

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 31, 1940, at 2:45 p.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief, Division of Bank
Operations
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel

Mr. Draper stated that he understood that Senator Wagner, Chairman of the Senate Banking and Currency Committee, had agreed to hold a hearing before the Senate Banking and Currency Committee next week on the bill introduced by Senator Mead on April 24, 1940, which would amend section 13b of the Federal Reserve Act to liberalize the powers of the Federal Reserve Banks with respect to the making of industrial loans. Mr. Draper also said that he understood that Senator Danaher had read at a meeting of the Committee the letter addressed to him under date of May 28, 1940, by Chairman Eccles expressing the personal opinion that the law relating to industrial loans by Federal Reserve Banks should be liberalized or repealed. In that connection Mr. Draper was informed that Senator Wagner had referred to the fact that he had not received from the Board a reply to his request for a report on the bill. Mr. Draper said that, in view of the renewed

5/31/40

-2-

interest in the Mead bill, it would be his recommendation that a letter be sent to Senator Wagner, in response to his request of April 25 for a report on the bill, along the lines of the position taken by Chairman Eccles in his letter to Senator Danaher.

Mr. Morrill read the letter to Senator Danaher and during the discussion which ensued reference was made to the bill recently introduced in Congress authorizing the Reconstruction Finance Corporation to finance in various ways operations for the furtherance of the national defense program.

In response to a suggestion by Chairman Eccles that it might be advisable to discuss the matter with the Secretary of the Treasury with a view to obtaining his support to the measure, Mr. Davis suggested that in order to avoid delay the report recommended by Mr. Draper be sent immediately, after which the Chairman might if he desired discuss the matter with the Secretary of the Treasury.

Mr. Ransom stated that the Mead bill appeared to him to be another example of piecemeal legislation on which he had a definite question and that if he voted to approve it he might find it extremely difficult to reconcile that vote with what he might like to see done later in the banking field on other matters which he regarded as more important to the Federal Reserve System and the public interest, and that if the Board were to vote at this time on a report along the lines of the letter to Senator Danaher, he (Mr. Ransom) would want to vote

5/31/40

-3-

in the negative.

At the conclusion of the discussion, Mr. Draper moved that the following letter be sent to Senator Wagner today:

"This is in response to your request for an expression of the Board's views with respect to S.3839, a bill 'To amend section 13b of the Federal Reserve Act, as amended'.

"Section 13b of the Federal Reserve Act now authorizes the Federal Reserve Banks to make loans and advances with maturities not exceeding five years to established industrial and commercial businesses in order to supply them with working capital. It also authorizes the Federal Reserve Banks to participate with financing institutions in making such loans and to make commitments in connection therewith.

"The requirements of the present law that such loans may be made only to provide working capital, only to established businesses, and only with maturities up to five years have made it impossible for the Federal Reserve Banks to grant credit to many worthy business enterprises, particularly in cases where additional funds are needed for expansion or improvement. Senate bill S.3839 would broaden the authority of the Federal Reserve Banks in making industrial loans by eliminating these unnecessary restrictions. Similar restrictions, originally contained in the law under which the Reconstruction Finance Corporation makes advances to business enterprises, have been eliminated.

"In addition to the above changes, S.3839 would eliminate the industrial advisory committees, which are now required to pass upon applications for loans made under Section 13b of the Federal Reserve Act. The bill would also direct, instead of merely authorize, the Secretary of the Treasury to pay to the Federal Reserve Banks up to \$139,299,557 out of the increment resulting from the reduction in the weight of the gold dollar in order to enable them to make such loans. This would involve no additional appropriation of public funds or increase in the budget, as the Secretary of the Treasury is already authorized to pay to the Federal Reserve Banks all amounts which he would be directed to pay under this bill. Such amounts would be paid to the Federal Reserve Banks from

5/31/40

-4-

"time to time, upon request by the Board of Governors of the Federal Reserve System, and in such amounts as the Board of Governors deemed necessary to enable the Federal Reserve Banks to make the loans, advances, commitments, etc. authorized by the amendment. Senator Mead's proposed amendment would also increase from 80 per cent to 90 per cent the portion of any loss which might be assumed by a Federal Reserve Bank on loans made by financing institutions in cooperation with or under commitments obtained from Federal Reserve Banks.

"It seems to the Board of Governors that the Federal Reserve Banks can be most helpful to worthy business enterprises which cannot obtain credit on a reasonable basis from the usual sources, by encouraging banking institutions to make loans to them under the protection of commitments from the Reserve Banks, for which fees are charged, obligating the Reserve Banks to absorb an agreed portion, not in excess of 90 per cent, of any losses that are sustained on the loans.

"If the Federal Reserve Banks are to do effective work in this field, they should not be required to turn down loans to business enterprises simply because the proceeds are to be used in part for plant rehabilitation or expansion or for any other reason except that the loans cannot be made on a reasonable and sound basis. In the Board's opinion, therefore, section 13b of the Federal Reserve Act should be amended along the lines of bill S.3839.

"Should Congress, however, be unwilling to amend section 13b as indicated or in any other way broaden the powers of the Federal Reserve System to provide credit in the field under discussion, it is the Board's feeling that, in fairness to the Federal Reserve System, section 13b should be entirely repealed and the loans and commitments now outstanding under that section gradually liquidated. So long as the section is in effect in its present restrictive form, the Federal Reserve Banks are compelled to decline to make certain loans which could be made on a reasonable and sound basis, with the result that the Reserve Banks suffer from the erroneous implication that they are not willing to extend this type of credit. The Board's preference is that the section be amended as proposed by S.3839 or that some other legislation be enacted to broaden the powers of the Federal Reserve System to provide such credit. The twelve Federal Reserve Banks and their branches

5/31/40

-5-

"with experienced staffs in close contact with the business conditions and credit needs throughout the United States constitute a most effective field organization for carrying out the purposes Congress had in mind when section 13b was enacted. The desirability of such legislation is increased in the present situation when many businesses might be in position to make substantially greater contributions to the production of goods for the enlarged national defense program if adequate credit for fixed capital as well as for working capital were readily available."

Mr. Draper's motion was put by the chair and carried, Mr. Ransom voting "no".

Mr. Morrill referred to the decision reached by the members of the Board to offer space in the Board's building to the Advisory Commission to the Council of National Defense recently appointed by President Roosevelt and stated that it would be necessary to incur certain expenses in that connection such as the purchase of furniture, employment of an extra telephone operator, the installation of telephones, etc., and that Mr. McReynolds, Executive Secretary of the Commission, had advised that the President had asked Congress for an appropriation of \$1,000,000 to cover the expenses of the Commission from which the Board would be reimbursed for any out-of-pocket expenses incurred in connection with the housing of offices of the Commission in the Board's building.

By unanimous vote, Mr. Morrill was authorized to incur such expenses as may be necessary in preparing and servicing the offices to be occupied by the National Defense Commission in the Board's building.

At this point Messrs. Wyatt, Smead, Dreibelbis, and Vest left

5/31/40

-6-

the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 29, 1940, were approved unanimously.

There were presented telegrams to Messrs. Kimball and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Messrs. Walden and McLarin, First Vice Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of Richmond and San Francisco on May 28, by the Federal Reserve Bank of New York on May 29, 1940, and by the Federal Reserve Banks of Philadelphia and Atlanta today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act as amended, the Board of Governors of the Federal Reserve System hereby certifies that the Forest City Bank & Trust Company, Forest City, Iowa, became a member of the Federal Reserve System on May 31, 1940, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

5/31/40

-7-

- "1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Coates
Chairman.