective contributions in providing and maintaining adequate banking facilities throughout the country and in releasing funds to depositors in closed banks; that the Federal reserve banks under the supervision of the Federal Reserve Board, the Comptroller of the Currency, the Reconstruction Finance Corporation, the Farm Credit Administration, and the Home Owners' Loan Corporation, are all concerned with this matter; that he felt that it would

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greatly increase the effectiveness of the efforts of each of the agencies if the efforts of all were coordinated and concentrated on a common policy; and that in this way the problem could first be viewed as a whole and then the combined efforts of the Government brought to bear where help is most needed. With this end in view, Governor Black stated, the President had appointed a committee consisting of Under Secretary of the Treasury Acheson as Chairman, the Governor of the Federal Reserve Board, the Comptroller of the Currency, the Chairman of the Reconstruction Finance Corporation, the Governor of the Farm Credit Administration, and the Chairman of the Federal Home Loan Bank Board, and that the President had stated in his letter for the general guidance of the Committee that he felt it should have as its objects the release of deposits in closed banks as promptly and to as large an extent as circumstances permit, the organization of new banks primarily in areas which are without adequate banking facilities, and the fullest support of banks now open, particularly those operating under license from the Treasury, and that a survey of the situation, including both member and nonmember banks, would enable the Government both to anticipate difficulties and to center its efforts where they are most needed.

Governor Black stated that it was for the purpose of obtaining for the use of the Committee a survey of the needs of member and nonmember banks in the United States that he had sent a telegram to all Federal reserve agents on August 7th requesting that they bring to Washington, at the time of their attendance at the Federal Reserve Agents' Conference, lists of member banks and of nonmember banks classified into the following groups: (1) in good condition (2) in fair condition and which can obtain locally such financial assistance as will afford them relief in the matter of their capital structure (3) in a weakened condition and will require assistance in the way of preferred stock

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to build up and strengthen their capital structure certainly before June, 1934, and (4) banks that are, or in the near future may become, emergency cases and that require attention now in the matter of rebuilding their capital structure through preferred stock and/or may need additional credit. The telegram also requested, Governor Black stated, a list of closed banks in each Federal reserve district with as full information as possible as to their condition so that consideration may be given to the reopening of such banks or payment of dividends by each closed bank out of its own assets or with the aid of Reconstruction Finance Corporation financing, and a statement of localities in each district in which there are now no banking facilities, with suggestions as to the possibility of establishing banks in such localities with or without government aid, so that no community will be without banking facilities. Governor Black added that he had written letters to Mr. Walter Cummings, executive assistant to the Secretary of the Treasury, Mr. Jesse Jones, and Mr. J. F. T. O'Connor, regarding the collection by them of similar information and that he had advised the President's Committee of what he had done.

Governor Black then stated that he understood the various Federal reserve agents had compiled the requested information with regard to member banks and had secured as much information as possible in the time available with regard to the condition of nonmember banks in the respective districts. Thereupon, at the request of Governor Black, each Federal reserve agent, or his assistant in attendance at the meeting, made a summary statement of the classifications of banks in the respective districts and of the other information which had been compiled in accordance with Governor Black's telegram.

During the Federal reserve agents' statements, Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, joined the meeting and, at the request of Governor Black, reviewed briefly the activities of the

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Corporation with regard to rebuilding the capital of banks through the issuance of preferred stock, and the present policy of the Corporation in subscribing for preferred stock. He stated that this activity of the Corporation is increasing and will increase more rapidly in the next few months, and that he feels that it will not be possible to appraise the problem confronting the Corporation in this connection until the information with regard to the condition of banks in the respective Federal reserve districts is available. Mr. Jones added that the Corporation is ready and anxious to do everything possible to aid banks which cooperate with the Federal Reserve Board, the Comptroller of the Currency, and the State banking authorities and that it is felt that the major problem in restoring banks to sound condition will be in connection with nonmember State institutions. It is the policy of the Corporation, Mr. Jones stated, to prevent solvent banks from closing whenever possible and to require that, whenever the Corporation subscribes for preferred stock, the bank be in such condition that the Corporation can advance sufficient funds in case of necessity to pay all depositors in the institution. He also stated that the Corporation requires State banks in which it subscribes for preferred stock to make application for membership in the Federal Reserve System. In this matter he said that he felt that it is necessary that the Corporation have the cooperation of the Federal reserve banks, and that the Federal reserve banks should be as sympathetic as possible with the banks, particularly with smaller institutions, in order that they may be made to feel that the Federal reserve banks and the Reconstruction Finance Corporation are willing to help them in every way possible. Mr. Jones also added that the Corporation would be very glad to have the suggestions of the Federal reserve agents as to how the matter of assisting banks should be approached as it was his feeling that when the survey of banks in the respective

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Federal reserve districts is available it will be necessary for the Corporation to make affirmative offers of assistance to all banks which are in need of help, and that he would like to have consideration given to how that work should be undertaken.

Mr. Jones also stated that it is necessary to establish the impression with banking institutions and the public generally that it is a proper step for banks to rehabilitate their condition through the issuance of preferred stock, and to make known the fact that banks which resort to the issuance of preferred stock are good banks in sound condition rather than banks which are apt to fail, and that, in his opinion, there is no agency which is better able to create that impression than the Federal reserve banks.

Reference was made to the issuance of preferred stock by certain banking institutions in the sixth and eleventh Federal reserve districts, and Messrs. Newton and Walsh stated that the reaction on the part of the public had been very favorable.

With regard to the question of management of reorganized institutions, Mr. Jones, upon inquiry, stated that the Corporation in some instances has imposed the condition that the management of the institution be kept satisfactory to the Corporation, but that care has to be exercised in this connection as it is important that the Corporation shall not become involved in responsibility for the management of banking institutions.

Under Secretary of the Treasury Acheson also joined the meeting, and he stated that the President's idea in creating the Committee referred to by Governor Black was to coordinate and bring together in one place the agencies of the Government dealing with the banking situation, the theory being that, if the activities could be coordinated and the crucial points in the banking situation ascertained, the combined forces of the agencies could be brought

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to bear on these points so that the banking situation could be dealt with effectively. He stated that the Committee will need the cooperation of the Federal reserve banks and the Federal reserve agents in carrying out its work, as they will be in a position to observe the results of the Committee's activities. He also added that the information with regard to the condition of the banks compiled by the Federal reserve banks will be supplemented by the Reconstruction Finance Corporation and the Comptroller of the Currency, following which the committee will be in a position to determine where and to what extent the government agencies should concentrate their efforts, and that it will be necessary to go to the Federal reserve banks for help and to rely on them to carry out the policies of the Committee and to inform the Committee of the results of such policies. Mr. Acheson expressed the appreciation of the Treasury Department and the President's Committee of the cooperation of the Federal reserve banks and the Federal Reserve Board in the matter.

Following his statement, Mr. Acheson left the meeting.

Governor Black then stated that in order that the information with regard to the character and extent of the assistance which will be required by the member banks in groups 3 and 4 may be compiled and made available as soon as possible, he would appreciate it if the Federal reserve agents would present the details of the information which they have compiled and discuss the situation in their respective districts with members of the Federal Reserve Board or its staff, as follows: Boston and Dallas with Mr. Martin; New York and Cleveland with Mr. Leonard; Philadelphia and Chicago with Mr. Morrill; Richmond and Kansas City with Mr. Thomas; Atlanta and St. Louis with Mr. James; and Minneapolis and San Francisco with Mr. Paulger.

Governor Black also stated that the Federal reserve agents or their representatives should remain in Washington long enough to analyze the situation

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adequately as regards the condition of banks in their respective districts and that, in discussing the matter with the member of the Board or its staff, any information which the agents may have as to the needs of the banks classified in group 2 should also be given.

Thereupon the meeting recessed and reconvened at 2:00 p. m. with the same attendance as at the morning session with the exception of Mr. Fletcher, Assistant Federal Reserve Agent at Cleveland.

There was presented, for the consideration of the Board, a letter dated August 15, 1933, from the Secretary of the Federal Reserve Agents' Conference, stating that the Conference had considered a tentative statement of general principles to be followed by the Federal reserve agents in considering applications of State banking institutions for membership in the Federal Reserve System, which had been prepared in accordance with the suggestions at the meeting yesterday and copies of which had been handed to the Federal reserve agents, and that the Conference suggested that principle No. 6 be amended to read as follows:

"(6) Investment in banking house, furniture and fixtures should be reasonable, the reasonableness of the investment to be determined in each case after taking into consideration the bank's capital structure, the nature of the building, the community, the income produced, the liquidity of the other assets, etc."

The Chairman of the Agents' Conference stated that with the change above suggested, the statement had met with the approval of the Conference.

There was then presented to the Board the following report of a committee of the Federal Reserve Agents' Conference with regard to the relations of the Federal Reserve System with the Federal Deposit Insurance Corporation; the report having been approved by the Conference:

"To the Conference of Chairmen and Federal Reserve Agents:

"Your Committee appointed to report on the relations of the Federal

"Reserve System with the Federal Deposit Insurance Corporation desire to submit the following report:

"A serious problem must be met when the Federal Deposit Insurance Corporation becomes operative January 1, 1934. Under the terms of the law all banks members of the Federal Reserve System will become members of this corporation automatically on January 1, 1934, while non-member banks will be admitted to the corporation only upon certification as to their solvency by the State Banking Department and upon approval by the corporation after an examination. The temporary fund is to be operative for a period of six months only - the permanent fund becoming effective on July 1, 1934 unless the President fixes an earlier date. State member banks, to be admitted to the permanent fund must be certified to the insurance corporation by the Federal Reserve Board as to their soundness and that they have sound assets equal to liabilities. Nonmember banks will be continued in the permanent fund until July 1, 1936. If they shall not become members of the Federal Reserve System by that date, they must withdraw from the fund.

"Under these provisions of the law it is at once apparent that while member banks will gain admission to the temporary fund automatically they must meet certain standards to be prescribed on or before July 1, 1934 in order to continue in the permanent fund. It is, therefore probable that a considerable number of member banks which will be automatically taken in the temporary fund will fail of admission to the permanent fund, the number of such banks may be determined in considerable measure by economic conditions prevailing between now and July 1, 1934.

"Nonmember banks obtaining admission to the temporary fund would appear to be assured of continuance in the fund until July 1, 1936 and their continuance after that date would depend upon their admission to the Federal Reserve System. This situation has the effect of presenting a possible crisis with respect to member banks on July 1, 1934, at the inception of the permanent fund and a possible crisis with respect to nonmember banks on January 1, 1934 at the inception of the temporary fund and again on July 1, 1936 when their withdrawal from the fund will be compulsory unless in the meantime they have gained admission to the Federal Reserve System.

"Undoubtedly considerable can be accomplished by many banks in improving their condition. A number of banks about which there now might be doubt of their admissibility to the fund will become eligible without outside assistance. There appears to be serious danger that failure to admit any considerable number of either member or nonmember banks to either the temporary or permanent fund would precipitate a banking crisis that would have serious effect upon the national recovery program. It is apparent that there should be a coordination of policy in dealing with this situation by and between the Federal Reserve Board, the Comptroller of the Currency, the Directors of the Federal Deposit Insurance Corporation and the various credit agencies of the Government. It is clearly desirable that admission to either the temporary or permanent fund should be, if possible, limited to banks which could qualify for continuance in the fund, which means in the case of nonmember banks that they could qualify for membership in the Federal Reserve System. This discrimination in the method of admission to the fund distinctly favors the nonmember banks

"since they will have two years longer in which to get their banks in order and meet the conditions for membership in the Federal Reserve System and since also the delay may have a distinct advantage because of the larger recovery in values in that interval.

"It should be the purpose of the Federal Reserve System to stand for and develop a sound banking system. Clearly the System should not admit members which are not in good condition.

"There appears to be, therefore, two possible courses of action to pursue, either a policy of rehabilitating the capital position of all banks needing assistance should be developed with a view to putting either all banks in a sound condition and making them eligible for membership in the Federal Reserve System or, if no satisfactory program can be developed for accomplishing this, then clearly membership in the Federal Reserve System should be limited to thoroughly sound banks and so far as possible the benefits of the insurance fund should be similarly limited to sound banks.

"There should be a close coordination of policy between the Federal Reserve System and the Federal Deposit Insurance Corporation so that so far as possible banks admitted to one may also be admitted to the other, and with this object in view coordination of examination policies would seem essential.

"There has recently been compiled by the Federal Reserve Agents a statement of the condition of each member bank indicating the needs of that bank to put it in a sound condition. A tabulation of these statements should give a fair approximation of the amount of capital it will be necessary to add to these banks to make them sound and admissible to the insurance corporation. Similar statistics with respect to nonmember banks will be more difficult to secure. While the State departments have recently been requested to submit this data it will not be prepared by all the States according to the same standard nor with equal accuracy. It is suggested, that it would be highly desirable if steps were immediately taken by the Federal Deposit Insurance Corporation and the Federal Reserve System acting jointly to secure as close an estimate as is possible as to the size of the problem with respect to nonmember banks. With these figures available consideration may then be given first to the necessary investment of the R. F. C. or some other Government Agency of providing all of these banks with a sufficient capital to entitle them to membership in both organizations, or should that not be feasible an attempt might be made to determine which institutions were worthy of admission to the fund, in which case, all others should be kept out of the fund and some appropriate program immediately developed for their liquidation.

Respectfully submitted

Jno. S. Wood
J. N. Peyton
Oscar Newton"

The Chairman of the Conference stated that, if the Federal Deposit Insurance Corporation desires, the Federal reserve agents will be glad to send a committee to Washington to confer with the Corporation and to cooperate in any

other possible way. Governor Black stated that he would communicate the attitude of the Conference to the Corporation at the proper time.

The Secretary of the Federal Reserve Agents' Conference then read the following committee report which had been approved by the Conference:

"Reorganization and Licensing of Closed Banks

"(a) Participation

"It should be the policy of the Federal reserve banks to render every reasonable assistance looking to the reorganization of closed banks. It is important for the welfare of the country that deposits now tied up in closed banks be made available to depositors as quickly as possible, and in as large a percentage as is consistent with sound banking. It is suggested that Federal reserve agents should ascertain, with respect to each closed bank, whether or not it is feasible to reopen the bank and if so, assistance should be rendered.

"Most nonmember banks are desirous of reorganizing upon a basis which will make them eligible for membership in the Federal Reserve System. It is therefore equally important that the Federal reserve agent should be familiar with their plans of reorganization, so that the details of the plan may, as far as possible, permit of membership for those banks which desire membership and are eligible for it.

"(b) Fundamental Policies

"The first point to be considered is the question as to whether or not the community needs a bank, whether there is sufficient business to support a bank of the necessary earning power to be successful. No bank should be organized or reorganized in any place where there is doubt of the ability of the bank to support itself or in any community where there are already adequate banking facilities.

"If it should appear that a bank is needed and can exist, then the policy should be to see that the reorganized bank is sound beyond all question and the plan of reorganization should be sufficiently drastic to guarantee soundness. In such a case no particular harm is done to anyone by resolving all of the doubts in favor of soundness.

"It is important that all reorganization plans should deal fairly with depositors. In general, in any case where the depositors are asked to waive a portion of their deposits, the stockholders should either be required to contribute an amount equal to the double liability, where there is a double liability, or do what they can to rehabilitate the bank.

"(c) Methods and Procedure, including cooperation with

- (1) National and (2) State authorities
(3) Conservators (4) Directors, officers
and local interests

"The reserve bank should cooperate with both national and State

"authorities in every way possible. The reserve bank should, however, preserve its own independence of opinion with regard to the soundness of plans and the desirability of reorganization of closed banks.

"The reserve bank should also render such assistance as it can to conservators, directors, and other local interests, but it will be frequently found that the interests of directors, officers and others are counter to what the reserve bank may consider sound banking policies. Proper plans for reorganization will frequently necessitate the elimination of old directors and officers. In this connection it is believed that the reserve bank should insist upon changes wherever necessary but should not assume a responsibility for the selection of new directors or officers although it may properly indicate its views in any case where those selected are unsatisfactory.

"(d) Results and Reaction of Reorganized Banks.

"The reaction of the public and depositors to reorganized banks in those districts represented by our committee have on the whole been very satisfactory, many reorganizations have been effected with the cooperation of the depositors who have taken a keen interest in the bank, while in many cases there has been apprehension of the possible attitude of depositors toward reopened banks, almost without exception the results have been excellent and withdrawals where they have occurred at all have appeared to be the result of need for the funds rather than of any question of the goodness of the bank or feeling of resentment toward the bank.

"(e) Maintaining solvency of licensed banks

"It is assumed that all banks, which have been licensed since the bank holiday, following a reorganization, have been placed in a sound, solvent position beyond question, and there should be no difficulty in maintaining the solvency of such banks. With respect to banks licensed at the end of the bank holiday there are numerous cases of banks which have suffered continued withdrawals of deposits and are in an extended position. It is a matter of utmost importance that some plan be developed for dealing with such cases, as nothing would be more destructive to public confidence than the closing of licensed banks.

"(f) Coordination of Government agencies

"In the case of many reorganizations the R. F. C. has cooperated either in the purchase of preferred stock or in the granting of loans to either the old or the new bank as a precedent to reorganization. Every possible degree of cooperation should be given by the reserve bank to the Comptroller's office, the R. F. C., and any other agencies interested in reorganizing the bank. This should include cooperation with the Committee on Banking Conditions, particularly with respect to reorganizations in communities where banking facilities do not exist but are needed. While probably not a part of this topic, it seems desirable to suggest also that there is the need of the greatest cooperation with all Government agencies, including the Committee on Banking Conditions, with respect to banks which were licensed at the close of the banking holiday and which may have difficulty

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"in complying with the conditions for membership in the Deposit Insurance Corporation.

J. H. Case
E. M. Stevens
S. G. Sargent"

There was also presented with the approval of the Federal Reserve Agents' Conference the following committee report:

"Responsibility of Federal Reserve Agents under new Banking Act, particularly under Sections 3 and 30.

"As was pointed out by Governor Black at the conference with the Federal Reserve Board yesterday morning, added responsibilities and duties have been imposed by the Banking Act of 1933 on the Federal Reserve Board, and these, in turn, will be reflected in the responsibilities and duties of their representatives in the several Federal reserve banks.

"(a) Supervision - 'Under Section 3 of the new Banking Act, the Federal reserve banks are required to keep themselves informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions. * * * * The Chairman of the Federal reserve bank shall report to the Federal Reserve Board any undue use of bank credit by any member bank, together with his recommendation.'

"It therefore becomes incumbent on the chairman to keep in the very closest touch with the investment policy of each member bank as it pertains to liquidity and diversity of assets carried. The chairman and the other officers of the Federal reserve banks should be in a position to advise member banks on general credit policies to be followed. There should be the closest contact between the examining authorities, State, national and officials of the Federal reserve banks. Careful analysis of each report of an examination of each bank should be made showing percentages of each class of investment as they affect such banks' liquidity. Criticisms or suggestions should be taken up with the officials of the member bank in question by the chairman or officers of the Federal reserve bank.

"Closest information should be gathered as to the character of management of each member bank, the stock control and financial responsibility of its directors.

"Until the new banking law was enacted, there was an impression in the Federal reserve banks, to some extent, that unless a member bank was borrowing the responsibility as to a bank's condition rested primarily with the examining authorities; but this new law places an added responsibility on the Federal reserve banks and Federal Reserve Board. We believe it to be highly desirable that the examining force of each Federal reserve bank should

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"be strengthened as soon as possible by reason of the additional duties imposed by the Banking Act of 1933. These examining departments not only must examine affiliates of State banks, but must be prepared to make more adequate examination of State banks applying for membership in the Federal Reserve System, and also of those State banks that are already members.

"While we believe the work of the member bank's relation department has been valuable and should be continued, we believe it of greater value to have a closer contact between the officers of the reserve banks and the officers of the member banks, either by personal visits to the member banks by officers or by encouraging the officers of member banks to call more frequently at the Federal reserve bank.

"(b) Coordination with Other Supervision - There should be the closest contact and cooperation between the Federal Reserve Agent's department and the Federal reserve bank, with the national bank examiner, State supervisors, representatives of the Reconstruction Finance Corporation and representatives of the other Government agencies.

"(c) Examination of Trust Department - Every Federal reserve agent should have a thoroughly trained man on his force to examine the trust departments of State member banks and his services or those of his staff should also be available for the examination of trust departments of national banks.

Respectfully submitted,

Frederic H. Curtiss
R. L. Austin
C. C. Walsh"

A discussion ensued with regard to subsection (c) of the above report and it was expressed as the feeling of the Agents' Conference that examinations of trust departments of banks have not been adequate or satisfactory in the past and that, apart from the use that the Comptroller of the Currency might make of the services of high caliber men in the Federal reserve agent's department of the various Federal reserve banks who should be specially trained in examination of trust departments, it is felt that the Federal reserve agents should have such men available in connection with the examination of trust departments of banks applying for membership in the Federal Reserve System, in connection with applications for trust powers by national banks, and in connection with examinations of State member banks.

Mr. Williams read a report prepared by a committee of the Federal

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Reserve Agents' Conference consisting of himself, and Messrs. Hoxton of Richmond, and McClure and McAdams of Kansas City with regard to regulations and interpretations of the Banking Act of 1933. In connection with this report, the question was raised as to whether the Federal Reserve Board, in its regulation limiting rates of interest which may be paid by member banks on time deposits, might limit the amount of savings deposits as distinguished from time deposits or time certificates of deposit, or require the payment of interest at a lower rate on savings deposits over a specified amount, it being pointed out that corporations and others having large amounts on deposit for which they have no immediate need, under the present tentative draft of the Board's regulation, may convert such funds into savings deposits on which a higher rate of interest would be paid by the depository bank. It was stated that the agents felt that it is of sufficient importance to define savings deposits so that they will be limited strictly to what their name implies, that, if necessary, the Board should recommend to Congress an amendment to the law to enable it to define savings deposits in such a way as to accomplish this purpose. Mr. Wyatt stated that under the provisions of section 19 of the Federal Reserve Act, as amended, the Federal Reserve Board is authorized to prescribe different rates of interest on time and savings deposits having different maturities or subject to different conditions respecting withdrawal or repayment or subject to different conditions by reason of different locations, and that, while the conversion of time deposits into savings deposits is one of the easiest ways to evade the requirement of the law that no interest shall be paid on demand deposits, the Board is without authority to prevent such evasion by the classification of deposits in any manner other than that specifically permitted under the law. Governor Black stated that in the

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formulation of the Board's regulation careful consideration was given to the possibility of defining savings and time deposits as to prevent the conversion of demand into savings deposits but that no way was found by which it could be done under the present law. At the conclusion of the discussion it was understood that the report of the committee of the Agents' Conference would be given further consideration by the committee and the Conference before submission to the Federal Reserve Board.

Thereupon the members of the Board and its staff withdrew from the meeting.

E. Lester Merrill
Secretary.

Approved:

E. H. Beach
Governor.