

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL  
September 19-20, 1938

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 19, 1938

The third statutory meeting of the Federal Advisory Council for 1938 was convened in the Board Room of the Federal Reserve Building, Washington, D. C., on Monday, September 19, 1938, at 10:15 A. M., the President, Mr. Smith, in the Chair.

## Present:

Mr. Thomas M. Steele	District No. 1
Mr. W. W. Aldrich	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. Robert M. Hanes	District No. 5
Mr. Edward Ball	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. John Crosby	District No. 9
Mr. C. Q. Chandler	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

## Absent:

Mr. L. B. Williams	District No. 4
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On motion, duly made and seconded, the minutes of the meeting of the Council of May 15-17, 1938, copies of which had been previously sent to the members, were approved.

The Secretary announced that Mr. L. B. Williams, representative of the Fourth District, had written expressing his regret that he would be unable to be present at this session of the Council and that the Federal Reserve Bank of Cleveland had decided not to send an alternate.

The Secretary read a letter dated August 3, 1938, from Mr. Chester Morrill, Secretary of the Board of Governors of the Federal Reserve System, in which it was stated that the Board of Governors desired to have an expression of the Council's own views in respect to the matters presented in the report dated May 17, 1938, in which were given the results of an investigation as to "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?"

It was unanimously agreed that the Secretary be asked to request Mr. Williams, after correspondence with the three other members of his committee, namely Messrs. Smith, Harding, and Dick, to prepare a report to be submitted to the members of the Council prior to the November meeting in order that a final report might be submitted to the Board of Governors at the November meeting. It was agreed that the report should cover both matters of policy as well as technical operating problems.

The Secretary read Mr. Morrill's letter of August 30, asking the opinion of the Council in regard to an amendment to Regulation F (Trust Powers of National Banks) proposed by the Pennsylvania Bankers Association, Trust Company Section.

Mr. Loeb presented a letter dated September 2, 1938, from Mr. Frank J. Drinnen, First Vice President of the Federal Reserve Bank of Philadelphia, in which the proposed amendment was discussed.

At 11:15 A. M., Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, appeared before the Council and discussed the general financial and business situation. Dr. Goldenweiser left at 12:15 P. M.

It was voted unanimously that the Federal Advisory Council recommend that the Board of Governors of the Federal Reserve System adopt, in principle, the amendment to Regulation F formulated by the Pennsylvania Bankers Association, Trust Company Section.

It was agreed that Mr. Loeb would try to formulate a report discussing somewhat in detail the proposed amendment and make suggestions in reference thereto.

A discussion took place regarding the proposal made to have the Government establish credit banks chiefly for the purpose of making capital loans.

The meeting adjourned at 12:50 P. M. for lunch with Vice Chairman Ransom, at which the discussion regarding credit banks was continued.

The meeting reconvened at 3:20 P. M.

It was voted to ask the Board to concur in having the November meeting of the Council take place on November 28 and 29 in order to avoid conflict with the annual convention of the American Bankers Association.

Mr. Steele discussed the question of asking the Board to resume its former practice of segregating in the figures of reporting member banks the loans made on collateral security from those otherwise secured and unsecured. Mr. Steele stated that he had brought up the matter at the suggestion of some banks in his district, but since then had been furnished a report made to the Board on this matter and it had convinced him that the value of segregating these figures was not sufficient to justify the Board in resuming the former practice.

A discussion took place regarding the desirability of having the Board of Governors of the Federal Reserve System, or some other impartial agency, make an investigation into the credit needs of business throughout the country analagous to that in the Seventh Federal Reserve District made in 1934 under the direction of Messrs. Hardy and Viner.

President Smith appointed a committee, consisting of himself, Messrs. Brown and Harding, to confer with the Secretary of the Treasury and suggest that the Treasury undertake the investigation made under its auspices.

The Secretary of the Council arranged to have the committee confer with Secretary Morgenthau at 11:00 A. M. on Tuesday, September 20.

The meeting adjourned at 4:00 P. M.

WALTER LICHTENSTEIN  
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 20, 1938

At 10:10 A. M., the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, R. M. Hanes, Edward Ball, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

Mr. Steele read the report explaining why the method of reporting secured and unsecured loans had been changed. It was agreed to drop the matter.

The meeting adjourned at 10:20 A. M.

WALTER LICHTENSTEIN,  
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL  
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 20, 1938

At 10:30 A. M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman Ronald Ransom; Governors Chester C. Davis, John McKee, and M. S. Szymczak; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Walter Wyatt, General Counsel for the Board of Governors; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, Board of Governors; Carl E. Parry, Chief of Division of Bank Loans, B. M. Wingfield, Assistant General Counsel; E. L. Smead, Chief, Division of Bank Operations; Elliott Thurston, Special Assistant to the Chairman, and C. E. Cagle, Assistant Chief, Division of Examinations.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, R. M. Hanes, Edward Ball, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

President Smith informed the Board that owing to the fact that Mr. L. B. Williams had been in Europe all summer and was absent from this meeting, it had been found impossible for the Council to submit at this time a report giving the views of the Council itself on "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?" President Smith stated such a report would be presented to the Board either before or at the time of the November meeting.

Mr. Loeb reported regarding the suggested amendment to Regulation F, concerning which some discussion took place.

At 10:50 A. M. the committee appointed to meet with the Secretary of the Treasury, namely Messrs. Smith, Brown, and Harding, left, and Mr. Loeb, the Vice President of the Council, took the Chair.

A discussion took place regarding the desirability of establishing so-called intermediary credit banks.

It was announced that there would be a joint meeting of the Council with the Board and the Presidents of the twelve Federal Reserve Banks at 2:15 P. M.

The meeting adjourned at 11:20 A. M.

WALTER LICHTENSTEIN,  
Secretary.

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

September 20, 1938

At 11:30 A. M. the Federal Advisory Council reconvened in the Board Room in the Federal Reserve Building, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, R. M. Hanes, Edward Ball, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

Mr. Brown reported for the committee which had conferred with the Secretary of the Treasury that the Secretary agreed that it would be highly desirable to make an investigation of the credit situation in the whole country such as had been suggested. He pointed out, however, that in 1934 the Treasury had at its disposal some unallocated funds which it was able to use to pay the expenses of such an investigation. He stated that Mr. Viner was in Washington at the moment and he would consult with him and let the Federal Advisory Council know his decision within a few days.

The Secretary of the Council read comments regarding the form of the proposed amendment to Regulation F which had been prepared by the Federal Reserve Bank of Philadelphia, a copy of which is attached to these minutes.

The Council concurred in the suggestions submitted by the Federal Reserve Bank of Philadelphia but believes there should be two changes:

1. In paragraph 2, page 22, of the memorandum of the Pennsylvania Bankers Association, Trust Company Section, the basis of admissions and withdrawals from the fund should be left to the legislation of each particular state.
2. In paragraph 7, page 31, the Federal Reserve Bank of Philadelphia suggested that "it would be well to add to the end of the indented paragraph on page 32 a statement to the effect that if the fund remains closed for nine consecutive months because of excessive illegal investments and/or depreciation it shall be placed in liquidation." The Council believes that it would be better to extend the period mentioned from nine to twelve months.

With the exception of the changes noted above, the Council agreed unanimously to subscribe to the comments made by the Federal Reserve Bank of Philadelphia regarding the proposed amendment to Regulation F.

The meeting adjourned at 12:05 P. M.

WALTER LICHTENSTEIN,  
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL,  
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AND  
THE PRESIDENTS OF THE FEDERAL RESERVE BANKS

September 20, 1938

At 2:15 P. M. a joint conference of the Federal Advisory Council, the Board of Governors of the Federal Reserve System, and the Presidents of the Federal Reserve Banks was held in the Board Room of the Federal Reserve Building, Washington, D. C., Vice Chairman Ransom, of the Board of Governors of the Federal Reserve System, presiding.

Present: Members of the Board of Governors of the Federal Reserve System:

Vice Chairman Ronald Ransom; Governors Chester C. Davis, John McKee, and M. S. Szymczak; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors, Walter Wyatt, General Counsel for the Board of Governors; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics; Carl E. Parry, Chief of Division of Bank Loans; E. L. Smead, Chief, Division of Bank Operations; J. P. Dreibelbis, Assistant General Counsel, and Elliott Thurston, Special Assistant to the Chairman.

Present: Presidents of the Federal Reserve Banks:

Messrs. R. A. Young (Boston), G. L. Harrison (New York), J. S. Sinclair (Philadelphia), M. J. Fleming (Cleveland), Hugh Leach (Richmond), Oscar Newton (Atlanta), G. J. Schaller (Chicago), W. McC. Martin (St. Louis), J. N. Peyton (Minneapolis), G. H. Hamilton (Kansas City), B. A. McKinney (Dallas), and W. A. Day (San Francisco); also Dr. John H. Williams of the Federal Reserve Bank of New York, and H. H. Kimball, Secretary of the Presidents' conference.

Present: Members of the Federal Advisory Council:

Mr. Walter W. Smith, President; Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, W. W. Aldrich, R. M. Hanes, Edward Ball, E. E. Brown, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

Dr. Williams gave a short account of the present business and financial situation.

Mr. W. W. Smith introduced the subject of the proposed intermediate credit banks and a discussion followed regarding the readiness of banks to make available credit to small businesses.

Vice Chairman Ransom discussed the desirability of possibly breaking down the statistics, ordinarily reported, in such fashion that there would be a differentiation made between renewal of old loans and new loans and also reports made of new lines of credit granted by banks.

Dr. Goldenweiser pointed out that if either reporting member banks or all banks were to report regarding the amount of new loans, renewals, reasons for turning down loans,

etc., it would be necessary to obtain this information for a given period of time. He made it clear that statistics of this nature would have no meaning if the amounts were merely given for one single day.

Dr. Goldenweiser pointed out that there is a certain gap in the investigations that have been made or are likely to be made on this whole question of granting of credit. Consideration in these investigations is given to businesses which are going on and businesses which are failing possibly because they have not been able to obtain credit, but, of course, no information is gathered regarding enterprises which are non-existent but which would have been created if credit had been available. In other words, it is entirely conceivable that there are individuals who have the ability and the desire to start productive enterprises but who cannot obtain any capital with which to do so. Naturally, as such enterprises are merely hypothetical and not actually in existence there is no information to be obtained regarding them.

The meeting adjourned at 4:05 P. M.

WALTER LICHTENSTEIN,  
Secretary.

Federal Reserve Bank of Philadelphia

Comments regarding the form of the proposed amendment to Regulation F

Page 22. Par. (1). We suggest that the last portion of this paragraph read somewhat as follows: "unless such investment is authorized or permitted by statutory provisions of the state, etc." This wording is more in harmony with that of subsection (a) of this section.

Par. (2). A question may be raised as to whether it is proper that the basis of admissions and withdrawals from the fund be the actual amount invested by the participant rather than a proportion of the total of the fund. Although the latter method probably is better for determining the fluctuating interests of participants in a common trust fund consisting of securities, it seems more practicable to use the former method in dealing with interests in mortgage investment funds, the appraised values of which do not fluctuate to any great extent and whose values are more a matter of judgment by a few real estate appraisers than a daily expression of the judgment of hundreds or thousands of actual or potential buyers.

Page 23. Par. (4). We suggest that the last clause of the second sentence beginning at line 9 read as follows: "and, if it finds that the condition of the Common Trust Fund is such that the funds of such trust might not lawfully be invested in a participation therein at that time, or that such investment would be contrary to provisions of this section, funds of such trust

shall not be so invested". We are dealing with a regulation, as well as a law, and it is conceivable that the laws of some states might permit participations which would not be in conformity with the requirements of this subsection.

Page 25. Par. (6). It might be well to make the following substitutions in the wording of this paragraph -

- Line 1 - "Reviewed" for "determined"
- 5 - "Review" for "determine"
- 8 - "Review" for "determination"
- 10 - "Review" for "determination"
- 13 - "Review" for "valuation"
- 18 - "Review" for "determination"

These changes are suggested in order to avoid the impression that the trust committee is required to reappraise, at three months' intervals, the real estate owned and that securing the mortgages in the fund.

It is also suggested that the following wording be added, either following the first sentence on page 23 or as a footnote -"It is not the intention of this provision to require an appraisal of real estate owned or securing a mortgage more frequently than once every three years as hereinafter provided".

14th line. We suggest after the words "Common Trust Fund" the insertion of the words "exclusive of accrued income" in order to distinguish between principal and income in valuing the assets of the fund for the purposes of determining admissions and withdrawals.

Page 26. We suggest the elimination of the comma after the word "situated" in line 13 and the insertion of the words "who shall be" and the elimination of the comma after the word "directors" in line 14

and the insertion of the word "and". This suggested change is in order to remove any question as to whether the board of directors or the appraisers shall inspect the real estate.

28. "Comment". The committee's comment regarding paragraph (7) seems to improve the text of the paragraph, but we would suggest the addition of a proviso to the effect that not over 50% of the assets of a trust having a book value of \$2,400 or more may be invested in a fund operated under subsection (d). Such a restriction is believed desirable to prevent the investment of excessive portions of the funds of a trust in a relatively non-liquid medium.

30. Par. (7). Sixth line. We suggest the insertion of the words, "exclusive of income cash", following the words, "Common Trust Fund".

31. Par. (7). In determining when the fund should be closed to admissions or withdrawals we suggest that there be added to the total of assets which are not legal for trust investment the depreciation, if any, on securities or other assets in the fund. Securities may be held in limited amounts for short periods and it is possible that at the time admissions or withdrawals are contemplated the securities would not be worth cost or book value. Subject to the above suggestion the committee's comment following this paragraph seems worthy of adoption except that we believe it would be well to add to the end of the indented paragraph on page 32 a statement to the effect that if the fund remains closed for nine consecutive months because of excessive illegal investments and/or depreciation it shall be placed in liquidation.

Page 34. Par. (8). We suggest that the amount of income to be transferred to the reserve be based on semi-annual gross income, and not on the total of participations, in which event the ratio might be "not less than 10% nor more than 20% of the gross income". In the event that a sizable amount of cash, securities yielding small income, mortgages in default, or real estate should be held the gross income of the fund would decline considerably and it would not be equitable to continue to base the reserve accretions on the amount of participations as such a procedure would penalize the life tenants of trusts in favor of the remaindermen.

It is suggested that a provision be inserted in this paragraph requiring that the reserve be held in cash, or invested in United States Government securities.

In view of the fact that during the life of such a fund as is here contemplated there may be profits on securities as well as on real estate and mortgages, it would be well to state that profits from the sale of any fund assets shall go into the reserve. It is already provided that losses shall be absorbed by the reserve.

Page 35. Par. (9). We suggest that following the words "Common Trust Fund" in the third line there be added the words "pursuant to the provisions of this subsection governing withdrawals" or words of similar import.

38. "Comment". The provisions of Section 24 of the Federal Reserve Act do not require periodic amortization in amounts such as are required in sub-paragraph 2 of paragraph (10), pages 36 and 37 of the memorandum, and for this reason it would seem preferable not to admit to the fund mortgages which are authorized by Section 24 unless the amortization provisions conform to the applicable requirements of the proposed addition to Regulation F.