

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 14, 1938, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of
Examinations
Mr. Dreibelbis, Assistant General Counsel
Mr. Leonard, Assistant Chief of the
Division of Examinations

There was presented a draft of statement prepared by Messrs. Thurston and Paulger pursuant to the request made at the meeting of the Board yesterday and Mr. Thurston explained that the statement had been written with the thought that it would serve as an outline of the broad considerations which the Board had in mind in reviewing examination policies and the regulation of the Comptroller of the Currency covering the purchase of investment securities by national and State member banks.

The statement was read and discussed paragraph by paragraph and changed to read as follows, with the understanding that it would be used by the Chairman and Mr. Ransom as a basis for their discussion

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with the Secretary of the Treasury today:

In his message to Congress on April 14th, the President declared his purpose "immediately to make additional bank resources available for the credit needs of the country", and announced the desterilization of approximately \$1,400,000,000 of Treasury gold accompanied by action on the part of the Federal Reserve Board to reduce reserve requirements by about three-quarters of a billion dollars, stating that "these measures will make more abundant the supply of funds for commerce, industry and agriculture." He also stated: "As a part of better administration, I hope that Federal banking supervision can be better coordinated."

Pursuant to the latter suggestion, the Secretary of the Treasury initiated a series of conferences among the three Federal banking supervisory agencies, namely, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System.

The purpose of this portion of the President's message and of the conferences, as understood by the Board of Governors, was, first, that there should be no question whatever as to the abundance of credit available for sound business enterprise, and, second, that the policies, practices and regulations of the three Federal agencies should be reexamined in order to determine wherein they might be improved with a view to furthering this objective in a manner consistent with sound banking principles.

As a result of consideration of the problem before and subsequent to the President's message, the Board of Governors had concluded that certain existing policies, practices and regulations with respect to bank examination and supervision tend to be unnecessarily restrictive, working a hardship particularly upon small business enterprises and the banks with which they deal and accentuating deflationary forces in periods of business depression when criticism by examining authorities encourages forced liquidation of existing loans and investments.

Experience following 1929 justifies the view that depressions are made worse and recovery delayed when banks are led to liquidate loans that are needed by borrowers to carry on business, and that are earning assets of the banks, but that may be temporarily slow in a time of severe economic downswing. Similarly, to apply the test

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of current marketability and ratings to bank holdings of securities is to give a disproportionate weight to current market quotations that do not necessarily reflect the true value of the securities, or the experience, record and character of the issuers.

Under such circumstances, banks are unable to sustain the existing volume of credit, let alone extend the new credit needed for recovery, and pressures naturally accumulate for creation of competitive governmental agencies to render the services to the public and to extend the credit which the banks are either discouraged or prevented from giving.

Therefore, the Board is of the opinion that such restrictions hamper the Government's policy of making credit abundantly available on terms and conditions that would encourage sound private enterprise. The Board is also of the opinion that such restrictions result in unjustified criticism of the banks of the country and prevent them from performing essential public services in accommodating business, agriculture and industry, thus hindering them in adequately serving their communities; and that such restrictions can not be justified on the basis of protecting either the banks or their depositors against speculation and other unsound banking practices.

With these broad considerations in mind, the Board of Governors approached the problem of reviewing the existing bank examination and supervisory policies, practices and regulations from the standpoint of (1) arresting further contraction of existing credit and encouraging the banks to extend credit to sound borrowers on terms and conditions that would encourage production, provide employment and at the same time yield returns that would enable the banks to earn a living; (2) to protect the banking system against the pressures for establishing competitive governmental agencies and at the same time to create and maintain sound and enduring principles of banking operations in the general public interest; and (3) furthering economic recovery.

Thereupon Messrs. Eccles and Ransom left the meeting and Mr. Szymczak was elected Chairman pro tem.

Mr. Davis referred to a memorandum addressed to the Board

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under date of June 13, 1938, by Mr. Smead, Chief of the Division of Bank Operations, recommending that the Board authorize the Division of Bank Operations to discuss with the office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (a) a suggested simplification of the forms used in obtaining call reports of condition of banks and the desirability of calling upon all member banks to submit through the Federal reserve banks (b) reports of assets and liabilities every two months on a form similar to that used by banks in 101 leading cities in submitting weekly reports and (c) lists of their security holdings once each year. Mr. Davis stated that inasmuch as he was leaving today to be present at the opening of the new Helena branch building he would like to have Mr. Smead's recommendation considered by Mr. Draper before it is placed on the docket.

It was understood that the matter would be considered by Mr. Draper and that his recommendation would be placed on the docket for consideration at the meeting of the Board on Friday, June 17, 1938.

At this point Messrs. Thurston, Wyatt, Paulger, Dreibelbis and Leonard left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 13, 1938, were approved unanimously.

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Telegram to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, referring to the application of the "State Bank of Cochran", Cochran, Georgia, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal reserve bank stock issued to the State Bank of Cochran, the Federal Reserve Bank of Atlanta is authorized to cancel such stock and make appropriate refund thereon. The telegram also stated that it was understood that the bank desired to continue without interruption its status as an insured bank and it was assumed that termination of membership in the Federal Reserve System would be deferred until it could simultaneously be accepted by the Federal Deposit Insurance Corporation as a nonmember insured bank.

Approved unanimously, together with a letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"The Board has today approved the application of the 'State Bank of Cochran', Cochran, Georgia, for permission to withdraw from membership in the System and waived the usual six months' notice of intention to withdraw.

"It is understood that the bank desires to continue, without interruption, its status as an insured bank and that it desires the insurance on deposits as a nonmember to become effective simultaneously with its termination of membership in the System.

"It is understood also that you may desire to make an examination of the bank; therefore, in accordance with

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"the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, the Board hereby grants written consent for examiners for the Federal Deposit Insurance Corporation to examine the State Bank of Cochran, Cochran, Georgia, in connection with its application for continuation of deposit insurance as a nonmember bank."

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference inquiry of Bank Shares Corporation. In view of the extent to which assets of Northwest Bancorporation and First Bank Stock Corporation are composed of bank stocks, Board is of opinion that ownership of stocks of such corporations will not constitute compliance with provisions of section 5144, Revised Statutes, requiring holding company affiliate to possess readily marketable assets other than bank stock."

Approved unanimously.

Letter to the Comptroller of the Currency requesting that he place an order with the Bureau of Engraving and Printing for printing 10,862,850 sheets of Federal reserve notes during the fiscal year ending June 30, 1939, in the amounts and denominations and for the various Federal reserve banks as set forth in the letter.

Approved unanimously.

Letter to Honorable A. W. Hall, Director of the Bureau of Engraving and Printing, reading as follows:

"Referring to your letter of May 12, it is estimated that Federal reserve note printing requirements for the fiscal year ending June 30, 1940, will amount to 9,070,000 sheets as follows:

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"Tens	6,933,000	sheets
Twenties	1,977,000	"
Fifties	113,000	"
Hundreds	<u>47,000</u>	"
Total	9,070,000	"

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie
Secretary.

Approved:

W. C. ...
Chairman.