

A meeting of the Federal Reserve Board with the Federal reserve agents and the governors of the Federal reserve banks was held in Washington on Tuesday, June 26, 1934, at 10:20 a. m.

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

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

ALSO PRESENT: Messrs. Curtiss, Case, Austin, Hoxton, Newton, Stevens, Wood, Peyton, McClure, and Walsh, Federal Reserve Agents at the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas, respectively.

Messrs. Young, Norris, Fancher, Seay, Schaller, Martin, Geery, Hamilton, McKinney, and Calkins, Governors of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively.
 Mr. Johns, Acting Governor of the Federal Reserve Bank of Atlanta.
 Mr. Stewart, Secretary, Federal Reserve Agents' Conference.

Governor Norris, as chairman of the Securities Exchange Act Committee, reported that, after considering the action taken at the Federal

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Reserve Agents' Conference on May 7-9, 1934; the memorandum dated June 9, 1934, prepared in the legal division regarding the provisions of the Securities Exchange Act of 1934 affecting the powers and duties of the Federal Reserve Board; the memorandum written by Mr. Parry of the Board's Division of Research and Statistics and dated June 22, 1934, which reported on the preliminary work done by the Board's staff in connection with the Securities Exchange Act of 1934; and Mr. Goldenweiser's memorandum of June 22, 1934, which contains a tentative draft of principles for administering the provisions of sections 7 and 8 of the Securities Exchange Act, the committee had expressed the view that, except with certain minor changes in wording, Mr. Goldenweiser's memorandum constitutes an outline of principles with which the committee was in hearty accord, and which will be helpful to the committee in its further study of the subject; that, in view of the importance of the subject and the amount of additional material information which it is desirable to secure and study, the committee felt that, before it will be able to make definite recommendations, it will be necessary for it to make a more thorough study of the subject; that to this end the committee will undertake to keep in close contact with Mr. Goldenweiser, and desires that he continue to communicate with the committee; and that the members of the committee will make recommendations from time to time and submit a later report.

Governor Norris stated further that the committee was of the opinion that the Federal Reserve Board should adopt only such regulations at the present time as are necessary to carry out the purposes

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of the law and that it should carefully avoid in its regulations any unnecessary restrictions on an activity which if properly conducted is an essential part of our economic system. He also stated that the committee felt that, if it is the pleasure of the Board and the Federal reserve agents and governors, it might be desirable for the committee to continue in existence for the purpose of making a further study of the subject assigned to it.

It was understood that the committee should continue as long as may be necessary for a completion of consideration of questions presented to it in connection with the preparation of regulations pursuant to the Securities Exchange Act of 1934.

A discussion followed, during which a question was raised as to the status under section 7(e) of the Securities Exchange Act of 1934, between now and October 1, 1934, of loans or extensions of credit made prior to the approval of the Act, and to the question of the effect of the Act on loans made by banks secured by stock exchange collateral, and it was understood that these questions would be given consideration by the committee and a further report submitted.

Governor McKinney, as chairman of the Industrial Credit Committee, stated that Governor Black had submitted to the committee a tentative draft of a proposed agreement between the Treasury Department and the respective Federal reserve banks with regard to the manner in which the funds to be paid to the banks by the Treasury Department pursuant to the provisions of section 13b of the Federal Reserve Act, which agreement contemplated payment to the Federal reserve banks by the Treasury, as loans are made by the banks pursuant

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to the provisions of section 13b, of the amount of the loans made up to the total of the respective banks' subscriptions to the stock of the Federal Deposit Insurance Corporation; and that, while the committee understands the agreement is subject to further negotiation with the Treasury Department, it is of the opinion that the matter should be left in the hands of the Federal Reserve Board, with the hope that the agreement in its present form will be made effective.

Governor Black stated that he had a further conference with the Secretary of the Treasury this morning regarding this matter, at which the latter had agreed that he would be willing to execute the agreement in its present form subject to an informal understanding that the Treasury Department will pay to the Federal reserve banks an amount equal to the amount of the loans made by them up to \$10,000,000, following which the funds for the next \$10,000,000 of loans will be furnished by the banks, and that this procedure will continue until an amount equal in the aggregate to the amount invested by the Federal reserve banks in the stock of the Federal Deposit Insurance Corporation has been paid by the Treasury Department to the banks.

Governor McKinney then read the following letter received under date of June 22, 1934, from Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, by Governor Black, and by him referred to the Industrial Credit Committee for consideration:

"I beg to enclose herewith copy of our regulations for industrial loans. These can be altered if and as required.

"It seems to me that as far as is practical under the law, the RFC and Federal Reserve Banks should consider these loans jointly, i. e. Federal Reserve Industrial representatives and

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"RFC Loan Committeemen sitting as a joint Loan Committee in considering industrial loans, inviting the cooperation of banks, and especially the bank having the account of the applicant. In this way, greater speed will be accomplished, with each agency taking such participation in the loan as may be agreed upon at the time of making the loan. By this procedure a greater spread in the credit risk would also be obtained.

"Inasmuch as our offices, with few exceptions, are in Federal Reserve Bank buildings, industrial loan applicants could be directed to a common office for 'Industrial Loans'; the Advisory Loan Committee, composed of representatives of the RFC and the Federal Reserve Bank, determining whether the loan would be recommended, and if so, what agency would make it, or how it would be participated in; Federal Reserve Bank management, as well as the RFC Board, necessarily reserving the right to adopt, alter, change, modify, or reject recommendations of the Loan Committee.

"There will undoubtedly be loans which Federal Reserve Bank management will be willing to make, in cooperation with banks, and in which the RFC will have no part. On the other hand, there will probably be loans in which the Federal Reserve and the RFC will participate in connection with banks.

"If some such procedure as this is not agreeable to the Federal Reserve Board and the several Federal Reserve Banks, the RFC will, at all events, cooperate with Federal Reserve and other banks and lending agencies, with a view to facilitating such loans."

Governor McKinney stated that, after careful consideration of all the facts involved, the committee felt that the filing of applications with the Federal reserve banks under section 13b of the Federal Reserve Act should be free from unnecessary restrictions; that their consideration by the Industrial Advisory Committees and the Federal reserve banks should be expedited as much as possible; that the introduction in this procedure of other agencies and requirements which are not contemplated by section 13b of the Act would tend to create confusion and misunderstanding and thereby hamper the Federal reserve banks unnecessarily; that it was the unanimous opinion of the committee that the procedure proposed by Mr. Jones would not be desirable or practicable, especially in view of the material differences in the statutory

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requirements under which the Federal reserve banks and the Reconstruction Finance Corporation, respectively, must operate; and that the adoption of such a procedure would not be in accordance with the intention of Congress or the express terms of the law.

Governor Black referred to the question raised by the legislative history of the industrial credit act as to whether the Reconstruction Finance Corporation may make advances under the act before an application made by the borrower to the Federal reserve bank has been rejected, and he suggested that this point be considered by the meeting. Opinions were expressed on the question raised by Governor Black, and on the question presented by Mr. Jones' letter as to whether the Federal reserve banks should act jointly with the Reconstruction Finance Corporation in considering applications for loans, or whether they should consider such applications independently. During this discussion Governor Harrison of the Federal Reserve Bank of New York joined the meeting.

Governor Young moved that it be expressed as the desire of the governors and Federal reserve agents that the law be construed to mean that it is not necessary for an applicant for a loan under the industrial credit act to submit his application to a Federal reserve bank before making application to the Reconstruction Finance Corporation.

It was suggested by Mr. Thomas that, before acting on Governor Young's motion, it might be well to invite Mr. Jones to the meeting for the purpose of making a statement as to his attitude on the two questions under consideration.

This suggestion was approved, and Mr. Jones was

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invited by telephone to join the meeting for the purpose stated.

While awaiting the arrival of Mr. Jones, Mr. Harrison, as chairman of the Recovery Program Committee, stated that his committee had met yesterday afternoon, and inasmuch as it was understood that the committee was to be a continuing one, it had discussed topics of the character which it was thought should come before the committee and be under its constant observation, and that the committee was unanimous in its agreement with the suggestion made by Governor Black at the meeting yesterday with regard to the importance to the Federal Reserve System of doing everything possible under existing laws to further recovery. On this basis, Governor Harrison said, the committee felt it is very important that a committee or commission be appointed to consider what further laws are necessary to the protection and betterment of the banking system of the country as a whole and the relations between the System and the Treasury; that this problem cannot be studied to a conclusion by a departmental study which must be completed by October 1; that the President might request the Board or the Treasury, or both, to appoint a joint committee to make a thorough study of the subject; and that, if the appointment of such a committee is not thought to be wise at this time, the Federal Reserve System should appoint an independent committee of its own to make such a study, although the committee feels such a study would not be fully effective unless it is a joint committee or commission of the kind suggested.

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Governor Harrison stated further that such a study will take considerable time, and the committee felt that in the meantime the Federal Reserve System should do everything it can under existing law to further recovery; that the Federal Reserve Board should be as effective and as expeditious as possible in its action under the Securities Exchange Act of 1934; and that the Federal reserve banks should bring to the attention of their member banks the importance of the banking community doing its share toward recovery. The difficulty in connection with the latter question, Governor Harrison said, is that, while the banks may desire to make loans, if they make the kind of loans that are available now, they will be criticized by the banking authorities; that, in view of this situation, the committee feels it should study the possibility of bringing about a situation in which the banks may be more liberal in making loans without feeling that the loans will be criticized by examiners; and that this matter is one which requires immediate study.

Governor Harrison reported that another matter considered by the committee as an important one was that there should be taken such action as is possible under the present law to open up the capital market, and unless that market is opened so as to relieve the burden of unemployment, the budgetary program of the Government during the succeeding year will be an extremely difficult one. It was felt, Governor Harrison said, that it is very important, especially in the larger cities, that a study be made by Federal reserve banks of the situation as regards the capital market.

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Governor Harrison also said that his committee had voted to consider further the matters referred to above and submit a later report thereon to the Board and the Federal reserve agents and governors.

Governor Harrison then stated that at the meeting of the Executive Committee of the Federal Open Market Committee on May 23, 1934, discussion was had with regard to the use of the stabilization fund for the purpose of purchasing Government securities, and that the Secretary of the Treasury had stated that the resources of the fund would not be used for that purpose prior to June 16, 1934. He also stated that, in a recent conference with the Secretary, the latter had authorized him, as chairman of the Federal Open Market Committee, to advise the committee that the Treasury Department has no present intention of utilizing the stabilization fund for the purpose of purchasing Government securities, and that the Department will not use the fund for that purpose without first advising Governor Harrison as chairman of the Federal Open Market Committee and giving the committee an opportunity to express an opinion with regard to any proposed action.

Governor Harrison then reported that he had also discussed with the Secretary of the Treasury another question which had been discussed at the executive committee meeting of the Federal Open Market Committee; i.e., the possibility of using the stabilization fund to purchase some of the Government securities held in the System open market account, and he stated that he felt the Secretary had about reached the conclusion that it would be wise for the Treasury Department, rather than to purchase securities in the open market, to

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purchase them from the Federal reserve banks on the theory (1) that it would reduce the interest payments of the Government, (2) that it would decrease the total amount of securities held in the System account, (3) that it would utilize some of the stabilization fund without increasing excess reserves measurably, and (4) that it would put the Federal reserve banks in a better position to accept longer term securities in exchange for maturing issues. The Secretary had said, Governor Harrison stated, that he would take this matter up again upon his return to Washington after the first of August.

At this point, Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, joined the meeting and Governor Black stated, for his information, that the meeting had under consideration the questions, (1) whether Section 5d of the Reconstruction Finance Corporation Act, as amended by the industrial credit act, should be interpreted as requiring that applications for loans be made to a Federal reserve bank before being made to the Reconstruction Finance Corporation, and (2) whether, as suggested in Mr. Jones' letter of June 22, 1934, there should be joint action by the Federal reserve banks and the Reconstruction Finance Corporation in handling applications for loans under the industrial credit act, and, if so, to what extent, and that the meeting would appreciate having a statement from Mr. Jones as to his attitude on the questions.

Mr. Jones stated that he felt that, on the basis of his experience at the Reconstruction Finance Corporation, the number of loans that can be made under the industrial credit act is going to be a

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disappointment to the banks, the Reconstruction Finance Corporation, the public, and the people who will expect to get loans. In answer to the second question as stated by Governor Black, he said it seems to be highly desirable and practical that the Reconstruction Finance Corporation and the Federal reserve banks consider these loans jointly, as generally the offices of the local agencies of the Reconstruction Finance Corporation and the banks are in the same building and there is no reason why there should be two loan departments in any Federal reserve bank. An applicant should be able to go to one department and file his application, and it would be desirable for the advisory committees of the Reconstruction Finance Corporation and the bank to advise with each other on applications for loans, following which the bank management would determine whether it wanted any part of the loan. He did not think the Reconstruction Finance Corporation would be willing to delegate any authority to its agencies to make these loans, but the board of directors will act on the applications as fast as it can. If a joint committee were established to consider the loans, it would not be necessary to consider the question whether the Federal reserve bank should refuse to make a loan before the applicant could apply to the Reconstruction Finance Corporation, and the applicant need not know, when filing his application, whether the loan would be granted by the Federal reserve bank, the Reconstruction Finance Corporation, or the local bank. Certainly, he said, the Reconstruction Finance Corporation desires the Federal reserve banks and the local banks to make the loans if they will, as the board of

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directors of the Corporation wants the Corporation to get out of the lending business as soon as possible and to get that activity back into private hands. He added that there must be accord as to purpose in this respect, and the Corporation wants to cooperate in every way it can.

As to whether the law should be interpreted as requiring applicants for loans first to make application to a Federal reserve bank before going to the Reconstruction Finance Corporation, Mr. Jones said the Corporation would like to construe the law, and probably will construe it, as not requiring that application be made to a Federal reserve bank, as the Corporation would like to be in a position to make loans without requiring that the applications first be denied by a Federal reserve bank. Counsel for the Corporation, Mr. Jones said, had advised that such a position may be taken, but that he felt the Corporation and the Federal reserve banks can cooperate so that the question will not arise. Mr. Jones then said that he was going to talk over the radio tonight, and would appreciate it if he could be advised today of the decision reached on the two questions referred to. Governor Black advised Mr. Jones that he would communicate to him as soon as possible the decisions reached.

Mr. Jones then withdrew from the meeting.

The discussion of Governor Young's motion was resumed, and Governor Harrison raised the question as to whether, in view of the provisions of the law as finally enacted, it would serve any useful purpose to take any action at this time with regard to the question

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presented by the motion, and whether it would not be to the advantage of the Federal reserve banks not to have any fixed construction of the law on this question at this time.

Governor Harrison moved that Governor Young's motion be laid on the table.

Carried unanimously.

During a further discussion of the question, it was indicated as the feeling of all but three of the Federal reserve agents and governors present that, from a practical standpoint, the law should not be interpreted to require that applications of borrowers be submitted first to the Federal reserve banks before being made to the Reconstruction Finance Corporation.

Governor McKinney then resumed his report on the action taken by the Industrial Credit Committee, and stated that, after a careful consideration of the tentative draft of Regulation S prepared by the Board, the committee had approved the regulation with the following proposed amendments:

- (1) Amend Section IV(a) to provide that the Industrial Advisory Committee in each Federal reserve district shall consist of five members.
- (2) Strike out the proposed paragraph (a) of Section V which limits the aggregate amount of loans and advances by a Federal reserve bank to any one industry or commercial business.
- (3) Amend paragraph (c) of Section V to provide for a limitation of six months on commitments instead of one year.

Governor McKinney stated that the first two amendments had been approved by the committee unanimously and that the third had been

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approved on a majority vote.

A discussion of the last amendment proposed by the committee developed the consensus of the Federal reserve agents and governors that the paragraph in the Regulation with regard to limitations on commitments should be eliminated altogether from the Regulation.

It was then moved that the Regulation, amended in accordance with the first two suggestions of the Industrial Credit Committee and so as to eliminate entirely the paragraph on limitations on commitments, be approved by the Federal reserve agents and governors.

Carried.

Governor Harrison referred to Section VI of the tentative draft of Regulation S, with regard to rates of interest and discount, and raised the question whether a Federal reserve bank may submit to the Federal Reserve Board, and the Board approve, a spread of rates to be charged on advances made by the banks under the industrial credit act.

Reference was made again to the question whether the Federal reserve banks should act jointly with the Reconstruction Finance Corporation in handling applications for loans under the industrial credit act, and the opinion was expressed by several of the agents and governors that it would be desirable to leave the matter for the determination of the various Federal reserve banks.

At the conclusion of the discussion, Governor Harrison moved that it be expressed as the opinion of the conference that the Federal reserve banks cannot waive the duties or obligations imposed by law on any form of collateral agreement, that, however, the Federal reserve

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banks will find many ways in which they and the Reconstruction Finance Corporation agencies can be of mutual help by cooperating in exchanging information and expeditiously handling the applications that will come under the new legislation, and that, to a considerable extent, cooperation between the Federal reserve banks and the Reconstruction Finance Corporation already exists in fact and such further working arrangements as may be necessary or desirable will be developed most speedily and satisfactorily as the work progresses in each bank.

Carried.

Governor Black stated that the Secretary of the Treasury had expressed a desire to be present at one of the meetings while the Federal reserve agents and governors are in Washington and that he had invited him to be present at the meeting tomorrow morning.

He also stated that Senator Glass had advised him on the telephone this morning that, while he regretted it very much, he would be unable to attend the meeting today.

Governor Black said the Board would be glad to give prompt consideration to any recommendations that the Federal reserve banks may have to make while the agents and governors are in Washington with regard to appointments to the Industrial Advisory Committees to be set up in the respective Federal reserve districts pursuant to the industrial credit act.

Thereupon, the meeting adjourned, with the understanding that the governors would attend a meeting of the Federal Open Market Committee and that the Federal reserve agents would hold a meeting of the Federal Reserve Agents' Conference for the purpose of considering

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matters of interest to them.

Robert Howell
Secretary.

Approved:

A. B. Cook
Governor.