

A meeting of the Federal Reserve Board with the Federal reserve agents of all Federal reserve banks was held in Washington on Wednesday, May 9, 1934, at 11:00 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. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Wyatt, General Counsel
Mr. Vest, Assistant Counsel
Mr. Wingfield, Assistant Counsel
Mr. Chase, Assistant Counsel
Mr. DuBois, Assistant Counsel

ALSO PRESENT: Messrs. Curtiss, Case, Austin, Williams, Hoxton, Oscar Newton, Stevens, Wood, Peyton, McClure, Walsh, and Isaac Newton, Federal Reserve Agents; and Messrs. Roelse, Young, and Stewart, Assistant Federal Reserve Agents.

Mr. Stevens, Chairman of the Federal Reserve Agents' Conference, stated that the Conference had been in session since Monday morning, May 7, 1934; had considered the various topics on the program prepared by the Executive Committee of the Conference; and had approved certain statements which would be submitted as reports to the Board. He also stated that, at the beginning of the Conference, letters had been addressed to Mr. Morgenthau, Secretary of the Treasury; Mr. O'Connor, Comptroller of the Currency;

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Mr. Jones, Chairman of the Reconstruction Finance Corporation; and Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, and that Mr. Jones; Mr. Smith, representing the Treasury Department; and Messrs. Crowley and Stronck of the Federal Deposit Insurance Corporation, had met with the Conference and had discussed certain problems.

In connection with the topics suggested by the Federal Reserve Board for discussion by the Federal Reserve Agents' Conference, the written statements, approved by the Conference, were submitted to the Board, and have been placed in its files, upon the following subjects:

Discussion of evidences in the respective districts and in the country as a whole of improvement in business conditions and business sentiment, either generally or in particular industries.

Whether there is concrete evidence of any recent increase in release of bank credit to meet needs of agriculture, commerce, and industry.

Discussion of course of action Board should take, in event Section 7 (D) of so-called stock exchange bill as reported to Senate on April 20, 1934 (S. 3420) becomes law, to effectuate purposes sought to be achieved by amendment.

Governor Black referred to a number of the provisions contained in the stock exchange bill in the form in which it passed the House of Representatives on May 4, 1934, particularly the provisions with regard to margin requirements, and stated that if the bill should be approved, it would place a very great responsibility upon the Federal Reserve System which would require the closest cooperation between the Federal Reserve Board and the officers and directors of the Federal reserve banks.

During the discussion of the stock exchange bill, reference was

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made to the question of amendment of the Securities Act of 1933, and Mr. Stevens stated that in connection with its consideration of (1) the necessity of a workable securities act for capital financing, (2) the advisability of banks being allowed to deal in the same class of bonds which they are permitted to buy for their own account, and (3) participation by banks in capital financing, the Conference had approved a statement. The statement was submitted to the Board, and a copy has been placed in its files.

In connection with the question of the advisability of banks being allowed to deal in the same class of bonds which they are permitted to buy for their own account, Governor Black referred to the action taken by the Board on May 3, 1934, in issuing permits under Section 32 of the Banking Act of 1933 authorizing the Union Trust Company of Pittsburgh, Pennsylvania, to act as correspondent bank for certain dealers in securities in dealing in and underwriting certain types of securities which member banks may deal in and underwrite under the provisions of Section 5136 of the Revised Statutes, as amended, and stated that the Board had taken this position because of a desire to be as helpful as possible within the limits of the present law in opening up the capital investment market.

Mr. Stevens reported that some of the Federal reserve agents felt that the large amount of capital financing which is needed at the present time cannot be satisfactorily completed with the present machinery and without some aid from the banks, but that other Federal reserve agents felt that member banks should not engage in the underwriting of securities other than as authorized by the present law.

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Mr. Stevens stated that reports had been made to the Conference by each Federal reserve agent with regard to the banking situation in his district, particular attention being given to (a) the number of member banks reorganized and/or recapitalized since the moratorium and their present condition and reaction on the community and (b) the present status of the banking structure in each district and what remains to be accomplished, and that these reports would be compiled and submitted to the Board later.

He also advised that careful consideration had been given to the question of the responsibility of the Federal reserve agents and their departments under the Federal Reserve Act, as amended by the Banking Act of 1933; that a statement had been prepared by Mr. Williams and adopted by the Conference as a declaration of principles; and that a copy of the statement will be submitted to the Board later.

In this connection, Governor Black referred particularly to the provisions of section 30 of the Banking Act of 1933 which relate to the removal of bank officers and directors. He stated that the Board feels a keen responsibility under this provision of the law and had occasion to give consideration recently in connection with applications under the Clayton Act to the question what action should be taken in cases where it is disclosed that directors of banks have not given their respective institutions the necessary attention, and that the suggestion had been made that the Board address a letter to directors of member banks calling attention to their responsibilities under the law.

Mr. James called attention to the fact that a number of Clayton

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Act applications had been submitted to the Board with the favorable recommendation of the Federal reserve agents, where, because of the condition of the banks involved or the record of the applicant, a question is raised as to whether the application should be approved, and he stated that although he felt in certain cases of this kind that the application should be approved in order not to disturb the situation surrounding the banks, he also felt that the Federal reserve agents are placed on notice that the management of the banks involved is not good and that the agents, in cooperation with the chief national bank examiners, should keep in touch with the banks involved with the idea of bringing about the necessary improvement in management as soon as possible. He also stated that it is his suggestion that when the Board advises the agent of approval of such an application, he be advised also that the Board will consider it his duty to keep in touch with the chief national bank examiner in an attempt to bring about the necessary corrections, and to keep the Board advised of the progress made. Mr. O'Connor expressed agreement with Mr. James' suggestion and stated that his department and the national bank examiners will be glad to cooperate in the matter.

Governor Black referred to Section 32 of the Banking Act of 1933 and outlined briefly for the information of the agents some of the considerations which prompted the position taken by the Board that where the relationships covered by applications for permits are within the class which the section was designed to terminate the Board will not approve the applications. In response to an inquiry by Mr. Hoxton as to whether the Board still desired to have applications submitted to it where it is clear that they would be denied, Governor Black stated that the law contemplates that applicants shall have a right to submit applications and

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the agents, therefore, should continue to forward them to the Board.

On the question of examination, supervision, and regulation of State member banks, Mr. Wood read statements which, the Board was informed by Mr. Stevens, had been approved by the Conference, on the following subjects:

Critical examination vs. constructive aid in correction and management.

Criticisms and corrections to be considered direct with bank or through State authorities.

Policy in appraisal and depreciation of bank buildings.

Duty and procedure under Section 21 of Banking Act of 1933.

The statements read by Mr. Wood have been placed in the Board's files.

In connection with the last statement referred to above, Mr. Wyatt said that his division is studying the question as to the procedure that should be followed under section 21 with a view to addressing a letter to all Federal reserve agents with regard thereto.

Mr. Stevens stated that the Conference had considered the question of cooperation with clearing house associations which have eliminated their examination divisions and are relying upon the reports of examinations of clearing house member State banks made by the Federal reserve banks, and that the Conference felt that if the individual clearing house banks authorize the Federal reserve banks to furnish information to the clearing house associations the Federal reserve banks would be justified in taking such action.

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He also stated that, in connection with the question of charges for examinations of State member banks, the Conference had appointed a committee to investigate the charges being made by the various Federal reserve banks and to submit a report thereon to the Conference and to the Board.

With regard to the question of trust department examination and supervision, Mr. Stevens stated that the Conference had a strong feeling that the trust examiners of Federal reserve banks should not only be familiar with trust departments from an asset standpoint, but should be trained in the operation, and familiar with the responsibilities of the management, of trust departments; that a trust department is vastly different from the commercial department of a bank; and that the ordinary bank examiner is not qualified to examine trust departments. He also stated that a delegation from the American Bankers' Association called on him recently and advised that the action of the Federal reserve banks in employing trust examiners had been discussed and enthusiastically received by the association, and that it had been suggested, in the interest of the standardization of trust practices, that the Board should have in its Division of Examinations a chief trust examiner so that the trust examination activities at all Federal reserve banks might be properly coordinated. The whole question of trust examinations, Mr. Stevens stated, had been reviewed carefully by the Conference; which felt that progress is being made in such examinations, that special trust examiners on the examining staffs of Federal reserve banks are essential and that such examiners can be exceedingly helpful in the cases of small banks with trust powers which

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do not have men properly trained in this work. Mr. Stevens also advised the Board that the question had been raised during the Conference as to what part the Federal reserve examiners might take in connection with the examination of trust departments of national banks and that it had been reported to the Conference that the Office of the Comptroller of the Currency is organizing a special trust department in Washington with trust examiners in the various districts. Mr. O'Connor confirmed Mr. Stevens' statement with the advice that his office is selecting the very best men available in the districts for this work and is adding to the personnel of the Washington office, and that his office will be glad to cooperate in every way possible with the trust examiners at the Federal reserve banks and to have their cooperation.

On the question of coordination of the activities of the Federal reserve agent's departments with the national and State supervising authorities, the Reconstruction Finance Corporation, and the Federal Deposit Insurance Corporation, and on the questions of certification of State member banks for permanent insurance and the coordination of admission requirements by the various agencies, Mr. Case reported that the information disclosed during the discussion at the Conference indicates that there is close cooperation between the various agencies referred to and that it is believed that the necessary examinations will have been made in order to enable the certification of banks to the Federal Deposit Insurance Corporation by July 1. He also said that it is the general belief that the temporary insurance provisions of Section 12B of the Federal Reserve Act may be extended for another year, which may result in some of the banks delaying

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action in obtaining the necessary capital aid. Governor Black stated that it is uncertain whether the proposed extension for another year of the temporary insurance provisions will be passed by Congress and that the Federal reserve agents should take all necessary steps to have examinations of State member banks made in time so that the proper certification to the Federal Deposit Insurance Corporation can be made on or before July 1.

In response to a question by Governor Black, all of the agents indicated that the necessary examinations would be completed in time to enable the certification of State member banks before July 1 in the event the law is not amended.

Mr. Stevens then advised that the Conference had considered the question as to the future responsibilities of the Federal reserve agent's departments in relation to over-banked communities, and under-banked communities; that it had also discussed the desirability of a form of branch banking for small communities; and that the following statement had been adopted:

"This conference of Federal Reserve Agents respectfully directs the attention of the Federal Reserve Board to the fact that group and chain banking have proved unsatisfactory and that some deserving communities are without proper banking facilities, while others are served by banks unable to fulfill their functions adequately through lack of sufficient capitalization.

"It is the belief of this conference that these unsatisfactory conditions would be improved by the authorization in the National Banking System of branch banking within designated areas, and the repeal of that provision of the law limiting branch banking to the states that specifically allow it."

In connection with the above statement, Mr. O'Connor stated that, the Federal Deposit Insurance Corporation feels that, under the present law, it is without authority to deny the application of a bank for stock in the

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Corporation when its assets are sufficient to meet all of its liabilities to depositors and other creditors, and that it is felt to be extremely important that the law be amended so as to give the Corporation discretion as to whether or not the deposits of a particular bank will be insured. This authority, Mr. O'Connor stated, would enable the Corporation to refuse the application of an organizing bank in a community which is already over-banked, or in any other situation where the bank is not organized on a sound basis. He also expressed the opinion that as soon as economic recovery is definitely under way in the United States there is going to be greater pressure on his office for the organization of national banks, which it is felt will be occasioned by the elimination of the double liability on the stock of national banks and by the fact that the deposits of such banks will be insured, and that, in view of such circumstances, he feels that the Federal reserve agents can be of great assistance to the Comptroller in his efforts to bring about the elimination by consolidation or otherwise of the banks in communities which are over-banked and in preventing the organization of banks in such communities. He also added that he would like to work out a procedure under which he could refer applications for charters for national banks to State authorities for their recommendations, and under which State authorities would submit to the Federal reserve agents and to the office of the Comptroller of the Currency for their recommendations applications for the establishment of State institutions.

During the discussion of this matter, Mr. Hamlin left the meeting.

Mr. Stevens reported that the conference had appointed a legislative committee to consider possible amendments to the Federal Reserve Act

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and related legislation and to report to the Conference and the Federal Reserve Board. He also stated that in connection with the questions of qualifications of directors of member banks and difficulties in meeting the requirements for directors, the Conference had adopted the following statement:

"The Chairmen and Federal Reserve Agents of the Federal Reserve Banks at this conference today resolve unanimously that it is of the utmost importance that Section 31 of the Banking Act of 1933 be repealed. The provision of this section becomes effective on June 16, 1934. If this section is not repealed many banks, especially the smaller banks, will lose many and in some cases most of their directors. It is understood that the Senate has proposed such a bill, and it is felt desirable that the Federal Reserve Board urge that the House of Representatives give their attention to the desirability of considering similar action."

Mr. O'Connor stated that a bill repealing Section 31 of the Banking Act of 1933 had passed the Senate and undoubtedly would pass the House.

In connection with a discussion of the question of the method and procedure in making loans under the industrial credit bill in the event it becomes law, Mr. Stevens stated that the Conference had considered a number of questions and suggestions and that these will be submitted to the Board for their consideration.

Mr. Curtiss read a statement, which, Mr. Stevens informed the Board, had been approved by the Conference, with regard to the recommendation of the Committee on Reserves relative to a change in the basis of computing reserves of member banks. The statement has been placed in the Board's files.

Mr. Stevens stated that the Conference had also discussed the procedure in connection with applications for voting permits, Clayton Act applications, and reporting loans to banking officials and violations of

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Section 12 of the Banking Act of 1933, and he referred briefly to some of the difficulties and problems which some of the Federal reserve banks are facing in connection therewith, particularly the resistance which is being shown by affiliates of member banks because of the requirements of examination of such affiliates. He also stated that a report had been submitted to the Conference on this matter which would be submitted to the Board with the minutes of the Conference.

Mr. Stevens then read a statement, approved by the Conference, with regard to interest on deposits under Regulation Q, which has been placed in the Board's files.

It was pointed out that copies of the Board's letter of April 28, 1934, to the Comptroller of the Currency, outlining certain considerations which may be taken into account in determining whether or not deposits are bona fide thrift deposits, were sent to the Federal reserve banks on April 30, 1934. Mr. Stevens said that the Conference had discussed with Messrs. Crowley and Stronck of the Federal Deposit Insurance Corporation the question of the difference between the Board's Regulation Q and the regulation of the Federal Deposit Insurance Corporation with regard to the payment of interest on deposits, and that it is believed that the matter will be adjusted. Governor Black stated that the Board has taken this matter up with the Federal Deposit Insurance Corporation.

Mr. Stevens then reported that the Conference had given consideration to the question of a building for the Federal Reserve Board and had adopted the following resolution:

"RESOLVED, That it is the unanimous opinion of the conference that the Federal Reserve Board should be adequately housed in a

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"building of its own; and that it should acquire a site and erect a building thereon for its own use, proceeding under the terms of section 5 of Bill S.3487 as introduced by Senator Glass (relating to direct loans for industrial purposes by Federal reserve banks, and for other purposes), if enacted into law, or, if not enacted, through investment by the twelve Federal reserve banks in such site and building for the use of the Federal Reserve Board."

In adopting this resolution, Mr. Stevens stated, the Federal reserve agents desired to make it clear that they, of course, could not commit the boards of directors of the Federal reserve banks with regard to the investment by the banks in a building for the use of the Federal Reserve Board in the event the Glass Bill is not approved, and that if it becomes necessary to present the matter to the various Federal reserve banks it is felt that they should be advised as to the amount which would be expended for such a building. Governor Black stated that the boards of directors of the Federal reserve banks should, of course, be furnished complete information regarding the Board's needs with respect to such a building and that in his opinion the cost of such a building probably would not exceed \$2,000,000.

Mr. Stevens stated that the last regular meeting of the Federal reserve agents was held in November, 1932, and that, as the meeting in August 1933, and this meeting which was hurriedly called were special meetings, the Conference felt that it should hold another meeting in Washington before the end of the current year and had appointed committees to report on various subjects at such a meeting. Governor Black expressed the opinion that such a meeting would be desirable and the other members of the Board indicated their agreement with the suggestion.

At the request of Governor Black Mr. Goldenweiser distributed to

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each Federal reserve agent a copy of a memorandum on business and credit conditions prepared in the Division of Research and Statistics under date of May 3, 1934.

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

E. A. Black
Governor.