

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Tuesday, November 29, 1938, at 10:30 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. Wyatt, General Counsel
 Mr. Paulger, Chief of the Division of Examinations
 Mr. Smead, Chief of the Division of Bank Operations
 Mr. Parry, Chief of the Division of Security Loans
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Leonard, Assistant Chief of the Division of Examinations
 Mr. Thomas, Assistant Director of the Division of Research and Statistics
 Mr. Bradley, Assistant Chief of the Division of Security Loans

Messrs. Thomas M. Steele, Winthrop W. Aldrich
 Howard A. Loeb, Lewis B. Williams, Robert
 M. Hanes, Walter W. Smith, John Crosby,
 C. Q. Chandler, R. E. Harding and Paul S.
 Dick, Members of the Federal Advisory
 Council representing the First, Second,
 Third, Fourth, Fifth, Eighth, Ninth, Tenth,
 Eleventh and Twelfth Federal Reserve
 Districts

Mr. W. V. Crowley, Vice President, Fulton
 National Bank, Atlanta, Georgia, represent-
 ing the Sixth Federal Reserve District

Mr. Walter S. McLucas, Chairman, National Bank
 of Detroit, Detroit, Michigan, representing
 the Seventh Federal Reserve District

Mr. Walter Lichtenstein, Secretary of the
 Federal Advisory Council

11/29/38

-2-

At the request of President Smith, Mr. Lichtenstein read the following recommendation prepared by the Council at its meeting yesterday in response to the request of the Board for the views of the Council on the comments made by member banks, summarized in the report submitted by the Council at its meeting with the Board on May 17, 1938, on "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?":

"In answer to a request made by the Board of Governors of the Federal Reserve System at its meeting with the Federal Advisory Council on February 15, 1938, the Federal Advisory Council, under date of May 17, 1938, presented a report on 'How Can the Federal Reserve System Increase the Value or Scope of its Services to Member Banks in Practicable or Desirable Ways?' The Survey in question was a compilation based on material furnished by the member banks of the Federal Reserve System.

"Subsequently the Secretary of the Board of Governors in a letter, dated August 3, 1938, requested the Council to state its own views in respect to the problems discussed in the report of May 17, 1938. In answer to this inquiry, the Council submits the following statement.

"The Federal Advisory Council has divided the subject under discussion into two parts:

"(a) Subjects dealing with the mechanical services of the Federal Reserve System, and

"(b) Policies which affect the member banks.

"As regards mechanical services, the Council has the following suggestions to make:

"(1) It would seem desirable to the Council that the closing hour of each Federal Reserve Bank be extended in accordance with the need of each district.

"(2) The Council suggests the elimination of the present requirement of the sorting and distribution of items offered for credit.

11/29/38

-3-

"(3) It would seem desirable to expand the use of the air mail.

"(4) It would be helpful if the return of unpaid items take place more quickly than at present.

"In respect to more general policies, the Council offers the following suggestions:

"(1) That the Board be requested to continue its efforts to bring about greater uniformity in examinations and in the forms of the reports required.

"(2) That the Federal Reserve Banks be allowed to exercise more autonomy in their respective districts.

"(3) That the Board encourage and foster more frequent contacts on the part of the officials of regional banks with member banks and to that end stockholders' meetings be held in each Federal Reserve district. The Council does not believe it necessary that the arrangements for such meetings be the same in each district.

"(4) That the Board of Governors attempt classification and simplification of the rules and regulations issued by it."

In response to an inquiry from Mr. Ransom with respect to the last paragraph of the recommendation, President Smith stated that it was felt that the regulations of the Board were written in very technical language and that it would be distinctly helpful if they could be written in simpler language which would be more easily understood. During a discussion Mr. Wyatt stated that something might be accomplished in this direction if all of the regulations of the Board were recodified as a group. The suggestion was also made that when a regulation is amended it would be helpful to the member banks if the amended regulation were reprinted in its entirety

11/29/38

-4-

rather than to follow the practice which has been adopted in some cases of sending only the amendments to the member banks.

President Smith also said in regard to the recommendation that the Federal reserve banks be allowed to exercise more autonomy in their respective districts that it was felt that such matters as approval of applications for membership, permission to exercise trust powers, and applications for voting permits, as well as other more or less routine matters which arise from day to day at the Federal reserve banks might be passed upon by the banks rather than by the Board in Washington. Chairman Eccles pointed out in this connection that it had been proposed when the Banking Act of 1935 was pending that Congress authorize the Board to delegate certain functions to the Federal reserve banks but that, although the House adopted the proposal, it had failed to pass, and that, therefore, the Board was without authority to authorize the Federal reserve banks to determine matters of the kind referred to by President Smith.

There was also a discussion of the recommendation that the Board encourage and foster more frequent contacts by the Federal reserve banks with member banks and that stockholders meetings be held in each Federal reserve district. The experience of the Federal reserve banks which had held such meetings was reviewed and members of the Council stressed the suggestion that it was not necessary that the arrangements with respect to such meetings be the same in each

11/29/38

-5-

district as some districts might find it desirable to have the meetings at the Federal reserve bank while others might wish to hold them at some other point or to hold sectional meetings in various parts of the district. It was agreed that the members of the Council should advise the boards of directors of their respective Federal reserve banks of the discussion at this meeting and state that the Board agreed with the suggestion that the Federal reserve banks arrange for meetings from time to time with representatives of their stockholding member banks. It was also the consensus that the Federal reserve banks should not pay the traveling expenses incurred by representatives of stockholding member banks in attending such meetings.

The following additional recommendation adopted by the Council at its meeting yesterday was then read by Mr. Lichtenstein:

"The Federal Advisory Council requests the Board of Governors of the Federal Reserve System to recommend to the proper authorities an amendment to that part of section 3477 of the Revised Statutes of the United States which is Title 31 U.S.C.A., Sec. 203, which makes null and void all transfers and assignments of any claims on the United States. The amendment should permit the assignment of claims where legitimate credit has been extended, excepting in those cases where claims arise in consequence of torts, tax refunds, or the like."

Mr. Crosby stated that this matter had been considered at his request and had been suggested by him as a result of experience with applications of borrowers who had contracts with the Government to supply materials and, while the bank would have been entirely willing

11/29/38

-6-

to extend the desired credit if the borrowers had been in a position to assign to the bank their claims under their contracts, it hesitated to extend the credit without such additional collateral. Other members of the Council indicated that they had observed similar situations but none of them was in a position to say whether there was any substantial number of such cases which would be affected by a change in the statute. Chairman Eccles said that he thought it was extremely doubtful that such an amendment would be adopted by Congress and he questioned the advisability of requesting an amendment. There followed a discussion of what action might be taken by a bank to protect its position in the absence of an amendment to the statute.

During the discussion of this matter Chairman Eccles stated that the recent revision of the bank examination procedure and the regulation of the Comptroller of the Currency with respect to the purchase of investment securities by member banks had been made for the purpose of encouraging banks to meet all of the legitimate credit requirements of their respective communities, that the Federal reserve banks were in a position to make advances to their member banks on any sound assets, and that the problem before the member banks was whether they would meet the credit needs of their communities or see that need met by the creation by the Government of another agency for that purpose. He stated that the proposal that intermediate credit banks be created for this purpose was still a live issue and undoubtedly

11/29/38

-7-

would be brought up again at the forthcoming session of Congress.

In response to an inquiry from Mr. Aldrich with respect to the question whether member banks might be permitted to act as secondary underwriters of security issues, Mr. Ransom stated that this was one of the problems which would undoubtedly arise in connection with the consideration by Congress of the problem of meeting the long-term credit requirements of the country. Mr. Aldrich expressed the opinion that such authority was desirable since it was believed the banks could handle the small local issues to better advantage than could be done under present conditions. There was a discussion of the restrictions placed on the present investment market by the registration procedure under the Securities Act of 1933 which it was felt had closed the market for the small borrower and the suggestion was made that the underwriting of small issues of securities could best be handled locally without registration or a public offering.

President Smith stated that at an earlier meeting of the Council a committee had been appointed to confer with the Secretary of the Treasury on the possibility of a study being made of the question whether banks were adequately meeting the credit requirements of their respective communities and that the committee would meet with the Secretary of the Treasury at 4:00 p.m. this afternoon for a further discussion of the matter.

11/29/38

-8-

Chairman Eccles stated that he was interested in ascertaining whether the examiners of the Federal supervisory agencies were carrying out the policies established by the examination procedure recently adopted and that it might be found to be desirable at some later date to make a survey among member banks for this purpose.

President Smith stated that it had not been the practice of the Board of Governors in the past to publish in the brief edition of the annual report of the Board the recommendations of the Council and that, in the absence of objection by the Board, the Council would like to suggest that the recommendations be included in the brief editions of the report published in the future. Chairman Eccles stated that the Board would be glad to comply with the Council's request.

Thereupon the meeting adjourned.

Charles H. Sprague
Secretary.

Approved:

W. C. Eccles
Chairman.