

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 25, 1939, at 1:45 p. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel

Mr. Leach, President of the Federal Reserve
Bank of Richmond

Mr. Ransom referred to the telegram sent by the Board yesterday to all of the Federal Reserve banks inquiring whether they would concur in action by the Board making it known that the Federal Reserve banks are prepared at this time to make advances to member and nonmember banks on the security of Government obligations at par and stated that he felt the advices received from the Federal Reserve banks with respect to action by the boards of directors on discount rates should be considered in the light of that telegram. In this connection it was stated that advice had been received from the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, Minneapolis, Dallas and San Francisco that the directors of the respective banks had established without change the rates of discount and purchase in the banks' existing schedules.

Mr. Ransom said that in a telephone conversation with Mr.

8/25/39

-2-

Harrison, President of the Federal Reserve Bank of New York, the latter had advised that his directors had voted today to establish a rate of 1% per annum on advances to nonmember banks secured by direct obligations of the United States under the last paragraph of Section 13 of the Federal Reserve Act, subject to approval of the Board of Governors, effective immediately, and that telegraphic advice of that action would be sent to the Board. He also stated that in a telephone conversation with Mr. Martin, President of the Federal Reserve Bank of St. Louis, the latter stated that that bank would take action to reduce its rate on advances to nonmember banks on the security of Government obligations to the current discount rate.

Mr. Ransom then stated that he had discussed over the telephone with Chairman Eccles the question of the action to be taken by the Board on the rates before it and that the Chairman felt that the Board should not approve the existing rates on advances to nonmember banks but should withhold its approval with the thought that the banks would want to reconsider them in the light of the Board's telegram and the Board would then not be in the inconsistent position of approving rates which were not in harmony with the policy contemplated in the telegram sent to the Federal Reserve banks yesterday. In this connection Mr. Ransom expressed the opinion that the Board should not expressly suggest a differentiation between advances to nonmember banks and to others on the security of obligations of the United States, but that that should be left to the Federal Reserve banks for decision.

8/25/39

-3-

Mr. Leach stated that the question whether the banks should revise their rates on advances to nonmember banks would depend on whether or not the policy contemplated in the Board's wire were actually put into effect. He felt that if it were made effective there would be ample reason for action by the banks and if it were not made effective there would be no reason for such action.

At the conclusion of the discussion it was agreed unanimously that the Federal Reserve banks that had reestablished existing rates should be advised by telegram that the Board approves the existing rates except the rate on advances secured by direct obligations of the United States under the last paragraph of Section 13 of the Federal Reserve Act and withholds approval of this rate on the assumption that the banks will reconsider the rate in the light of the Board's telegram of yesterday.

The Secretary was requested to draft telegrams in accordance with this decision and to send the telegrams upon their approval by Mr. Ransom.

It was also agreed unanimously that upon receipt of telegraphic advice from the Federal Reserve Bank of New York with respect to the reduction of its rate on advances to nonmember banks on the security of Government obligations a telegram should be prepared and sent, upon approval by Mr. Ransom, advising that the Board approves the new rate effective immediately.

(Secretary's note: The telegrams which were prepared by the Secretary and approved by Mr. Ransom in accordance with the above action are set forth below)

Telegram to Mr. Harrison, President of the Federal Reserve Bank of New York as follows:

8/25/39

-4-

"Board of Governors of the Federal Reserve System approves establishment by your bank, without change, of rates of discount and purchase in bank's existing schedule, advice of which was contained in your telegram dated August 24 except rate on advances to nonmember banks secured by direct obligations of United States under last paragraph of section 13, with respect to which Board approves rate of one per cent fixed by your directors effective immediately, advice of which was contained in your telegram August 25. In absence of further developments no announcement will be made by Board this week."

Telegrams to the Presidents of all
of the Federal Reserve banks except New
York:

"Board of Governors has approved for Federal Reserve Bank of New York rate of 1% per annum on advances to nonmember banks secured by direct obligations of United States under last paragraph of Section thirteen effective immediately. In absence of further developments no announcement will be made of new rate this week."

Telegrams to the Federal Reserve
Banks of Richmond, Atlanta, Chicago,
Minneapolis, Dallas and San Francisco,
as follows:

"Board of Governors of the Federal Reserve System approves establishment by your bank, without change, of rates of discount and purchase in bank's existing schedule, advice of which was contained in your telegram dated (August 24 for each of the banks except San Francisco which was August 22) except rate on advances secured by direct obligations of the United States under the last paragraph of section 13. Board withholds approval of this rate on assumption that your bank will reconsider as soon as possible in light of Board's telegram of yesterday. Action could be in such form that new rate will become effective if and when policy referred to in Board's telegram is made known by Board, of which you will be advised, or could be made effective immediately subject to approval by the Board."

Telegrams to the Federal Reserve
Banks of Boston, Philadelphia, Cleveland,

8/25/39

-5-

St. Louis and Kansas City, as follows:

"It is assumed that as soon as possible you will give consideration to revision of rates on advances secured by direct obligations of United States under last paragraph of section 13 in light of Board's telegram of yesterday. Action could be in such form that new rate will become effective if and when policy referred to in Board's telegram is made known by Board, of which you will be advised, or could be made effective immediately subject to approval by Board."

Mr. Piser, Senior Economist in the Division of Research and Statistics, joined the meeting at this point and reviewed briefly the late developments in the Government securities and other markets and in the over-the-counter Government securities market after the official close.

Mr. Ransom talked on the telephone with Mr. Harrison who stated that, while the Federal Reserve Bank of New York would be closed officially tomorrow, members of the staff would be at the bank prepared to handle any situation that might arise. He said that while the market would be open it was anticipated that there would be little or no activity and that no developments of consequence were expected in the market.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Quadrant Ransom
Vice Chairman.