A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 21, 1938, at 2:15 p.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel

Messrs. Harrison, Sinclair, Leach, Newton, Schaller, Martin, Peyton, Hamilton, McKinney and Day, Presidents of the Federal Reserve Banks of New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco, respectively

Mr. Williams, Vice President of the Federal Reserve Bank of New York

Mr. Harrison stated that, in accordance with the primary purpose for which a meeting of the Presidents' Conference was called, to convene in Washington on September 20, the Presidents yesterday gave consideration to what steps might be taken by the Federal reserve banks in the event of war in Europe. He said that most of the Presidents felt that, regardless of whether or not the stock exchanges were closed at the opening of hostilities, it would be wise for the Federal reserve banks to announce that they were ready to make advances on the promissory notes of individuals, partnerships and corporations secured by direct obligations of

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the United States pursuant to the provisions of the last paragraph of Section 13 of the Federal Reserve Act. He added that, while there were some differences of opinion as to the details, there was no question as to the desirability of such action, nor any disagreement that so far as member banks were concerned the Federal reserve banks should be prepared to lend on Government securities at par at the discount rate. Most of the Presidents felt, Mr. Harrison stated, that as to nonmember banks, corporations and individuals, a rate higher than the discount rate would be appropriate, not for the purpose of differentiating between the two classes of loans, but rather because it was important to maintain as far as possible present relationships between banks and their customers and most banks would be willing to lend to their regular customers on Government securities. However, he said, it was thought that there might be cases in which it would be difficult for a borrower to get accommodations at banks and that if such a borrower applied to a Federal reserve bank, the bank should be in a position to make an advance at a rate somewhat above the discount rate. Mr. Harrison added that it was agreed that the rate to be fixed for loans to nonmember banks, corporations, partnerships and individuals was a matter to be determined by each Federal reserve bank because of the wide variations in going rates on loans secured by Government obligations in the respective districts.

Mr. Harrison stated further that the Presidents believed that while, if these arrangements were made the banks would make very few

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loans since member banks had no need for such accommodations and others than member banks would be able to obtain accommodations from the regular banking sources, a public announcement that the Federal reserve bank stood ready to make such advances would be helpful in influencing member banks to lend to their customers during the period of unsettled conditions.

There was complete agreement, Mr. Harrison said, that the Federal reserve banks should lend at par to their member banks regardless of market quotations but that it would be a mistake to lend to others at par if the market went below par since it was believed that many people, knowing that they could borrow from the Federal reserve bank, would do so to avoid loss rather than because they were in need of funds.

Mr. Harrison also reported that with one exception the Presidents had not discussed any of the routine matters that had been suggested for the program of a Presidents' Conference since the notice for the meeting had been so short that none of the Presidents had had an opportunity to prepare for such discussions. He said that the one exception related to the policy of the Federal reserve banks in accepting unsorted fit currency from their member banks, that it had been realized in the past that some member banks had abused the privilege afforded them of depositing fit currency with the Federal reserve banks by depositing unsorted currency in the evening and withdrawing the same amount of sorted currency the following morning, but that most of the Presidents felt that the best way to handle the problem was not to lay down any arbitrary rule but to discuss

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the matter with the member bank involved in case of abuse. A motion had been made, Mr. Harrison said, that all Federal reserve banks refuse to accept from member banks in Federal reserve bank and branch cities the deposit of fit currency unless it was necessary to build up depleted reserves, but there was no second to the motion and it was the sense of the Conference that the banks should continue as in the past, through negotiation with their member banks, to reduce the deposits of fit currency made by the member banks, this position being taken for the reason that it was felt that any arbitrary rule would be difficult to enforce and because there was a grave question as to the legal right of the Reserve banks to refuse to accept fit currency.

Following a brief discussion of this matter the meeting adjourned.

Chester Morrill
Secretary.

Approved:
Ronald Ransom
Vice Chairman.

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