A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 19, 1940, at 11:30 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. Clayton, Assistant to the Chairman

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

The minutes of the meetings (two meetings) of the Board of Governors of the Federal Reserve System held on June 18, 1940, were approved unanimously.

Letter to Honorable Robert F. Wagner, Chairman of the Banking and Currency Committee of the Senate, prepared pursuant to the action taken at the meeting of the Board on June 18, 1940, and reading as follows:

"The Board of Governors wishes to correct certain misinformation given to the Committee by Mr. Jesse Jones, Federal Loan Administrator, in his testimony before the Committee on June 14, 1940, and in his letter to you of that date regarding S. 3839.

"Mr. Jones informed your Committee that he favored the amendments in S. 3839 to liberalize the types of industrial loans that may be made by Federal Reserve banks. He coupled with this recommendation, however, a condition which would deprive the Federal Reserve banks of the use of funds previously appropriated and specifically allocated by Congress six years ago for their use in making

"such loans. His proposal, if adopted, would in practical effect nullify the operations of the Federal Reserve banks in this field.

"The sum of $139,299,556.99 which Congress set aside for this purpose in 1934 is the exact equivalent of the amount which was originally taken from the surplus of the Federal Reserve banks for part of the capital of the FDIC. The subsequent allocation by Congress of this amount, for the purpose of making industrial loans, would merely be continued by the pending measure, S. 3839. Accordingly this fund in effect represents money already provided out of the earned surplus of the Federal Reserve banks and its use under S. 3839 would involve no charge against the Federal budget and no appropriation.

"Mr. Jones' suggestion contemplates that the Federal Reserve banks be cut off from the use of this fund and be required to fall back upon further drafts upon their capital and surplus in order to continue to make industrial loans. The capital and surplus of the Federal Reserve banks has already been reduced to a low level (less than 1-1/2 per cent) in relation to their liabilities. The making of loans to businesses that are without sufficient financial standing to obtain credit from the usual banking sources involves a considerable risk. The Federal Reserve banks would hesitate, and could not be expected, to make any substantial volume of such loans which might further reduce their capital and surplus through losses. The Board of Governors believes that unless the present law is made more, not less, workable, it would be preferable to repeal it altogether.

"Mr. Jones states that it has been 'clearly proven that they (the Federal Reserve banks) will not make' industrial loans. It is difficult to reconcile this statement with his proposal that Federal Reserve banks make industrial loans out of their own capital and surplus. If it were a fact, as it is not, that they will not make such loans on the existing basis when one-half of the amounts used for the purpose are obtained from the fund set aside on the books of the Treasury, is it reasonable to suppose that they would make such loans wholly out of their capital and surplus? It seems Mr. Jones must have known that this proposal would in effect nullify the purposes of S. 3839.

"Ordinarily the Board would not comment on statements made by the head of another Federal agency about its own operations. In this case, however, Mr. Jones

"quotes figures on RFC operations for the purpose of comparing them with the industrial loans activities of Federal Reserve banks. It becomes necessary, therefore, to point out some aspects of Mr. Jones' letter that are misleading.

"With respect to his statement that it has been 'clearly proven that they (the Federal Reserve banks) will not make' industrial loans, the facts are that from June 19, 1934, when both the RFC and the Federal Reserve banks were given authority to make these loans, to January 31, 1935, when the RFC's authority was considerably liberalized, the Federal Reserve banks made loans and participations of about 32 million dollars as compared with approximately 9 million dollars for the RFC. For the period of nearly four years ending April 1938, when practically all restrictions were taken off the RFC's authority, the Federal Reserve banks had made loans and participations of approximately 111 million dollars as compared with approximately 105 million dollars for the RFC. It is clear from these figures, which I brought specifically to Mr. Jones' attention by letter dated September 29, 1939, not only that Mr. Jones' statement is not supported by the facts, but that during the period when the Federal Reserve banks and the RFC operated on anything like a comparable basis the performance of the Federal Reserve banks was better than that of the RFC.

"While practically all restrictions on the RFC's authority were removed in April 1938, the Federal Reserve banks have continued to make industrial loans in spite of the fact that none of the restrictions on their authority has been eliminated.

"Mr. Jones states that the RFC was authorized to make business loans at the same time that the Federal Reserve banks were, but that the RFC must lend 'its own money, money which it borrows and repays with interest'. If the Board is correctly informed, the capital of the RFC came directly from the Treasury and all additional funds come either from the Treasury or through borrowing on the basis of the Government's credit.

"Far from drawing upon additional public credit to obtain funds, as Mr. Jones contends, and as in fact the RFC does, all this bill proposes is to utilize funds derived in effect from the earned surplus of the Federal Reserve banks and already earmarked by Congress for this use.

"As to the policy of the RFC in making business loans, it is to be noted that, as of June 28, 1939, of the total authorized loans of the Federal Reserve banks only 8 per cent had been canceled, whereas of the total authorized loans of the RFC at that time approximately 20 per cent had been canceled. Mr. Jones' figures also show that to date more than 24 per cent of the RFC authorizations have been canceled--as he somewhat vaguely puts it--'for one reason or another'. 'Authorized' loans are canceled, of course, not so much because the borrowers procure funds elsewhere as for the reason that the conditions attached to the loans are such that the borrower cannot or is unwilling to meet them.

"Mr. Jones informed the Committee that 83 per cent of the business loans of the RFC have been for $50,000 or less and that 'small business has been the beneficiary of most of the RFC's business lending'. He failed to point out, however, that of the 521 million dollars of loans authorized and commitments outstanding as of December 31, 1939, less than 17 per cent in amount consisted of loans to small business, i.e., $50,000 or less. Mr. Jones stated that the RFC has disbursed to business borrowers about 305 million dollars, but according to page 8 of the RFC's report to Congress dated March 8, 1940, $82,900,000 of the disbursements made by it under section 5d of the RFC Act to the end of 1939 represented loans to public bodies, not to business enterprises.

"In view of the fact that Mr. Jones' statements to the Committee may have raised many questions in the minds of its members, the Board requests that I advise the Committee of my readiness to appear at an early date to testify further on the matter, if the Committee desires me to do so. It will also be appreciated if a copy of this letter be included in the Committee's record of the proceedings on this bill.

"I am authorized to say that the views expressed herein are the views of the Board of Governors of the Federal Reserve System."

Approved unanimously, with the understanding that, in addition to sending copies of Mr. Jones' letter of June 14, 1940, addressed to Senator Wagner and the Board's reply set forth above to all Federal Reserve Banks as

authorized at the meeting of the Board on June 17, 1940, copies of the correspondence would be sent to the following:

All members of the Senate Banking and Currency Committee and Senator Mead.

Messrs. Jones, Morgenthau and Bell.

All directors of the Reconstruction Finance Corporation.

All Federal Reserve Bank branches.

All directors of the Federal Reserve Banks and branches.

All members and the Secretary of the Federal Advisory Council.

All members of the Industrial Advisory Committees.

Letter to Honorable Preston Delano, Comptroller of the Currency, reading as follows:

"This refers to the letter which Mr. Gough addressed to the Board under date of May 7, 1940, advising that obligations of the Commodity Credit Corporation, the Reconstruction Finance Corporation, the United States Housing Authority, and the Federal Farm Mortgage Corporation in the form of investment securities which, in accordance with law, are unconditionally guaranteed as to principal and interest by the United States, are considered by your office as 'exempted securities' and may be purchased by banks without regard to the limitations and restrictions of section 5136, United States Revised Statutes.

"As questions of this kind have arisen from time to time with respect to State member banks, it is believed desirable to publish a ruling on this subject in the Federal Reserve Bulletin and it will be appreciated if you will advise whether you have any objection to the publication of the enclosed ruling in the next issue of our Bulletin."

Approved unanimously.

Memorandum dated June 19, 1940, from Mr. Foulk, Fiscal Agent, recommending that an assessment of two hundred and ninety-one thousandths

of one per cent (.00291) of the total paid in capital and surplus (Section 7 and Section 13b) of the Federal Reserve Banks as of the close of business June 30, 1940, be levied to cover the general expenses of the Board during the last six months of 1940, and that the Federal Reserve Banks be instructed to pay in the assessment in two equal installments on July 1, 1940, and September 2, 1940.

The following resolution levying an assessment in accordance with the Fiscal Agent's recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1940, it is necessary that a fund equal to two hundred and ninety-one thousandths of one per cent (.00291) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

"(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and ninety-one thousandths of one per cent (.00291) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1940.

"(2) Such assessment shall be paid by each Federal Reserve Bank in two equal installments on July 1, 1940, and September 2, 1940, respectively.

"(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Letter to the Comptroller of the Currency requesting that he place an order with the Bureau of Engraving and Printing for printing 10,452,250 sheets of Federal Reserve notes of the 1934 Series during the fiscal year ending June 30, 1941, in the amounts and denominations for the respective Federal Reserve Banks as set forth in the letter.

Approved unanimously.

Letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of June 15 in regard to a proposed new contributory group life insurance policy.

"The Board will interpose no objection to the proposed group life insurance contract, which it is understood will cost the Federal Reserve bank approximately $1,560 a year, less whatever dividend may be received. It is requested that the matter of continuance of the policy be brought to the Board's attention for further consideration in case you find at any time that the net annual cost to the bank of this insurance is likely to

"be materially in excess of $1,500."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.