

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 27, 1939, at 11:00 a.m.

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

Mr. Bethea, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel  
Mr. Longstreet, Senior Economist in the Division of Research and Statistics  
Mr. Thompson, General Assistant in the Office of the Secretary

Mr. Ransom reported that yesterday afternoon Congressman Steagall, Chairman of the Banking and Currency Committee of the House of Representatives, had called him on the telephone with respect to the bill which he had introduced on June 19, 1939, (H. R. 6913) as a companion measure to S. 2618, a bill introduced in the Senate by Senator Glass to extend the period during which direct obligations of the United States may be pledged as collateral security for Federal Reserve notes, and stated that he had called the bill up for consideration in the Committee on Banking and Currency at yesterday morning's session; that Mr. Patman had taken the position that, while

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he was not opposed to the bill, he was not willing to have the Committee vote on the bill until a hearing had been held thereon and that he had asked that Mr. Steagall arrange with Chairman Eccles to appear before the Committee to testify on the proposed legislation. Mr. Ransom said that he had called Mr. Patman on the telephone following his conversation with Mr. Steagall and advised him of the various reasons why it was felt that the authority should not be permitted to expire on June 30, 1939, and that Mr. Patman had stated that, while a discussion of the matter he had in mind between the Chairman and himself might give him the information desired, he could not agree to give the matter this direction at this time due to the fact that he had stated to the Committee that he did not want to vote on the bill until after a hearing had been held and that the matter had gone over after he had taken this position.

There ensued a general discussion of the matter during which Mr. Ransom stated that Mr. Steagall had suggested in his telephone conversation that no hearing be requested by the Board at this time, as he thought such a hearing might result in amendments to the bill, and he did not believe any constructive results would be accomplished, but that, in the event such a hearing were requested, he would like to have an opportunity to discuss the matter with the Board before formal request was made for a hearing. Mr. Ransom stated further that inasmuch as it did not now appear that the Committee would report the bill out without a hearing he felt the thing to do was to ask Mr.

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Steagall for a hearing unless the Board is willing to have the existing authority expire on June 30, 1939. During the course of the discussion advice was received that S. 2618 had been favorably reported out this morning by the Senate Committee on Banking and Currency. Messrs. Smead, Goldenweiser and Wyatt were then asked to state their views as to the action which should be taken and it was their unanimous opinion that an extension of the existing authority was not of great importance at this time, Mr. Smead stating that this matter might be made a part of the study requested by the Board in its annual report to Congress for 1938, a resolution for such study having been reported favorably to the Senate by its Committee on Banking and Currency.

Chairman Eccles stated that it would be his suggestion that Mr. Steagall be advised that the Board would like to have the bill passed, that it had been favorably reported out by the Senate Committee on Banking and Currency, that the Board would like to have him get it reported out of the Committee without a hearing.

Thereupon, it was agreed unanimously that Chairman Eccles should discuss the matter with Mr. Steagall and that following such discussion, if he is satisfied that it is necessary to have a hearing in order to get the bill favorably reported out of the Committee on Banking and Currency of the House and that the risks involved in such a hearing are not too great, he will advise Mr. Steagall that he is willing to testify before the Committee on the bill.

It was understood in this connection that Mr. McKee would contact Senator

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Glass in an effort to have bill S. 2618 passed by the Senate without delay.

Chairman Eccles referred to the action taken at the meeting of the Board on June 13, 1939, in voting to extend to Mr. Crowley and other members of the board of directors of the Federal Deposit Insurance Corporation an invitation to meet with the Board of Governors on a date mutually agreeable for a discussion of the desirability of reducing the maximum rates of interest prescribed in the Board's Regulation Q which may be paid by member banks on time and savings deposits and stated that he felt that before such a meeting was held the Board should obtain all possible information with respect to this matter in order that it might crystallize its own views on the subject. The Chairman stated that with the general thought in mind that after a period of four years, during which no further action had been taken by the Board in this respect, he felt that the Board's records should show that the matter had been brought before it again for consideration. He said that he had asked Messrs. Smead and Vest to attend this meeting in order to discuss the history of the subject and the actions taken by the Board in the past in reducing the maximum rates of interest.

Mr. McKee then read to the Board a letter which had been addressed to him under date of June 19, 1939, by Chairman Crowley of the Federal Deposit Insurance Corporation, as a result of his discussions with Mr. Crowley on this subject, pursuant to the Board's action of May 19, 1939, with which were enclosed two memoranda

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prepared by the staff of the Federal Deposit Insurance Corporation regarding the payment of interest on time deposits and an analysis made by the Research Department of the Corporation showing the average rate of interest paid in various States on such deposits. Mr. McKee discussed briefly the information contained in the memoranda.

At the request of the Chairman, Mr. Vest then reviewed the actions taken by the Board, and the reasons therefor, in reducing the maximum rates since the enactment of the provisions contained in the Banking Act of 1933 authorizing the Board of Governors to limit the rate of interest payable by member banks on time and savings deposits.

Chairman Eccles stated that the Board's records do not contain current information as to the rates of interest being paid on time and savings deposits by banks throughout the country and that he thought it would be desirable at the time of the next call for reports of condition of member banks to ask the Federal Deposit Insurance Corporation and the office of the Comptroller of the Currency to obtain reports which will disclose those banks paying interest on time and savings deposits in excess of 2%, together with the total amount of deposits involved. Mr. Smead said that similar information had been obtained in 1936 in a separate questionnaire, that he felt it would be too late to obtain the desired information on the next call for condition reports as the forms for such report had already gone forward but that the information could be obtained as of July

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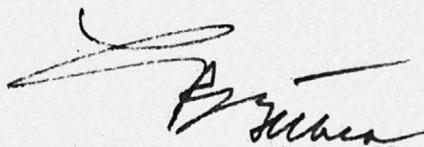
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15, 1939, for example, by sending out a separate inquiry.

Mr. McKee then stated that he believed the information contained in the memoranda received from Mr. Crowley could be supplemented to show the information desired by the Board and that Mr. Smead could obtain similar information regarding member banks from the reports of examination.

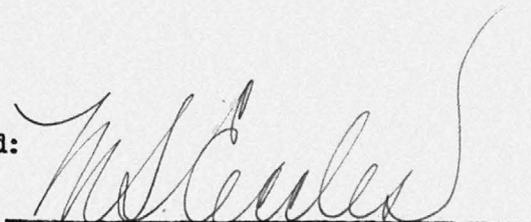
Thereupon it was unanimously agreed that Mr. McKee should discuss this matter further with the Federal Deposit Insurance Corporation in an effort to ascertain the number of insured nonmember banks located in the respective Federal Reserve districts which are paying interest in excess of 2% on time and savings deposits, and the total amount of such deposits.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.