

A meeting of the Federal Reserve Board with Governors of Federal reserve banks was held in Washington on Tuesday, October 10, 1933, at 10:40 a.m.

PRESENT: Mr. Black, Governor
 Mr. Hamlin
 Mr. Miller
 Mr. James
 Mr. Thomas
 Mr. Szymczak
 Mr. O'Connor

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Martin, Assistant to the Governor
 Mr. Goldenweiser, Director of the Division of Research and Statistics
 Mr. Smead, Chief of the Division of Bank Operations
 Mr. Wyatt, General Counsel
 Mr. Paulger, Chief of the Division of Examinations

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

Governor Black welcomed the governors and stated that, if agreeable to them and the members of the Board, he would ask Mr. Goldenweiser to review for the information of the meeting the present credit and business situation, following which the Governors' Conference could meet in separate session to consider the Conference program. He also stated that the Board desired that a meeting of the Federal Open Market Committee be held while the governors are in Washington, and that the Board would be glad to meet with the Committee prior to its consideration

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of open market policy, following which the Committee could hold a separate meeting for the formulation of any recommendations that it may care to make to the Federal Reserve Board.

Mr. Goldenweiser distributed copies of a memorandum prepared in the Board's Division of Research and Statistics under date of October 9, 1933 on the subject of business and credit developments and, on the basis of that memorandum, reviewed certain phases of the present business and credit situation.

At the conclusion of Mr. Goldenweiser's statement, Governor Black referred to the radically new conditions which have faced the Board since March of this year which have resulted in a large increase in the Board's work and have presented many difficult problems, particularly in connection with the interpretation of the Banking Act of 1933 and the regulations which have been issued by the Board pursuant thereto. He stated that the Board gave careful consideration to the suggestions received from the Federal reserve banks in regard to the regulations and attempted to issue them in such form as would be fair to the Board, the Federal reserve banks, and the member banks, and it is hoped that objective has been achieved. He also stated that, while the increased work of the Board has slowed up its operations to some extent because of the mass of detail that has been necessarily involved in considered action, the Board is making arrangements to handle all of its work expeditiously, particularly applications for membership, and to act as promptly as possible on the increased number of applications for membership which it is anticipated will be received between now and the

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first of next year. He added that, in his opinion, prompt action on applications for admission to the System is an important matter for the reason that many banks are undoubtedly applying for membership in order to assure themselves of the benefits of the Federal Deposit Insurance Corporation and that such applications must be handled promptly in order to avoid criticism of the Board and the Federal reserve banks.

Governor Black then reviewed the activity which has been carried on by the President's Banking Committee in connection with its survey of the condition of all licensed banks in the United States in an endeavor to ascertain as nearly as possible the total amount of funds that would be required to restore to soundness licensed banks the condition of which is such that they will need some outside assistance in order to restore their capital structure, or which are in the nature of emergency cases; that estimates have been received from Federal reserve banks and State banking authorities as to the amount of funds needed; and that it is felt that with the issuance of between \$500,000,000 and \$750,000,000 of preferred stock by such banks their capital position would be restored so that the capital structure of every bank would be unimpaired. Discussions had been conducted, Governor Black said, with the Reconstruction Finance Corporation with regard to subscription by the Corporation for preferred stock in the banks referred to, and it is hoped that between now and the first of January the needed assistance will be rendered to the banks, which will enable the Federal Deposit Insurance Corporation to commence its operations with banks whose capital structures are sound.

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Reference was then made by Governor Black to the selection by the President of the United States of Mr. Henry Bruere to assist in correlating the activities of the various credit agencies of the Federal Government, and he stated that Mr. Bruere is now engaged in working out the details of a plan which is designed to expedite the releasing of deposits in closed banks; that Mr. Bruere would like to discuss the plan with the governors while they are in Washington; and that, if agreeable to the governors and the members of the Board, he would request Mr. Bruere to join the meeting for that purpose.

Mr. Bruere was invited into the room and stated that there is under consideration, in the Treasury Department and other allied functions, at the present time a project which is entirely tentative in its present form but which deals with one of the larger problems in the banking situation; that the proposal is suggested as a move which is desirable and constructive; and that it has as its objective greater expedition in the distribution of dividends to depositors in closed banks. Mr. Bruere explained that, in order to accomplish the purpose in mind, it is thought desirable to create some kind of Federal agency in the nature of a banking institution in order that the resources of the Reconstruction Finance Corporation can be made available to the institution by the purchase of its preferred stock by the Reconstruction Finance Corporation, from the proceeds of which the new institution would make available to depositors of closed banks up to 50% of their deposits, depending upon the value of the assets of the closed institutions, either by lending on or purchasing such assets. He also stated that

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the plan involves a number of technical difficulties a solution of which has not yet been found, but that it was felt desirable to present an outline of the plan to the governors with a view to securing their judgment as to the wisdom and desirability of the effort and to enlist their cooperation in the project and in the setting up of the local instrumentalities for the purpose of making appraisals of assets, etc. The plan as now proposed, Mr. Bruere said, contemplates only the release of deposits in member and nonmember banks which have closed since January 1, 1933, and which will not be reorganized and reopened. The plan also contemplates, Mr. Bruere added, as one of its effects, that it will stabilize to some extent the processes of liquidation and will check the dumping of the assets of closed banks on the market because of the pressure on liquidating agents to make distribution to the depositors.

In response to an inquiry as to whether it is possible at the present time for the Reconstruction Finance Corporation to advance funds directly for the purpose of releasing deposits in closed banks, it was explained that the funds which the Reconstruction Finance Corporation has available for loans direct to banks are not sufficient for the purpose in mind, but that as the authority of the Reconstruction Finance Corporation to purchase preferred stock in banking institutions is unlimited, it is felt that it will be necessary to organize a new corporation, the preferred stock of which will be sold to the Reconstruction Finance Corporation and funds made available in that manner. Mr. Bruere stated that the details of the plan have not yet been definitely determined, but that it is hoped that it will be a means of a more rapid and generous

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release of deposits in connection with which it is conceived that the new institution will be required to take some risks. He also added that it is not believed that any new legislation will be required to put the plan into effect, and it is not contemplated that the Federal reserve banks will be called upon to assume any of the risks which may be involved.

Mr. Bruere then stated that his purpose in taking the matter up at this meeting, before the plan is perfected, was to get an expression from those present as to the wisdom of the plan, whether it is believed that the Government should undertake it as a helpful matter, and whether the Federal reserve banks will cooperate, particularly in setting up the local instrumentalities of the new institution.

The governors were requested to express their opinions along the lines suggested by Mr. Bruere, and each stated that he felt the plan is a very desirable one, and that his Federal reserve bank will be glad to cooperate in carrying it out.

All of the members of the Board expressed agreement with the general objective of the plan.

Thereupon the meeting adjourned with the understanding that the governors would convene a meeting of the Governors' Conference for consideration of the Conference program and that they would meet with the Board later prior to the meeting of the Federal Open Market Committee.

Walter Merrill
Secretary.

Approved:

E. R. Black
Governor.