

A meeting of the Federal Reserve Board with representatives of the Industrial Advisory Committees of the twelve Federal reserve districts was held in Washington on Tuesday, December 18, 1934, at 10:00 a. m.

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

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Smead, Chief, Division of Bank
 Operations
 Mr. Wyatt, General Counsel
 Mr. Vest, Assistant Counsel

ALSO PRESENT: Mr. McKay, Deputy Governor, Federal Reserve Bank of Chicago
 Mr. Walden, Controller, Federal Reserve Bank of Richmond
 Mr. Gilmore, Controller, Federal Reserve Bank of St. Louis
 Mr. Hale, Cashier, Federal Reserve Bank of San Francisco
 Messrs. Albert M. Creighton, Wm. H. Pouch, J. Ebert Butterworth, F. A. Smythe, John Sanford, Max Epstein, Wm. K. Norris, Sheldon V. Wood and Clarence Ousley, Chairmen of the Industrial Advisory Committees of the First, Second, Third, Fourth, Sixth, Seventh, Eighth, Ninth and Eleventh Federal Reserve Districts, respectively.
 Messrs. Walter J. Berkowitz and Ralph Burnside, members of the Industrial Advisory Committees of the Tenth and Twelfth Federal Reserve Districts, respectively.

Mr. Creighton stated that a meeting of the representatives of the Industrial Advisory Committees was held yesterday evening and

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that the action taken at that time would be reported to the Board at this meeting. In response to his invitation to each of the individual members of the Federal Reserve Board to address the meeting, statements were made by Governor Eccles, Mr. O'Connor, Mr. Miller, Mr. Hamlin, Mr. James, Mr. Thomas and Mr. Szymczak. A summary statement of the proceedings of this meeting which contains the substance of the statements made by the members of the Board will be found in the Board's files.

At the conclusion of their statements Governor Eccles and Messrs. O'Connor, Miller, and Hamlin withdrew from the meeting. During Mr. Szymczak's statement Governor Martin of the Federal Reserve Bank of St. Louis and Mr. Goldenweiser, Director of the Division of Research and Statistics of the Federal Reserve Board, entered the room and Mr. James left the meeting.

Mr. Creighton expressed the appreciation of the representatives of the Industrial Advisory Committees of the statements made by the members of the Federal Reserve Board. He then presented a statement of the actions taken by the Chairmen and representatives of the Industrial Advisory Committees at the meeting yesterday evening. The topics discussed at that meeting and the decisions reached are set forth below. Topics one and two were presented and discussed briefly by Mr. Norris, topics three and four by Mr. Pouch, topics five and six by Mr. Epstein, topics seven and eight by Mr. Sanford, topics nine and ten by Mr. Ousley, and topics eleven and twelve by Mr. Butterworth:

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QUESTIONS

ANSWERS

1. What is feeling in regard to operation of Section 13b by the Federal reserve banks,

(a) Among industrialists, whether potential borrowers or not?

(b) Among other business leaders?

(c) Among financial institutions?

(a) Where they are acquainted, or have a knowledge of the law, they are favorable.

(b) Same answer as above.

(c) Financial institutions which are acquainted with the law are favorable; our great duty is to acquaint more with the real possibilities under the law.

2. Need for working capital for industry and commerce.

(a) Has experience indicated that there was a substantial need not being met through usual sources of credit?

(b) If such need now exists can it be adequately met under the present Section 13b?

(a) Yes. While the need apparently is not as great as at first thought, there is need and this present law takes care of it, all of which is supported by the number of loans that have been made in the short period we have been operating.

(b) Yes. We feel that practically all worthy cases so far presented have been taken care of either directly or indirectly and existing needs can be taken care of in the future.

3. Assuming that there will be a continuing need for 13b advances or commitments,

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(a) Will applications for the most part take the form of:

(1) Applications for direct advances.

(3a-1) At the present time most of the applications are for direct advances in most of the Federal Reserve Districts although the percentage varies considerably.

(2) Applications involving separate advances by the Federal reserve bank and by financing institution, or

(3a-2) There is no general rule throughout the entire System. Applications direct to Federal reserve banks are decreasing and those to the local banks are increasing in the majority of the districts. Most members of the Committee feel that applicants should be encouraged to make applications through the local banks, which should be encouraged as it is most advantageous for the local banks.

(3) Applications from financing institutions for commitments covering proposed advances.

(3a-3) If financing institutions refers to Factor and Finance Companies, there have been very few cases of this kind.

(b) Should the rates charged by the Federal reserve banks be so fixed as to encourage applications under 1, 2 or 3 above?

(b) It seemed to be the consensus of opinion that the present rates were satisfactory and should be continued. Such rates should encourage the local banks to cooperate.

4. Recognizing that subsection "a" of Section 13b is designed to meet emergency situations, should it be a permanent provision of law, and if so, should it be amended as regards:

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- (a) Requirement that applicant be unable to obtain requisite assistance from usual sources.
- (b) Requirement that loans be for working capital purposes.
- (c) Requirement that loans be made on a reasonable and sound basis.
- (d) Requirement that loans be confined to established businesses.
4. The Committee feels that Section 13b should be continued in its present form as long as the emergency exists and that subdivisions a, b, c and d be continued. Two Members believed that b might be broadened to include proprietary capital.
5. Should subsection "b" of Section 13b be a permanent provision of law, and if so, should it be amended as regards:
- (a) Authorization of advances through financing institutions other than member banks.
- (b) Amount of obligation as to loss sustained.
- (c) Authorization of separate loans by Federal reserve banks and by a financing institution on which repayments are made pro rata.
5. It was the consensus of opinion that subsection "b" of Section 13b should be retained and a, b and c be not changed in the law.
6. Would the making of loans for working capital purposes presumably have been conducted more effectively if Intermediate Credit Banks affiliated with the Federal reserve banks had been set up for this purpose as provided in the first bill proposed by the Federal Reserve Board? If so, why?
6. The Committee felt that the answer to this question is NO; the Chicago Chairman dissenting.

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7. What has been experience as regards applications?

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| (a) Extent to which fear of rejection and of possible adverse effect upon applicant's credit standing has discouraged submission of applications. | (a) It is not felt that fear of rejection and adverse effect upon an applicant's credit has discouraged applications in more than a few instances. |
| (b) Extent of and reasons for withdrawal of applications. | (b) Negligible, and usually for the reason that applicant has found that funds would not be needed, or has obtained funds from usual banking sources. |
| (c) Is character of applications improving? Is the proportion of applications for direct advances declining? | (c) Character of applications is improving and varying. The proportion of applications for direct advances is continuing in varying proportions. |
| (d) Has there been any substantial number of complaints of a lack of courtesy on the part of the Committee or of officials or employees of Federal reserve banks? | (d) We are not aware of any complaint of lack of courtesy on the part of the Committee or officials or employees of the Federal reserve banks. |
| (e) Is there any evidence that Federal reserve banks are requiring an excessive amount of collateral to secure loans? | (e) There is no evidence that Federal reserve banks are requiring an excessive amount of collateral to secure loans. On the other hand, every effort is being made to make loans when the security may be regarded as reasonable. |
| (f) Is there evidence of any other ground for criticism of either the committees or the banks? | (f) There is no evidence of any other ground for criticism of either the Committees or the Federal reserve banks. |

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8. Assuming that more participations by and commitments to financial institutions are desirable, what is your recommendation as to how to best obtain the cooperation of financial institutions to this end?
8. It is the consensus of opinion that more participations by and commitments to financial institutions are desirable, and this can be best obtained by direct contact with the applicants and the banks. Further that the present publicity be continued within each district and that this be supplemented by publicity of a national character and that the aid of the Federal Reserve Board be solicited in this connection.
9. Has the Federal reserve bank taken adequate measures to bring to the attention of financial institutions, and particularly of member banks, the advantages to them of actively seeking out commercial and industrial enterprises in their territory in need of additional working capital and furnishing such capital under the protection of a commitment from the Federal reserve bank?
9. It is the opinion that the Reserve banks have made diligent efforts to acquaint all financing institutions, particularly member banks, with the advantages to them of actively seeking out commercial and industrial enterprises in their territory in need of additional working capital and furnishing such capital by commitment from the Federal reserve banks. At the same time we submit that such efforts might well be intensified and we especially recommend to the several Reserve banks the action of the New York Reserve Bank in engaging the services of a practical and well known banker for a period of several months (the banker to be well known in the district) to visit banks and personally discuss with them and with borrowers in arrears or in temporary embarrassment the wisdom of negotiating loans under the terms of Section 13b.

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10. What, in your experience, has been the most important service rendered industry and commerce under Section 13b?
10. In our opinion the most important services rendered to industry and commerce under Section 13b are (a) Accommodation to industrial and commercial enterprises that could not be obtained otherwise. (b) the stimulation of credit confidence and accommodation to industrial and commercial enterprises by other banks, many of which have changed their credit policies since the administration of Section 13b began, and (c) the enlightenment of many applicants concerning their own affairs and possibilities afforded by the expert analysis and advice of the Advisory Committees and Federal reserve officers.
11. Has the administration of Section 13b to date had any effect not shown in regular reports of Federal reserve banks on the extension of credit through regular and usual channels to industry and commerce by private financing institutions?
11. The favorable recommendation of loans by the several Federal reserve banks has influenced many local banks to take over loans, extending credit where they would not have done so otherwise.
12. Recommendations, not covered elsewhere, on the subject of the administration of Section 13b.
12. It is felt wise to continue this act as an emergency measure. It will not bring back prosperity, but it will be a material help to many who cannot secure necessary capital for two to five years. This will bridge the gap where the capital market should function.

During the discussion of the topics Mr. John N. Peyton,

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Chairman and Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, and Mr. Daiger of the Board's staff, joined the meeting.

At the conclusion of the discussion the meeting adjourned with the understanding that the representatives of the Industrial Advisory Committees would meet again in separate session this afternoon.

Chesler Howell
Secretary.

Approved:

W. C. ...
Governor.