

A meeting of the Federal Reserve Board with the Federal reserve agents and the governors of Federal reserve banks was held in Washington on Wednesday, June 27, 1934, at 10:45 a. m.

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

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

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

Messrs. Young, Norris, Fancher, Seay, Martin, Geery, McKinney, and Calkins, Governors of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Dallas, and San Francisco, respectively.

Mr. Stewart, Secretary, Federal Reserve Agents' Conference.

Governor Black referred to the letter addressed by him under date of June 20, 1934, to the Federal reserve agents at all Federal reserve banks, requesting that they continue their efforts to effect the issuance of preferred stock by State member banks in need of additional capital, and he stated that it will be appreciated if the agents will continue

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their efforts in accordance with the suggestion contained in the letter, notwithstanding the extension for one year of the temporary insurance provisions of Section 12B of the Federal Reserve Act.

There were then distributed copies of an article appearing in the "New York Herald Tribune" of June 12, 1934, in regard to a decision handed down in the Supreme Court of New York in an action brought by the State Superintendent of Banks against twelve officers and directors of the Bank of the United States. Governor Black stated that the Federal Reserve Board has been giving consideration recently to the question as to what responsibility it might have under the provisions of Section 30 of the Banking Act of 1933 in connection with the proper discharge by directors of member banks of their duties and that it was felt that the opinion above referred to, which takes a definite position with regard to the duties and responsibilities of directors, would be of interest to the Federal reserve agents and governors in connection with their consideration of the question as to how the Federal reserve banks might improve the service rendered to member banks by directors of such institutions without the necessity of resorting to the procedure contemplated in Section 30 of the Banking Act of 1933.

Governor Black stated that there have been received from the Secretary of the Treasury agreements signed by the Secretary or the Under Secretary setting forth the terms and conditions under which the payments contemplated by Section 13b(e) of the Federal Reserve Act, as amended by the industrial credit bill, will be made to the Federal reserve banks by the Treasury Department; that the agreement for each bank will be handed

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to the chairman or governor of the bank with the understanding that it will be presented to the board of directors as promptly as possible for approval, following which the signed copy will be returned to the Federal Reserve Board for delivery to the Secretary of the Treasury. In this connection Governor Black said that it was very important that the boards of directors of the respective banks meet as promptly as possible to act on the agreement with the Treasury Department and to select the members of the Industrial Advisory Committee for the district.

Governor Black stated that Mr. J. W. Pole of the Export-Import Bank had called on him this morning with a suggestion from Mr. George N. Peek, Special Adviser to the President on Foreign Trade, that a committee of the governors of Federal reserve banks be appointed to consider with Messrs. Peek and Pole the question of foreign exchange.

With the approval of the governors present, Governor Black appointed Governors Harrison, Young and Norris as members of the committee.

Governor Norris, as chairman of the Securities Exchange Act Committee, stated that the committee had considered the two questions referred to it at the meeting yesterday and had adopted the following resolutions with the thought that the statements contemplated therein would be issued by the Board as soon as possible before October 1, 1934, when the regulations to be promulgated by the Board under the Securities Exchange Act of 1934 will be issued:

- (1) "The Committee recommends to the Board the issuance of a notice to the Reserve Banks to be transmitted by them to all banks in their respective districts with such preamble or such additional matters as the Board may

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"think proper, this statement to indicate the characters of bank loans that are not within the regulatory power of the Board under this Act."

(2) "It is recommended that the Board issue a statement clarifying the meaning of Section 7 (e), which relates to the exemption of accounts outstanding on June 6, and that this statement should in addition cover the status of accounts opened between June 6 and October 1."

Governor Black then stated, for the information of the agents and governors, that the Board yesterday approved Regulation S, relating to loans for industrial purposes, amended in accordance with the suggestions made by the agents and governors at the meeting yesterday morning and that copies of the Regulation had been sent by telegraph to the banks last night and that it would be released to the press today for publication in the morning papers tomorrow.

There followed a discussion of the payment by the banks of the expenses incurred by the Industrial Advisory Committee in each district, and it was pointed out that no reference was made to this matter in Regulation S with the thought that it would be left to the Federal reserve banks for determination within the limits imposed by law.

At this point, Mr. Morgenthau, Secretary of the Treasury, and Mr. Coolidge, Under Secretary of the Treasury, joined the meeting, and Governor Black reviewed for their information the matters which had been considered during the meetings with the Federal reserve agents and governors.

Upon inquiry from Mr. Morgenthau, Governor Black stated that the agents and governors had indicated agreement with the proposed arrangement whereby the funds for the first \$10,000,000 of loans under the industrial credit act will be advanced by the Treasury Department, the second \$10,000,000

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by the Federal reserve banks, and so on until the aggregate amount to be paid to the banks by the Treasury Department has been transferred to the banks. There was a short discussion of the procedure to be followed by the Treasury Department in making the payments to the Federal reserve banks contemplated by Section 13b(e) of the Federal Reserve Act, and, in response to an inquiry from Mr. Morgenthau, the agents and governors indicated that, on the basis of the information now available, there will be a large number of applications submitted for industrial loans.

Mr. Morgenthau stated that, in the absence of any unforeseen change in the present situation, the Treasury Department does not contemplate any financing operations until the 15th of September.

At the request of Mr. Morgenthau, the Federal reserve agent or governor from each Federal reserve bank, except Kansas City (Messrs. McClure and Hamilton were not in attendance at the meeting), briefly reviewed present business conditions in his district, following which Messrs. Morgenthau and Coolidge left the meeting.

There followed a detailed discussion of the question of interest and discount rates to be charged on loans and advances made by the Federal reserve banks under the industrial credit act, and Governor McKinney, as chairman of the Industrial Credit Committee, stated that his committee had considered the matter and had felt that there might be a preferential rate applied to obligations acquired by Federal reserve banks from member banks as distinguished from obligations acquired from other financing institutions, and that rates might be different in a Federal reserve district, depending upon the amount of the loan, the character of the credit risk, and the rate

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prevailing in the particular locality where the application originates. The suggestion was also made, Governor McKinney said, that the rates charged should be such that Federal reserve banks will not compete with commercial banks. During the discussion, the suggestion also was made that the Federal reserve banks should make a charge for any commitments to take over from financing institutions advances made by them to industrial or commercial concerns for the purpose of furnishing working capital.

Governor Norris moved that it be the sense of the conference that a commission should be charged for commitments made by Federal reserve banks, and that a preferential rate should be established for member banks from which loans are acquired, or which participate with a Federal reserve bank in loans made pursuant to the industrial credit act.

Further discussion ensued, during which the opinion was expressed that Governor Norris' motion may be somewhat premature because of the fact that the Federal reserve agents and governors, and the members of the Board, have not had an opportunity to give careful consideration to the question, and Governor Black inquired whether the agents and governors would like to have a written expression from the Board with regard to the matter, with the thought that any such statement made by the Board would not be controlling upon the Federal reserve banks in the fixing of rates, and that the statement would contain not only an expression with regard to the rates to be charged by the banks, but also as to the opportunity offered the Federal reserve banks and the obligations placed upon them by the industrial credit act in making advances for the purpose of furnishing working capital. All of the agents and governors present indicated that such a statement from the Federal Reserve Board would be helpful, and Governor Black said

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that it would be prepared and forwarded to them as soon as possible.

Governor Black stated that he could not stress too strongly the importance of the obligations of the Federal reserve banks under the industrial credit act; that he felt that there will be no difficulty experienced in obtaining from the Treasury Department the additional funds which it is contemplated will be paid to the Federal reserve banks by the Department pursuant to the act; that the entire responsibility of making successful use of the powers granted by the act is placed upon the Federal reserve banks and the Board; and that if the authority is exercised effectively it will be most helpful to the Federal Reserve System, whereas if it is not effectively exercised it will be extremely harmful to the System. The other members of the Board expressed agreement with the statement made by Governor Black, and the Federal reserve agents and governors present indicated that the Federal reserve banks would do everything within their power to administer effectively their new duties under the act.

Thereupon the meeting adjourned.

Col Foster Morrie
Secretary.

Approved:

G. A. Black
Governor.