

A meeting of the Federal Reserve Board was held in Washington on Wednesday, June 27, 1934, at 3:00 p. 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. Goldenweiser, Director of the
Division of Research and Statistics
Mr. Wyatt, General Counsel
Mr. Vest, Assistant Counsel

There was presented a draft of a statement for the press prepared by the Governor and Mr. Goldenweiser in accordance with the action taken at the meeting of the Board yesterday.

The statement was amended and approved in the following form:

"The Federal Reserve Board has prepared, approved and issues herewith Regulation S, Series of 1934, which deals with loans by Federal reserve banks for industrial purposes. The regulation analyzed the provisions of the law and prescribes the procedure to be followed in applying for such loans. The regulation has been considered at a conference of the Board with the Chairmen and Governors of the twelve Federal Reserve Banks and has been approved by that conference.

"The need for this character of loans has become increasingly apparent in recent months. Many small industrial establishments have suffered severe capital losses during the depression and are now short of working capital. A survey made by the Federal Reserve Board through the Reserve Banks and the chambers of commerce showed that this condition is widespread and is not being met by existing facilities. Small industries find it difficult at present to obtain their requirements of working capital through the capital market, while commercial banks and other financial institutions, in many cases, are hesitant about undertaking on their single responsibility the risks involved in

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"making relatively long-time loans for working capital purposes.

"Recognizing the need of these industrial and commercial businesses for additional working capital to enable them to continue or resume normal operations and to maintain employment or provide additional employment, Congress has granted the Federal reserve banks broad powers to enable them to provide such working capital, either through the medium of other banks, trust companies and other financing institutions or, in exceptional circumstances, directly to such commercial and industrial businesses. It is believed that the facilities thus afforded will aid in the recovery of business, the increase of employment and the general betterment of conditions throughout the country.

"The Federal Reserve Banks are authorized to have outstanding such loans in an aggregate amount not exceeding approximately \$280,000,000, but additional loans may be made out of funds received through repayment of outstanding loans, so that the aggregate amount of credit to be extended under this authority may be several times as large as the initial amount. These loans are to be made by the Federal Reserve Banks in their own districts and applications for such loans should be directed to these banks. The Federal Reserve Board in its regulation gives authority to all Federal reserve banks to make such loans without referring them to Washington for approval.

"In making these loans the Federal Reserve Banks will have the aid of advisory committees consisting of five active industrialists resident in the district. Progress has been made in the selection of such committees, and the banks are now ready to consider such loans.

"The reserve banks are authorized to make loans or advances or commitments for such loans or advances to financing institutions, which in turn advance the funds for working capital purposes to established industrial or commercial enterprises. Maturity of the loans must not exceed five years and the financing institutions must assume at least 20 per cent of the risk of any loss that may occur.

"In exceptional circumstances the Federal Reserve Banks may also make direct advances to industrial or commercial undertakings that are not able to obtain the required funds from usual banking sources on reasonable terms. It is expected, however, that the Federal Reserve Banks will not compete with local banks, but rather will assist and cooperate with them in meeting local requirements for working capital. The Federal Reserve Board and the Federal Reserve Banks are confident that the banks of the country will join with the system in this endeavor to hasten economic recovery.

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"At the recent conference the Governors and Chairmen of the twelve reserve banks all reported that there was need for this class of loans in their districts and undertook to set up promptly the necessary machinery for considering applications for such loans and to carry out vigorously the purposes of this additional power of the system to serve commerce and industry. The reserve banks will undertake through the advisory committees of industrialists to canvass the situations in their districts with a view to determining where loans for working capital purposes can be made in the public interest to industrial and commercial enterprises.

"It was agreed that these loans would be made chiefly to small and medium-size enterprises, which have the greatest need for such assistance, to whose needs primary consideration was given by the Congress, and in the improvement of whose condition the Reserve system under this law is primarily concerned."

There was also presented a draft of a statement prepared by Mr. Wyatt with the thought that it could be used as an introductory statement in the printed copies of Regulation "S".

The statement was discussed and approved in the following form, with the understanding that it also would be sent by telegram to the Federal reserve banks with the request that they include the statement in their printed copies of the Regulation:

"There is printed herewith the Federal Reserve Board's Regulation pertaining to loans, discounts, purchases and commitments by Federal reserve banks to provide working capital for established industrial or commercial businesses under the provisions of section 13b of the Federal Reserve Act as amended by the Act of June 19, 1934. After consultation with the Chairmen and Governors of the twelve Federal reserve banks, this regulation was adopted by the Federal Reserve Board on June 26, 1934 and became effective immediately.

"Recognizing the need of many small and medium sized industrial and commercial businesses for additional working capital to enable them to continue or resume normal operations and to maintain employment or provide additional employment, Congress has granted the Federal reserve banks very broad powers to enable them to provide such working capital, either through the medium of other banks, trust companies and other financing institutions or, in exceptional circumstances, directly to

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"such commercial and industrial businesses. It is believed that the facilities thus afforded will aid in the recovery of business, the increase of employment and the general betterment of conditions throughout the country.

"In accordance with the policy of Congress and in order to facilitate as much as possible the performance of the new functions thus granted to the Federal reserve banks, the Federal Reserve Board's regulation leaves the broad powers granted by Congress to the Federal reserve banks wholly unimpaired and prescribes no restrictions beyond those prescribed in the law itself. Any attempt to prescribe technical definitions of such terms as 'working capital', 'established commercial or industrial business' and 'financing institutions' has been avoided, lest it have the effect of restricting and hampering the operations of the Federal reserve banks under this statute. The regulations, therefore, contain practically nothing except an analysis of the law and an outline of the necessary procedure.

"The law permits Federal reserve banks to make direct loans to established industrial and commercial businesses only when authorized by the Federal Reserve Board; but, in order to avoid the necessity of having applications for such accommodations passed on in Washington, the Board has granted blanket authority to all Federal reserve banks to grant such accommodations directly on their own responsibility without reference to Washington.

"In accordance with one of the principles of the Federal Reserve Act, which contemplates that the operations of each Federal reserve bank will be adapted to the peculiar needs of its own district and will be administered by persons residing in and familiar with the problems of such district, the Federal Reserve Board has not prescribed any uniform forms to be used in making application to Federal reserve banks for working capital but has left to each Federal reserve bank the task of preparing forms suitable to the needs of its district. Each applicant, therefore, should communicate directly with the Federal reserve bank of its district, which will supply the necessary forms and all necessary information.

"The Industrial Advisory Committees, which are to be organized in each Federal Reserve District and which will consist of five members actively engaged in some industrial pursuit within the district, are being selected and the names of their members will be announced promptly by the Federal Reserve Banks."

At this point Mr. Goldenweiser left the meeting.

Governor Black called attention to the semi-annual assessment to be levied by the Board on the Federal reserve banks to defray the expenses of the Board for the last half of 1934, and to the considerations which

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had been given to including in the assessment an amount to provide for the cost of a site on which a building for the Board would be erected and any expenses that might be incurred by the Board during the six months period in connection with the building.

After a discussion, it was decided to levy an assessment based on the estimated expenses of the Board for the six months period, plus \$100,000 for contingencies and \$1,000,000 to be applied to the purchase of a site and the erection of the Board's building. Accordingly, the following resolution was adopted:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, contains the following provisions:

"The Federal Reserve Board shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and such assessments may include amounts sufficient to provide for the acquisition by the Board in its own name of such site or building in the District of Columbia as in its judgment alone shall be necessary for the purpose of providing suitable and adequate quarters for the performance of its functions. After approving such plans, estimates, and specifications as it shall have caused to be prepared, the Board may, notwithstanding any other provision of law, cause to be constructed on the site so acquired by it a building suitable and adequate in its judgment for its purposes and proceed to take all such steps as it may deem necessary or appropriate in connection with the construction, equipment, and furnishing of such building. The Board may maintain, enlarge, or remodel any building so acquired or constructed and shall have sole control of such building and space therein.

" * * * * *

"The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and

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"may leave on deposit in the Federal reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, * * * and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys."

"WHEREAS, it appears from a consideration of the estimated expenses of the Federal Reserve Board for the six months' period beginning July 1, 1934 and of the amounts which in the judgment of the Board may be needed during such period to provide for the costs, or part thereof, of the acquisition of a site and erection of a building thereon suitable and adequate for the Board's quarters, that it is necessary that a fund equal to six-tenths of one per cent (.006) of the total paid-in capital stock and surplus of the Federal reserve banks be created for such purposes, exclusive of the cost of engraving and printing of Federal reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, That:

"(1) There is hereby levied upon the several Federal reserve banks an assessment in an amount equal to six-tenths of one per cent (.006) of the total paid-in capital and surplus of each such bank at the close of business on June 30, 1934.

"(2) Twenty and three-fourths per cent of such assessment shall be paid in on July 2, 1934, twenty and three-fourths per cent thereof shall be paid in on September 1, 1934, and the remainder shall be paid at such times and in such amounts as the Board may call for the payment thereof during such six months period beginning July 1, 1934.

"(3) Every Federal reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Gold Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Federal Reserve Board on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Federal Reserve Board on the dates as above provided."

Mr. Miller stated that as chairman of the committee appointed by the Board to make a survey as to possible sites in Washington upon which

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the Board's building might be erected, he had conferred with representatives of the National Capital Park and Planning Commission with the idea of determining upon a satisfactory site for the building, and that Mr. Frederic A. Delano, Chairman of the Commission, had written him suggesting a number of sites near the Treasury building, none of which seemed to be satisfactory. Mr. Miller then discussed sites which might be found to be desirable, and it was decided that members of the Board would make a personal visit tomorrow morning to a number of the sites.

There was presented a letter dated June 26, 1934, from Mr. Jacob Viner, Assistant to the Secretary of the Treasury, addressed to Mr. Goldenweiser, Director of the Board's Division of Research and Statistics, stating that it would be appreciated if there could be made available for the use of the group who are making a banking study for the Treasury under Mr. Viner's direction this summer a copy of the study of branch banking in the United States prepared by the Board's Committee on Branch, Group, and Chain Banking.

After discussion, Mr. Goldenweiser was authorized to make available to Mr. Viner a copy of the report, calling his attention to the fact that the report is not up to date and has not been passed upon in any way or approved by the Federal Reserve Board.

Mr. Morrill stated that Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, had asked him to bring to the attention of the Board the following names as suggested members of the industrial advisory committee for the ninth Federal reserve district, with the advice that they had been selected in consultation with the members of the board of directors and would be approved at the next meeting of the board of directors

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of the bank if the list is agreeable to the Federal Reserve Board, but that the persons selected had not been consulted as it was desired to avoid any unnecessary discussion or embarrassment which might occur if they were not approved.

Mr. C. O. Follett	Vice President, Fargo Mercantile Company, Fargo, N. D.
Mr. Hiram Elliott	President of Elliott & Company, Meat Packers, Duluth, Minn.
Mr. S. L. Sewall	Vice President, Minneapolis Iron Store Co., Minneapolis, Minn.
Mr. Albert Miller	President and General Manager, Miller Broom Co., LaCrosse, Wisconsin.
Mr. Harvey Jewett	Jewett Grocery Company and Jewett Drug Co., Aberdeen, S. D.

It was pointed out that the proposed members of the committee are widely scattered over the ninth Federal reserve district, and the Governor expressed the opinion that it would be desirable for three of the members of the committee for each bank to be located in the Federal reserve bank city in order that the committee might act expeditiously on applications for loans submitted to it.

The question was discussed briefly and action deferred until the next meeting of the Board in order to afford the members of the Board an opportunity to consider the matter further.

Mr. Morrill stated that Mr. Edward Burling, Jr., attorney for the Reconstruction Finance Corporation, had called on the telephone regarding the possibility of a Federal reserve bank considering an application for a loan under the industrial credit act from a company in the Virgin Islands which is being sponsored by the Reconstruction Finance

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Corporation but is not yet a going concern. Mr. Morrill stated that he had pointed out that the industrial credit act provides that Federal reserve banks may make advances only to borrowers or financing institutions operating in the district in which the Federal reserve bank is located, and that the Virgin Islands are not located in any Federal reserve district. In this connection, Mr. Wyatt stated that, in view of the provisions of law referred to by Mr. Morrill, it appears that a Federal reserve bank would be without authority to make advances to a borrower located outside of a Federal reserve district.

It was understood that Mr. Morrill would advise Mr. Burling that a Federal reserve bank would be without authority to consider the application referred to.

Mr. Morrill reported that he had received a telephone call from Mr. Mackintosh, Manager of Rentals of the Washington Building, who advised that the entire fifth floor of the building could be made available to the Federal Reserve Board at an annual rental of \$41,250, with additional space on another floor at the same cost per square foot, or approximately \$2.61 per square foot of net office space, which is 61 cents per square foot more than is paid at the present time by the office of the Comptroller of the Currency for space which it occupies in the building. Mr. Morrill said he had expressed the opinion that the Board would probably consider the proposed rate as being too high, in reply to which Mr. Mackintosh had indicated that he was willing to negotiate further.

Mr. Morrill was authorized to continue negotiations with Mr. Mackintosh for the space desired.

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Mr. Morrill then stated that Mr. Dillard, Deputy Governor of the Federal Reserve Bank of Chicago, had called him on the telephone and advised that the Federal Deposit Insurance Corporation contemplates organizing a new national bank, to be known as the Deposit Insurance National Bank, in East Peoria, Illinois, for the purpose of making available the insured deposits of a closed bank pursuant to the provisions of section 12B of the Federal Reserve Act; and that the Federal Deposit Insurance Corporation desires to open an account with the Federal Reserve Bank of Chicago on behalf of the Deposit Insurance National Bank, which account would be handled in the same manner as the account of any national bank at the Federal reserve bank. Mr. Morrill said that Mr. Dillard had stated that the Federal reserve bank has no particular objection to opening the account, but, inasmuch as this is the first case of this kind that has been presented to the bank, he would like to know whether the Federal Reserve Board would have any objection to the account.

After discussion, Mr. James moved that Mr. Dillard be advised that the Federal Reserve Board interposes no objection to the bank opening an account in the name of the Deposit Insurance National Bank, with the understanding that such action is to be considered only as an experimental step and not as a precedent to be followed in any future cases.

Carried.

Attention was called to the resolutions adopted by the Stock Exchange Act Committee on June 26, 1934 and presented at the meeting with the Federal reserve agents and governors this morning.

It was understood that the members of the Board would give the resolutions consideration, and Mr.

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Goldenweiser was requested to submit promptly a recommendation with regard thereto, in order that the Board may take action on the matter as soon as possible.

It was also understood that the members of the Board would give consideration to the general question of interest and discount rates to be charged on advances made by Federal reserve banks under the provisions of the industrial credit act, in order that the statement to be prepared by the Board as suggested by Governor Black at the meeting with the agents and governors this morning may not be unduly delayed in reaching the Federal reserve banks.

The Board then considered and acted upon the following matters:

Telegram dated June 27, 1934, from Mr. Paddock, Deputy Governor of the Federal Reserve Bank of Boston, advising that, because of the absence of a quorum, the regular meeting of the board of directors of the bank was not held today, and that, accordingly, no change was made in the bank's existing schedule of rates of discount and purchase.

Noted.

Memoranda dated June 23, 1934, from Mr. Paulger, Chief of the Division of Examinations, recommending the temporary appointment, for a period of thirty days, of Miss Claire C. Atkins and Miss Frederica G. Ritter as stenographers in the division, each with salary at the rate of \$4.50 a day for each working day, effective as of the dates upon which they enter upon the performance of their duties.

Approved.

There were then presented the following applications for changes in stock of Federal reserve banks:

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<u>Applications for ORIGINAL stock:</u>	<u>Shares</u>	
<u>District No. 5.</u> Cherryville National Bank, Cherryville, North Carolina	36	36
<u>District No. 10.</u> The First National Bank in Trinidad, Trinidad, Colorado	78	78
	<u>Total</u>	<u>114</u>
 <u>Applications for ADDITIONAL stock:</u>		
<u>District No. 2.</u> The First National Bank of Lacona, Lacona, New York	63	63
<u>District No. 5.</u> The First National Bank of Westminster, Westminster, Maryland	4	4
<u>District No. 7.</u> The Albion National Bank, Albion, Indiana	12	12
<u>District No. 9.</u> The First National Bank of Staples, Staples, Minnesota	6	
The First National Bank & Trust Company in Sioux Falls, Sioux Falls, South Dakota	<u>120</u>	126
<u>District No. 12.</u> The West Side National Bank of Yakima, Yakima, Washington	12	
The Commercial National Bank of Saint Anthony, St. Anthony, Idaho	3	
The First National Bank of Portland, Portland, Oregon	<u>600</u>	<u>615</u>
	<u>Total</u>	<u>820</u>
 <u>Applications for SURRENDER of stock:</u>		
<u>District No. 2.</u> The National Safety Bank and Trust Company of New York, New York, N. Y.	441	
The First National Bank of Oxford, Oxford, New York	<u>120</u>	561
<u>District No. 3.</u> The Farmers National Bank of Oxford, Oxford, Pennsylvania	105	105

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<u>Applications for SURRENDER of stock: (Continued)</u>	<u>Shares</u>	
<u>District No. 5.</u>		
The First National Bank of Gastonia, Gastonia, North Carolina	300	300
<u>District No. 10.</u>		
Bank of Moorefield, Moorefield, Nebraska	16	16
<u>District No. 12.</u>		
The First National Bank of Elma, Elma, Washington	18	
Union Bank & Trust Company of Los Angeles, Los Angeles, California	<u>1,500</u>	<u>1,518</u>
	Total	2,500

Approved.

Thereupon the meeting adjourned.

Wesley Maurice
Secretary.

Approved:

ER Black
Governor.