

A meeting of the Executive Committee of the Federal Reserve Board with representatives of the Industrial Advisory Committees of the Federal reserve banks was held in Washington on Tuesday, June 25, 1935, at 10:00 a. m.

PRESENT: Mr. Szymczak, Presiding
Mr. Miller
Mr. James

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Governor
Mr. Thurston, Special Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Smead, Chief, Division of Bank Operations
Mr. Hammond, Division of Bank Operations
Mr. H. F. Conniff, Deputy Governor of the
Federal Reserve Bank of Atlanta
Mr. S. F. Gilmore, Controller of the Federal
Reserve Bank of St. Louis
Mr. B. P. Adams

ALSO PRESENT: Messrs. Albert M. Creighton, William H. Pouch, J. Ebert Butterworth, F. A. Smythe, William K. Norris, Sheldon V. Wood and Clarence Ousley, Chairmen of the Industrial Advisory Committees of the First, Second, Third, Fourth, Eighth, Ninth and Eleventh Federal Reserve Districts, respectively.
Messrs. Wm. A. Parker, Will B. Marsh and Ralph Burnside, Members of the Industrial Advisory Committees of the Sixth, Eleventh and Twelfth Federal Reserve Districts, respectively.
Mr. A. L. Wilson, Secretary of the Industrial Advisory Committee of the Seventh Federal Reserve District.
Mr. J. W. Barton, Manager, Industrial Loans Department, Federal Reserve Bank of Minneapolis.

Mr. Creighton stated that at a supper meeting on the evening of June 24, 1935, the following matters were discussed in detail:

The Kopplemann Bill
Report of the Advisory Council of the Department of Commerce
Mr. Creighton's report on his trip to Europe
Publicity and public relations of the past and present and plans for future

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Preparation of a statement for the press
Other matters of importance to the Chairmen

He called attention to the fact that the Industrial Advisory Committees had been in existence approximately one year and referred briefly to the industrial loan applications approved and under consideration by the Committees.

The minutes of the meeting of the Chairmen of the Industrial Advisory Committees held in Washington on December 18, 1934, were read by Mr. J. Ebert Butterworth, Secretary of the meeting, and approved by the representatives of the Industrial Advisory Committees present.

Mr. Butterworth stated that advice had been received that the Industrial Advisory Committees of the Fifth and Tenth Federal Reserve Districts would not be represented at this meeting and that Mr. A. L. Wilson would represent the Industrial Advisory Committee for the Seventh Federal Reserve District.

Mr. Szymczak then addressed the meeting on the subject of industrial loans and a copy of his statement will be found in the Board's files.

Mr. Pouch moved that a vote of thanks and appreciation be extended to Mr. Szymczak for his statement.

Mr. Pouch's motion was approved unanimously by the representatives of the Industrial Advisory Committees present and it was understood that a copy of Mr. Szymczak's statement would be sent to the members of the Industrial Advisory Committees and the Federal reserve banks.

At the conclusion of Mr. Szymczak's statement, Mr. Miller left the room.

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Mr. James stated that he desired to express to the representatives of the Industrial Advisory Committees his appreciation of their efficient and faithful service in connection with the industrial loan program. He said that he felt that the spirit of cooperation which they were evidencing would be a contribution to the movement of recovery of the country from the depression.

Mr. Creighton read and elaborated briefly upon the report prepared by him following his return from a trip to Europe where he made an investigation of what some of the European countries have done through banking channels to aid industry, particularly as regards the making of loans. A copy of Mr. Creighton's report has been placed in the Board's files.

Mr. Norris read the following resolution which was offered at the supper meeting of the Chairmen of the Industrial Advisory Committees yesterday evening:

"Having received and discussed the report made by Chairman Creighton dated June 4, 1935 entitled 'Industrial Loans here and Abroad', the Committee desires to thank Chairman Creighton for his personal study of European effort to relieve industry in their respective countries and move that the report be approved and spread on the minutes of this meeting as a permanent record and for future reference. That proper publication be given based upon this report."

Upon motion by Mr. Ousley, the resolution was unanimously adopted by the representatives of the Industrial Advisory Committees.

Mr. Szymczak stated that the Federal Reserve Board and the Federal Reserve System appreciated very much the fact that Mr. Creighton at his own expense had made the trip to Europe and had studied the industrial

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loan situation in European countries.

Mr. Creighton stated that at the supper meeting of the representatives of the Industrial Advisory Committees yesterday evening a detailed discussion was had of the so-called Kopplemann Bill (H.R. 5918), and that a committee consisting of Messrs. Smythe, Burnside and Parker was appointed to draft a resolution which would express the attitude of the meeting toward the bill.

Mr. Smythe read the following resolution which had been offered by his committee at the supper meeting yesterday evening:

"The so-called Kopplemann Bill providing for the creation of an Intermediate Industrial Credit Corporation undertakes to furnish to industry and commerce financial credit practically identical in character to that now made available by Federal Reserve Bank loans to industry and commerce and that which is available through the Reconstruction Finance Corporation. It therefore represents very largely, if not altogether, a duplication of credit service which in our opinion is not necessary nor demanded under existing conditions. It is our firm belief that every application to Federal Reserve Banks has received the consideration which it has merited and that loans have been approved by the Federal Reserve Banks wherever such loans could be deemed sound and reasonable. It is believed that a material proportion of the requirements for credit assistance that are justifiable have been cared for by the combined action of the two existing agencies and that the organizations already set up and in operation for the investigation and consideration of applications for loans are efficient, economical and entirely without prejudice. The funds available are apparently sufficient to complete the task which has been undertaken. The creation of another agency at this time would seem uncalled for."

Mr. Smythe also made a statement outlining the considerations upon which the conclusion set forth in the resolution was based.

Mr. Szymczak inquired whether the representatives of the Industrial Advisory Committees have observed any indication as to whether

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applicants have any preference for the Federal reserve banks or the Reconstruction Finance Corporation in filing their applications.

Mr. Smythe expressed the opinion that the applicants prefer to apply at the Federal reserve banks because of the possibility of obtaining quicker action on their applications, but that, inasmuch as the Federal reserve banks are authorized to make loans only for working capital, the Federal reserve banks were without authority to consider applications for certain loans which could be made by the Reconstruction Finance Corporation. This matter was discussed briefly and it was indicated as the consensus of the representatives of the Industrial Advisory Committees present that there is not a clear distinction in the public mind between the Federal reserve banks and the Reconstruction Finance Corporation, and that applications are most apt to be filed with the agency first coming to the attention of the applicant.

Mr. Smythe moved adoption of the resolution read by him with regard to the Kopplemann Bill.

Mr. Smythe's motion was unanimously approved by the representatives of the Industrial Advisory Committees.

Mr. Burnside called attention to the reference in Mr. Szymczak's statement to the desirability of having the industrial loan activities of the Federal reserve banks take the form of commitments to financing institutions wherever possible rather than the form of direct loans to industry and he related an incident in his district where a bank which had refused to participate in industrial loans had, for the first time, investigated the industrial loan program in connection with an applica-

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tion for a loan from one of its directors, and had reached the conclusion that the industrial loan program offered it an opportunity to be of assistance to its customers. He said that he felt there were other banks which would find in the industrial loan program a means by which they would be able to come to the aid of their customers.

Mr. Szymczak stated that an industrial loan by a financing institution with a commitment from a Federal reserve bank was desirable because it protected the bank and permitted it to make a profit on the loan, and, what was more important, established or preserved a relationship between the bank and the customer, the natural result of which would be, when more nearly normal conditions were attained, for the bank to make loans to the customer without going to the Federal reserve bank for a commitment.

Following an inquiry by Mr. Norris with regard to cooperation between the Federal reserve banks and the agencies of the Reconstruction Finance Corporation, the representatives of the Industrial Advisory Committees indicated that there is close cooperation between the banks and the agencies in all districts. Mr. Norris pointed out that the Reconstruction Finance Corporation is authorized by law to make certain industrial loans which the Federal reserve banks cannot make and stated that it had been the practice in his district when an application for such a loan was received by the committee to refer the applicant to the Reconstruction Finance Corporation. He also stated that it had come to his attention that certain applicants were aware that industrial loans

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could be made both by the Federal reserve banks and the Reconstruction Finance Corporation and were filing applications in both places, and that he felt close cooperation should be maintained between the banks and the Reconstruction Finance Corporation agencies to prevent any possibility of unnecessary duplication of effort in the investigation of applications.

Mr. Szymczak inquired as to the reaction of applicants when they learn that their applications are considered first by the Industrial Advisory Committees, and the representatives of the Industrial Advisory Committees present expressed the opinion that the reaction is a favorable one because of the fact that the committees are composed of active industrialists.

Mr. Szymczak stated that he had attended a meeting of the board of directors of a Federal reserve bank and had inquired of one of the Class A directors whether his bank would be willing to make industrial loans and that the banker had raised the question whether, in the event his bank should make such a loan with a commitment from the Federal reserve bank and should find it necessary to rediscount the loan, such action would be a reflection on the member bank. Mr. Szymczak stated that it should be made clear to all financing institutions that the rediscounting of industrial loans with the Federal reserve banks would not be considered in any sense as a reflection upon the institution.

Mr. Creighton read comparative figures of loans made by the Federal Reserve Bank of Boston and the Reconstruction Finance Corporation in the First Federal Reserve District and stated that he felt there was

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some criticism of the Reconstruction Finance Corporation because of delay in handling applications. In this connection, Mr. Norris expressed the opinion that if something could be done to expedite consideration of applications by the Reconstruction Finance Corporation which is authorized under the law to make capital loans to industry, all of the objectives sought by the Kopplemann Bill could be achieved under existing legislation.

Mr. Pouch made the suggestion that very desirable results would be obtained if officers of local banks were invited to attend meetings of the Industrial Advisory Committees at which industrial loan applications were considered. He stated that in his district the committee had invited officers of banks to meet with the members of the Industrial Advisory Committee at luncheon and attend the meetings of the committee in order that they may observe at first hand how the committee functions, how information regarding applications is obtained, and the extent to which the committee investigates loans, and that the results obtained from this approach had been very satisfactory.

Mr. Wood inquired whether it is the practice of some Federal reserve banks to make commitments for the entire life of the loan and it was pointed out that a majority of commitments are for periods of six months to a year. Mr. Wood stated that there is considerable difference between the amount of commitments made by the Federal Reserve Bank of Minneapolis and other Federal reserve banks and that he was wondering whether this difference was due in part to the fact that some of the other Federal reserve banks might be making commitments for the entire

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term of the loan. He also raised the question as to the desirability of having all commitments run for the entire term. This matter was discussed briefly but no conclusions were reached.

Mr. Creighton stated that Mr. Pouch, Chairman of the Committee on Public Relations, would lead a discussion on the subject of publicity, public relations and plans for the future. Mr. Pouch said that Mr. B. P. Adams has been making a study of publicity for the industrial loan program and that he would make a statement to the meeting.

Mr. Adams expressed the opinion that there was a demand on the part of the public for more information on the industrial loan program and that, in addition, steps must be taken to correct any misinformation given to the public with regard to industrial loans. He outlined in considerable detail the steps which he was taking to make available to trade papers and magazines and other periodicals information with regard to the industrial loan program and for the publication in such periodicals of articles relating to industrial loans. He also outlined his ideas with regard to the use of radio addresses and stated that, on the basis of the inquiries received following Mr. Szymczak's address before the Illinois Bankers Association, he felt there is a large number of people who have not been reached by the industrial loan publicity and that until an effort was made to reach each group of business men and industrialists, the System could not be certain that the publicity activities with regard to industrial loans had effectively been completed. He also stressed the desirability of making it known that the Federal reserve

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banks are willing to discuss the financial problems of applicants even though no loans are made. He concluded with the statement that he desired to get all the suggestions and help he could from the members of the Industrial Advisory Committees with regard to the problem of publicity.

Mr. Smythe inquired whether the Industrial Advisory Committees would be advised of the appearance of articles in trade and other magazines and suggested that such advice would be helpful as it would enable the committees to call such articles to the attention of interested parties in the various Federal reserve districts. Mr. Szymczak said that arrangements would be made to advise the Industrial Advisory Committees and the Federal reserve banks of the appearance of important articles.

Mr. Creighton advised that the Committee on Public Relations would issue a statement to the press along the lines outlined at the supper meeting yesterday evening.

Mr. Szymczak stated that the publicity program outlined by Mr. Adams was not conceived with the idea of soliciting anyone to borrow under the industrial loan program but to make certain that effective information with regard to industrial loans is made available to everyone who might be interested in order that they may make applications for loans should they desire to do so. Mr. Szymczak then read a letter received by the Federal Reserve Bank of New York from counsel for an industrial borrower expressing appreciation of the treatment accorded

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the borrower by the Federal reserve bank. Mr. Szymczak stated that the Federal reserve banks have received a number of such letters which indicate that the purposes of section 13b of the Federal Reserve Act are being attained at least in part.

Mr. Creighton requested Mr. Szymczak to discuss the report made to the Secretary of Commerce by the Business Advisory Council for the Department of Commerce on the subject of credit and capital requirements of small industry and to what extent the rediscounting authority of the Federal reserve banks would be enlarged by the passage of the proposed Banking Act of 1935. Mr. Szymczak stated that the Board was familiar with the body of the report of the Business Advisory Council before it was issued but was surprised by the last paragraph of the summary of the report which recommends an immediate study by the Reconstruction Finance Corporation, the Federal Reserve Board, and the Securities and Exchange Commission, in cooperation with the investment bankers of the country, to the end that facilities be offered sound, small industries for the acquisition of needed capital. He said that the recommendation had been discussed with representatives of the Council and that it appeared that the Council had no specific data on which to base its recommendation or specific suggestions as to the nature of the study which should be undertaken.

Mr. Szymczak also stated that the Banking Act of 1935 would permit any Federal reserve bank, subject to such regulations as to maturities and other matters as the Federal Reserve Board may prescribe, to rediscount

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for member banks any commercial, agricultural or industrial paper and to make advances to any member bank on its promissory notes secured by any sound assets of such member bank.

Mr. Creighton stated that at the supper meeting yesterday evening the representatives of the Industrial Advisory Committees had considered informally a resolution prepared by a committee consisting of Messrs. Wood, Norris and Ousley with regard to the report of the Business Advisory Council and that Mr. Wood would make a statement regarding the matter.

Mr. Wood said that the discussion of the report had led to the consideration of the difference between working capital and investment capital and that the question had been raised as to whether there was any possibility of doing something under new legislation which the Federal reserve banks and the Reconstruction Finance Corporation are not authorized to do under present law.

Mr. Szymczak stated that he did not see what could be accomplished by the study recommended in the report of the Business Advisory Council and that, if the representatives of the Industrial Advisory Committees had anything to suggest as to what could be accomplished, he felt their suggestions should be specific in character.

Mr. Ousley called attention to the paragraph in the summary of the report of the Business Advisory Council reading as follows:

"As a matter of fact, long-term financing for small industry has always been difficult. It is not simply a depression problem. Through private investment bankers, it has been available only to concerns of sufficient size and

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"standing to warrant the investment bankers in bringing out an issue as small as, for instance, \$1,000,000. So it may be said that this facility has been practically denied to smaller concerns. Such enterprises have been obliged to develop their capital structures gradually out of undistributed earnings or to attract the participation of individual capitalists. They have not received the benefits of recourse to the capital markets for their long-term requirements."

He referred to the difficulty experienced by small concerns in obtaining capital as a pre-depression problem, and suggested that the report considers the Reconstruction Finance Corporation as a temporary emergency agency and that the recommendation of the Council was made with the idea of developing some permanent means by which the capital needs of small industries may be met.

Mr. Norris suggested that the Council may have had in mind that the Securities Exchange Act of 1934 acts as a deterrent to the acquisition of necessary capital funds by small industries and that it might be of assistance to work out a solution to that problem.

During the discussion of the matter Mr. Wood read the following resolution offered by his committee at the supper meeting yesterday evening:

"We recommend that the Federal Reserve Board in cooperation with such other credit and investment agencies as they may select make an early study of the problem of furnishing to worthy and needed industries such permanent capital as may in their judgment be required."

Mr. Clayton stated that it would appear that the resolution as offered carries the implication that the existing agencies can supply the capital requirements of industry without additional legislation and he suggested that if the resolution were adopted by the representatives

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of the Industrial Advisory Committees it might be well to incorporate a suggestion that the study recommended include a suggestion that the need for additional legislation should be studied.

Mr. Wood stated that it was not the intention of the committee that its resolution should carry the implication referred to by Mr. Clayton.

Mr. James suggested that the need of the small industry is primarily the creation of some authority which would pass upon the financial status of the small industrial enterprise and place a value thereon which would be made available to investors, who would then be able to determine whether or not they desired to invest in the enterprise. He stated that in his opinion an arrangement of this character would do much to enable the worthy small industries to obtain additional capital when needed.

At the conclusion of the discussion, Mr. Wood submitted the following resolution for consideration of the representatives of the Industrial Advisory Committees:

"We recommend that the Federal Reserve Board make an early study of the problem of furnishing to worthy industries such permanent capital as may in their judgment be required."

Mr. Norris moved that the resolution be amended to read as follows:

"Recognizing that there is nothing in the present act governing the industrial loans of the Federal reserve banks which would permit us to take care of capital loans, we recommend that the Federal Reserve Board make an early study of the problem of furnishing to worthy industries such permanent capital as may in their judgment be required."

Mr. Norris' motion was approved and the resolution in its amended form was adopted unanimously by the representatives of the Industrial Advisory Committees present.

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At this point Governor Eccles joined the meeting and stated that he regretted that, because of other engagements, he had been unable to attend the meeting. He expressed appreciation of the efficient and effective manner in which the Industrial Advisory Committees were assisting in making the industrial loan program successful. He said that, while there were some who questioned the advisability of the Federal reserve banks making direct loans to industry, the Federal Reserve Board and the Federal reserve banks had taken the position that as Congress had passed the legislation authorizing the banks to make such loans it was the duty of everyone concerned to do everything possible to carry out the provisions of the law, and that the Board felt that through the cooperation of the Industrial Advisory Committees a record has been made which was a full justification of the activities of the Federal Reserve System. The Governor then referred briefly to the status of the proposed Banking Bill of 1935 and expressed the opinion that if passed it will contribute toward the expansion of private credit with a corresponding contraction of Government lending.

Mr. Szymczak suggested that the Governor express his opinion as to whether the enlarged authority of the Federal reserve banks to rediscount paper for their member banks would aid in making working capital available to industry. Governor Eccles said that the banks have an abundance of funds at the present time and there is no occasion for them to borrow from the Federal reserve banks, but that he felt that the enlarged rediscounting powers which would be given to the Federal reserve

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banks by the Banking Bill of 1935 would assist in the removal of the "liquidity complex" of bankers and focus their attention upon the fundamental soundness of assets rather than primarily on maturities, because in times of depression the only assets, whether in the nature of loans or investments, that are really liquid are assets which can be rediscounted at the central bank. He also stated that in his opinion it is desirable that the law be changed as contemplated by the Banking Bill of 1935 to permit banks to invest time and savings funds in long term amortized real estate mortgages, and he outlined briefly his views as to the effect of the passage of the Banking Bill of 1935 on short and long term money rates.

Mr. Ousley moved adoption of the following resolution:

"We record our appreciation of the courtesies, facilities and services afforded us by Governor Eccles, the members and employees of the Federal Reserve Board for our accommodation and comfort."

The resolution was approved by all of the representatives of the Industrial Advisory Committees present.

During the meeting there were distributed copies of a statement of industrial advances and commitments under Section 13b of the Federal Reserve Act made by Federal reserve banks to June 19, 1935.

Thereupon the meeting adjourned.

Robert Morill
Secretary.

Approved:

Mr. I. Symington
Chairman, Executive Committee.