

A meeting of the Federal Reserve Board was held in Washington on Monday, March 4, 1935, at 2:30 p. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Vest, Assistant Counsel

ALSO PRESENT: Mr. Coolidge, Under Secretary of the Treasury

Governor Eccles stated that this meeting had been called for the purpose of considering further the proposed advance under section 13b of the Federal Reserve Act by the Federal Reserve Banks of New York and Chicago and Kuhn, Loeb & Company, New York, New York, in the total amount of \$6,000,000, to the Hudson Motor Car Company, Detroit, Michigan, and requested Mr. Szymczak to review the consideration given to the matter by members of the Board since the meeting of the Board on February 27, 1935, when it was first brought to the Board's attention.

Mr. Szymczak stated that on February 27, following the meeting of the Board, Governor Harrison of the Federal Reserve Bank of New York, had called Governor Eccles and had inquired whether, in view of the fact that the Board had given general authority in its regulations to the Federal reserve banks to make industrial loans,

3/4/35

-2-

the Board wanted to consider the approval or disapproval of a particular loan, and, upon being advised by Governor Eccles that inasmuch as the matter had been brought to the attention of the Board, it felt it should express its position with regard to the proposed payment of a stock bonus to Kuhn, Loeb & Company and associates, Governor Harrison had replied that the matter had been reported to the Federal Reserve Board at the suggestion of Mr. Thomas who had discussed it with Governor Schaller when he was at the Federal Reserve Bank of Chicago recently.

Mr. Thomas said that while he was in Chicago the proposed advance was mentioned to him and at that time he had expressed his opposition to the advance under an arrangement whereby Kuhn, Loeb & Company and associates would receive a stock bonus, and had inquired whether the matter had been brought to the attention of Mr. Szymczak. Upon being advised that it had not been taken up with the Board, Mr. Thomas said, he had tried to get Mr. Szymczak on the telephone but found that he was in New York, and apparently the Federal Reserve Bank of Chicago later communicated with New York about the matter which resulted in Mr. Rounds calling Mr. Szymczak on the telephone on February 26.

Mr. Szymczak stated that Governor Harrison had called him on the telephone on Friday, March 1, and had advised that the board of directors of the Federal Reserve Bank of New York had met and had approved unanimously the advance to the Hudson Motor Car Company

3/4/35

-3-

under revised terms which would supersede all previous arrangements and which would provide that Kuhn, Loeb & Company and associates would receive a cash payment for out-of-pocket expenses incurred by them in connection with services already rendered to the Hudson Motor Car Company and a thirty-day option on 31,250 shares of stock of the Hudson Motor Car Company at 50¢ a share which is far below the current market price. The revised terms were discussed informally on Friday, Mr. Szymczak said, by himself and Messrs. Hamlin and James, Governor Eccles being in Pass Christian, Mississippi, and Mr. Miller being confined to his home by illness, but they were unwilling to withdraw the objection to the bonus and Governor Harrison was so advised over the telephone, and that on Saturday morning Governor Harrison had called and had stated that if there were any questions in the minds of the members of the Board he and Governor Schaller would be glad to come to Washington to discuss the matter with the Board. Mr. Szymczak stated that Governor Harrison had been advised that the members of the Board felt that the change of terms was a change in form only and that they could not withdraw their objection to the advance on that basis and that he had made it clear to Governor Harrison that the Board was not concerned with the question of the soundness of the loan as that was a matter for the decision of the Federal Reserve Bank of New York, but that it felt that participation by the Federal reserve banks in an advance under an arrangement by which Kuhn, Loeb & Company and associates

3/4/35

-4-

would receive a large bonus for its participation was inadvisable. Mr. Szymczak added that Governor Harrison had raised the question whether the Board had authority to raise an objection and that he had suggested to Governor Harrison that, as the matter had been brought to the Board's attention as presenting unusual circumstances, the question of the Board's authority should not be raised.

Mr. Szymczak reported that the matter was discussed again informally on Saturday by the members of the Board who were in Washington and after further telephone conversations with Governor Harrison and between Governor Harrison and Governor Eccles at Pass Christian, it was decided to have a meeting of the full Board today for the purpose of reaching a final conclusion on the matter and that Governors Harrison and Schaller had decided not to come to Washington as they had no further information to submit to the Board.

Governor Eccles stated that the question before the Board was whether it would withdraw its objection in view of the revised terms now proposed. He said that he felt that the modification in the terms did not meet the Board's objection, notwithstanding the fact that the option to purchase the stock appeared to be unconditional and not dependent upon the advance being made.

At this point Governor Eccles was called from the meeting to answer a telephone call from Governor Harrison and upon his re-

3/4/35

-5-

turn stated that Governor Harrison said that a telegram to the Board with regard to the proposed advance to the Hudson Motor Car Company had been prepared which would be sent to the Board if deemed advisable. Governor Eccles said he had suggested that the wire need not be sent as the matter was now under discussion in a meeting of the Board and Governor Harrison would be advised of the decision reached. Governor Eccles also stated that Governor Harrison had advised that the Federal Reserve Bank of Chicago had imposed a further condition that Kuhn, Loeb & Company hold \$800,000 of its participation until the maturity of the loan; that Kuhn, Loeb & Company, having made arrangements to sell all but \$650,000 of its participation to its associates, was unwilling to agree to that condition; that the board of directors of the Federal Reserve Bank of New York had just held a meeting, at which all members were present, to consider the advance and had agreed unanimously to make the advance if the Federal Reserve Board should withdraw its objection.

Governor Eccles said that in his opinion the withdrawal by the Board of its objection to the arrangement under which Kuhn, Loeb & Company and associates would receive a bonus for participation in the advance, in the circumstances, would amount to approval of the arrangement and that the Federal Reserve Board would not be justified in taking that position. This opinion was concurred in

3/4/35

-6-

by the other members of the Board.

Mr. Coolidge stated that because of other engagements Mr. Morgenthau was unable to attend this meeting but he had discussed the matter with him briefly on the basis of the available information and that Mr. Morgenthau's impression was that as the Federal reserve banks are apparently proceeding within the law and the regulations promulgated by the Federal Reserve Board, the Board could say to the banks that they should decide on their own responsibility whether or not they will make the loan. Mr. Coolidge added that Mr. Morgenthau felt that the Board would be assuming considerable responsibility if it should take a position that might result in the suspension of operations by the Hudson Motor Car Company and the unemployment of between 15,000 and 20,000 people.

Governor Eccles stated that he felt the proper solution of the matter would be for the Federal Reserve Bank of Chicago to make the entire loan and rediscount without recourse a portion of it with the Federal Reserve Bank of New York. He said that he had understood from Governor Harrison that, if such an arrangement were agreed to by the Federal Reserve Bank of Chicago, the officers of the Federal Reserve Bank of New York would be willing to approve a participation by that bank to the extent of \$4,800,000 of the loan. He said it was his understanding that the Federal Reserve Bank of Chicago was unwilling to make the direct loan to the Hudson Motor Car Company unless Kuhn, Loeb & Company would participate with the

3/4/35

-7-

Federal Reserve Bank of New York, in order that Kuhn, Loeb & Company would have an active interest in the situation and be in a position to police the advances. It was pointed out that another reason given for the participation of Kuhn, Loeb & Company was that they were formulating plans for a permanent financing program for the Hudson Motor Car Company and it was felt that they should participate actively in furnishing the present working capital needs.

Governor Eccles pointed out that if the working capital requirements of the Hudson Motor Car Company are met during the next five years, and the company is successful, there should be no difficulty in arranging permanent financing and the question of any bonus could be settled at that time.

During the ensuing discussion the fact was brought out that the Federal reserve banks felt that the negotiations had proceeded to a point where the banks were under a moral commitment to make the advance. It was also pointed out that the Board had been informed that the Hudson Motor Car Company proposed to give a first mortgage on its plant to secure the advance, that the plant, even on a liquidation basis, was worth more than the amount of the loan, and that the officers of the Federal Reserve Bank of New York had no hesitancy in approving a \$4,800,000 participation in a \$6,000,000 loan.

Governor Eccles suggested that the Federal Reserve Board advise the Federal Reserve Banks of New York and Chicago by telegram

3/4/35

-8-

that it had carefully considered the modified plan under which the advance would be made; that it felt that the modification was one of form rather than substance; and that it would be inadvisable for the banks to participate in the proposed transaction under the modified conditions; but that, as the banks felt morally committed to make the loan and felt that it could be made on a sound basis, it appeared that they had the legal right to make the advance and might make the entire loan without participation by an outside institution, in which event the Federal Reserve Bank of Chicago could make the entire loan and rediscount a portion thereof without recourse with the Federal Reserve Bank of New York. The telegram should also state, Governor Eccles said, that the Board hoped that the credit might be arranged in order to avoid the closing of the plant and should request that the boards of directors of the Federal reserve banks reconsider the matter and advise the Board of their views before taking final action.

Mr. Miller suggested that the advice to the Federal reserve banks should be so worded that it will not be interpreted as a request by the Board that the banks make the entire loan without the participation of Kuhn, Loeb & Company.

Mr. James moved that Governor Eccles' suggestion be approved.

Carried, and Messrs. Morrill and Wyatt were requested to prepare a telegram in accordance therewith for submission to the members of the Board for their approval.

At this point Mr. Coolidge left the meeting.

3/4/35

-9-

Mr. Miller stated that at the time of the last meeting of the Federal Open Market Committee in Washington, Governor Calkins of the Federal Reserve Bank of San Francisco, had stated that he was considering making a request for a leave of absence from the bank for a period of three months. He said Governor Calkins has not had a vacation for some time and that he had told Governor Calkins he would take the matter up with the Board if and when he had reached a decision about the matter; that he had just received a letter from Governor Calkins advising that during his trip to Washington he had become ill, and that he would now like to be absent from the bank for three months in order to regain his health.

Mr. James moved that Mr. Miller, as Chairman of the Committee on District No. 12, be requested to advise Governor Calkins that, if agreeable to the board of directors of the Federal Reserve Bank of San Francisco, the Board will be glad to have him take the contemplated vacation.

Governor Eccles referred to certain statements on Titles II and III of the Banking Bill of 1935 which he had made before the Committee on Banking and Currency of the House of Representatives today and there followed a discussion of certain provisions of the bill.

The Board then acted upon the following matters:

Memorandum dated February 26, 1935, from the Committee on Salaries and Expenditures, submitting a letter dated February 9 from Mr. Sinclair, Deputy Governor of the Federal Reserve Bank of Philadelphia, with which were inclosed, in accordance with the

3/4/35

-10-

suggestions contained in the Board's letter of February 6, 1935. revised Form A pages covering the positions of Chief Examiner, Executive Secretary of Industrial Advisory Committee, and Investigator for Industrial Advisory Committee. The memorandum stated that since the above changes conform with the suggestions contained in the Board's letter of February 6, it is recommended that they be approved.

Approved.

Letter to Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of January 17, 1935, relative to the Board's letter of December 19, 1934, regarding the report of examination of the Federal Reserve Bank of St. Louis as of September 8, 1934.

"It has been noted that counsel to the Reserve Bank feels that the matter of the proper accounting for funds turned over to its representative covering the proceeds of the sale of crops on two farms acquired in connection with paper held as collateral to the claim account of the suspended Bank of Waynesville, Waynesville, Missouri, should not be referred to the Department of Justice at this time, but that consideration should be given to the advisability of having the Department of Justice investigate the case in the event the accounting which has been requested from the representative of the Reserve Bank indicates any irregularities. It has been noted, also, that inasmuch as the records of the bank do not show that any irregularities exist in the account, the matter has not been reported to the bonding company. The Board feels that a proper accounting in the matter should be made to the Reserve Bank by its representative without further delay. It will be appreciated if you will advise the Board as to the developments in the matter and your recommendations in the circumstances.

"Your comments and recommendations regarding the disposition of the balance of \$44,116.86 carried in Suspense Account - General representing profits arising from the operations of the Liberty Loan Association have been noted. The disposition

3/4/35

-11-

"of the profits of the Liberty Loan Associations managed by the Federal reserve banks is being given consideration and you will be advised later as to the conclusions reached.

"The Board has noted your comments relative to the other matters mentioned in its letter of December 19, 1934."

Approved.

Memorandum dated February 25, 1935, from Mr. Wyatt, General Counsel, recommending that the Board authorize the purchase of a second hand set of law books entitled "Official Opinions of the Attorneys General of the United States", volumes 1 to 35, inclusive; a second hand set being obtainable through the Washington Law Book Company.

Approved.

Letter to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of December 21, 1934, transmitting a certified copy of a resolution adopted by the Board of Directors of the Federal Reserve Bank of Kansas City on December 20, 1934, amending certain sections of the by-laws of the Federal Reserve Bank of Kansas City for the operation of its branches at Omaha, Nebraska, Denver, Colorado, and Oklahoma City, Oklahoma.

"It is noted that your certificate, as Secretary, certifying the correctness of the resolution states that the resolution was regularly presented and adopted by the Board of Directors of the Federal Reserve Bank of Kansas City at a regular meeting duly called and held at Kansas City on the twentieth day of December, 1934 'at which meeting a quorum was present and voted'. In this connection, the by-laws of the Federal Reserve Bank of Kansas City for the operation of the three branches, referred to above, provide that they may be amended at any regular directors' meeting 'by a majority vote of the entire board of the head office'. It is not apparent that the proposed amendments to the by-laws, referred to above, were adopted by a majority vote of the entire Board of Directors of the Federal Reserve Bank of Kansas City, and

3/4/35

-12-

"attention is called to this matter so that there may be no doubt that when the proposed amendments as revised in accordance with the suggestions hereinafter set out are adopted by the Board of Directors of the Federal Reserve Bank of Kansas City such adoption may be pursuant to the requirements of the by-laws.

"In connection with the proposed amendments relating to the duties of the Assistant Cashiers at the respective branches, it is noted that the provisions relating to such duties appear in Section 6, Article IV, of the by-laws for the operation of the branches at Omaha, Nebraska, and Denver, Colorado, whereas such provisions appear in Section 9, Article IV, of the by-laws for the operation of the branch at Oklahoma City. Also, in connection with the proposed amendments adding a new section to Article IV in the case of each branch to be known as Section 8, it is noted that Section 8 of the by-laws for the operation of the branch at Oklahoma City relates to the Auditor of such branch and that Section 10 is the last section in Article IV. It is suggested, therefore, that the resolution be amended and adopted by the Board of Directors of the Federal Reserve Bank to conform to the section numbers as above indicated.

"In this connection, it is suggested that, in order to avoid questions of a technical nature and to be more certain that amendments to by-laws are in proper legal form, you request Counsel for your bank to review the amendments as revised pursuant to the suggestions herein prior to their resubmission to the Board, and that a similar procedure be followed in connection with any future amendments.

"Upon receipt of a copy of a resolution correctly amending the by-laws as indicated above, the Board will give consideration to the question of approving such amendments."

Approved.

Memorandum dated February 25, 1935, from Mr. Cherry, Assistant Counsel, stating that the question had arisen as to whether the Federal Reserve Board should make a report to the Comptroller General in respect to the funds of the Board by reason of the provisions of section 24 of the Permanent Appropriation Repeal Act, 1934, which directs the Comptroller General of the United States to cause a survey to be made of all funds on the books of the

3/4/35

-13-

Government, and funds in the official custody of officers and employees of the United States in which the Government is financially concerned for which no accounting is rendered in the General Accounting Office; that the Comptroller General had promulgated certain regulations requiring reports from Government officers under the above-named provision of the law as to the funds in their custody; but that copies of these regulations had not been officially transmitted to the Board, nor had the Comptroller General officially requested the Board to comply therewith. The memorandum recommended for reasons stated, that the Board take no action in the matter in the absence of any formal or written communication from the Comptroller General in the matter.

Approved.

Memorandum dated February 25, 1935, to Governor Eccles from Mr. Morrill, attaching a folder containing a sample of each of the twenty-one statements which are distributed or circulated to the Board members from the Division of Bank Operations and recommending that copies of the following statements be no longer furnished or circulated to the Board members:

- Summary of Condition of Federal Reserve Banks.
- United States Securities Pledged.
- Reserve Percentages.
- Reserve Percentages (daily).
- Gold Settlement Fund.
- Foreign Accounts.
- Bank Debits (monthly).
- Discounted Bills Held by Each Federal Reserve Bank, etc.

3/4/35

-14-

The memorandum stated that in the case of the statement relating to Government obligations pledged as collateral for Federal reserve notes, a single line in the Confidential Daily Summary statement will be sufficient; that the proposed changes will not result in any direct saving of expenses but will eliminate some unnecessary mimeographing and handling by messengers, clerks, secretaries and others of statements to which it is believed little or no attention is given by the Board members at the present time; and that all of the information will be available at any time any one requests it. Governor Eccles had attached to the file a memorandum dated February 26, 1935, approving the recommendations and suggesting that the matter be presented to the Board for approval.

Approved.

Letter dated March 2, 1935, approved by two members of the Board, to Mr. J. F. Herson, Administrative Assistant, Reconstruction Finance Corporation, reading as follows:

"This supplements the Board's letter of February 6, 1935, transmitting advice as to whether certain State member banks in which the Reconstruction Finance Corporation is interested are subject to a condition of membership requiring approval by the Federal Reserve Board of a reduction in capital.

"The following bank is subject to such a condition:

Cincinnati, Ohio

The Fifth-Third Union Trust Company

"The following banks are not subject to such a condition of membership:

East Orange, N. J.

Savings Investment and Trust Company

Newark, N. J.

Federal Trust Company

Buffalo, N. Y.

Manufacturers and Traders Trust Company

3/4/35

-15-

"Utica, N. Y.

First Citizens Bank and Trust Company of Utica

"This completes the information requested, except with respect to the Manufacturers Trust Company, New York, N. Y., and you will be advised later with respect to that bank."

Approved.

Letter dated March 2, 1935, approved by four members of the Board, to Mr. William S. Craig, Irwin, Pennsylvania, reading as follows:

"Receipt is acknowledged of your letter of February 13, 1935, with further reference to the possibility of your securing a loan from a Federal reserve bank under the provisions of section 13b of the Federal Reserve Act.

"Congress has seen fit to require that loans under section 13b be made only to an established industrial or commercial business and for the purpose of providing such business with working capital; and, therefore, a Federal reserve bank may not lawfully make an advance under this authority which does not comply with these requirements. There is inclosed a copy of the Federal Reserve Board's regulations on this subject, and you will note that the Federal Reserve Board has left the broad powers granted by Congress to the Federal reserve banks in section 13b wholly unimpaired and has prescribed no restrictions in its regulations beyond those contained in the law itself. However, a Federal reserve bank must observe the requirements made by the statute in granting accommodations under this law.

"It does not appear that a loan for the purpose of completing the golf course in question would meet the requirements of the law above mentioned and neither the Federal Reserve Board nor the Federal reserve banks have authority to waive these requirements of the law. However, if you wish to submit any additional facts in this connection and to obtain further consideration upon the basis of more detailed information you may, if you desire, communicate with the Federal Reserve Bank of Cleveland with respect to the matter. Upon the basis of the information contained in the letters which you have submitted, however, there appears to be no proper legal basis upon which an advance may be made by a Federal reserve bank in connection with the construction of the golf course in question."

Approved.

3/4/35

-16-

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

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 2.</u>		
The Lynbrook National Bank & Trust Co., Lynbrook, N. Y.	99	
The Citizens' Bank of White Plains, N. Y., White Plains, New York	<u>60</u>	159
<u>District No. 5.</u>		
The Washington County National Bank of Williamsport, Williamsport, Maryland	3	3
<u>District No. 9.</u>		
The First National Bank at Hubbell, Hubbell, Michigan	2	
First National Bank in Two Harbors, Two Harbors, Minnesota	2	
The Gladstone State Savings Bank, Gladstone, Michigan	8	
The American National Bank in Little Falls, Little Falls, Minnesota	15	
The Union National Bank of Eau Claire, Eau Claire, Wisconsin	54	81
	<u>Total</u>	<u>243</u>
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 1.</u>		
The Canaan National Bank, Canaan, Connecticut	1	
Central National Bank of Rutland, Rutland, Vermont	3	
The Clement National Bank of Rutland, Rutland, Vermont	<u>12</u>	16
<u>District No. 2.</u>		
The First National Bank of Islip, Islip, New York	66	66
<u>District No. 4.</u>		
The First National Bank of Camden, Camden, Ohio	32	32
<u>District No. 7.</u>		
The First National Bank of Arenzville, Arenzville, Illinois	45	45
	<u>Total</u>	<u>159</u>

Approved.

3/4/35

-17-

Thereupon the meeting adjourned.

C. Lester Morice
Secretary.

Approved:

W. C. [Signature]
Governor.