

MINUTES OF MEETING
of the
FEDERAL ADVISORY COUNCIL
November 28-29, 1938

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

November 28, 1938

The fourth 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, November 28, 1938, at 10:15 A. M., the President, Mr. Smith, in the Chair.

Present:

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| Mr. Thomas M. Steele | District No. 1 |
| Mr. W. W. Aldrich | District No. 2 |
| Mr. Howard A. Loeb | District No. 3 |
| Mr. L. B. Williams | District No. 4 |
| Mr. Robert M. Hanes | District No. 5 |
| Mr. William V. Crowley (Alternate for Mr. Edward Ball) | District No. 6 |
| Mr. Walter S. McLucas (Alternate for 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 |

On motion, duly made and seconded, the minutes of the meeting of the Council of September 19-20, 1938, copies of which had been previously sent to the members, were approved.

The Secretary announced that Messrs. Ball and Brown had reported that they would be unable to attend the sessions but that alternates in the persons of Messrs. Crowley and McLucas were present.

A detailed discussion took place in connection with the sketch of the report submitted by Mr. Williams' committee dealing with the subject "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?"

The President appointed a committee, consisting of Messrs. Williams, Dick, Harding and the Secretary to formulate the reply to be submitted to the Council before being handed to the Board of Governors.

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 as well as certain implications arising out of the foreign situation. Dr. Goldenweiser left the meeting at 12:30 P. M.

The meeting adjourned at 1:00 P. M. for lunch with Chairman Eccles at which the discussion turned almost entirely on the possibility of allowing an officer, director, or employee of a member bank, under certain circumstances, to serve on the board of one

other bank. Chairman Eccles doubted whether the Board of Governors would agree to recommend the necessary legislation to the Congress and even if it did whether the Congress would pass such legislation.

The meeting reconvened at 2:45 P. M.

A short discussion took place regarding the application to banks of the Wages and Hours Law. Mr. Hanes agreed to keep in touch with the situation.

A discussion then took place regarding the proposed amendment to Section 13-B of the Federal Reserve Act which would permit Federal Reserve banks to make advances for periods ranging from ten to fifteen years. Mr. Steele suggested the possibility that if a new corporation be established that the capital be furnished jointly by member banks and Federal Reserve banks. He suggested as a possibility that member banks furnish toward the capitalization of the corporation 3% of their capital and surplus and be given preferred stock, while the Federal Reserve banks take common stock; quarters should be furnished by the Federal Reserve banks and the new corporation be allowed to buy shares of stock as well as bonds of small businesses and also make loans. Two-thirds of the directors should be elected by member banks. Mr. Steele emphasized that this was not a recommendation that he was making personally, but merely a suggestion that had been made to him and that might be worthy of consideration in the event that the establishment of a new corporation could not be avoided. In general there was opposition to the whole idea of the establishment of such a corporation and it was agreed to drop the topic until such time as definite plans on the subject were pending in Congress.

A discussion took place regarding the possibility of an amendment to Section 3477 of the Revised Statutes of the United States which is title 31 U.S.C.A. Sec. 203, which forbids the assignment of Government claims. After some discussion a recommendation to the Board of Governors was unanimously adopted of which a copy, designated as Recommendation No. 2, is attached to and made a part of these minutes.

In view of the luncheon discussion the suggestion to amend Regulation L, permitting an officer, director, or employee of a member bank to serve as a director, officer or employee of not more than one other such institution, was withdrawn.

It was agreed that it be suggested to the Board of Governors at the joint meeting that in future recommendations of the Council be published not merely in the final report of the Board, as heretofore, but also in the preliminary report.

The committee appointed by the President to draft a recommendation to the Board of Governors of the Federal Reserve System on "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?" brought in a statement which was unanimously adopted and which, with the exception of one clause, is attached to and made a part of these minutes and designated as Recommendation No. 1.

The meeting adjourned at 4:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

November 29, 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:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of 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; Walter Wyatt, General Counsel of the Board of Governors; J. P. Dreibelbis and George B. Vest, Assistant General Counsels of the Board of Governors; Leo H. Paulger, Chief, Division of Examinations; R. F. Leonard, Assistant Chief, Division of Examinations; Woodlief Thomas, Assistant Director, Division of Research and Statistics; E. L. Smead, Chief, Division of Bank Operations; Carl E. Parry, Chief, Division of Security Loans, and Philip E. Bradley, Assistant Chief, Division of Security Loans.

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, L. B. Williams, R. M. Hanes, W. V. Crowley, Walter S. McLucas, John Crosby, C. Q. Chandler, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read Topic No. 1 and a discussion took place, especially in respect to Section 5 of the first part and Sections 2, 3 and 4 of the second part of the recommendation. In respect to Section 5 of the first part of the recommendation, the President of the Council agreed to appoint a committee to consider this topic further. This section reads as follows:

“The Council suggests that the Board of Governors pursue a policy leading to the ultimate collection of items at par for member banks and that in the meantime non-par items be collected for member banks.”

It was agreed that until the committee of the Council had studied the topic somewhat further this section would be omitted from the recommendation, possibly to be re-submitted at a later meeting. The section, therefore, does not appear in the recommendation attached to and made a part of these minutes.

In respect to Section 3 of the second part, Chairman Eccles suggested that the Council members urge their regional Federal Reserve banks to arrange to have stockholders' meetings as suggested.

It was agreed, that though at present Boston pays the expenses of one representative from each member bank to obtain attendance at stockholders' meetings, that it would not seem desirable to have the Federal Reserve banks assume that burden.

The Secretary of the Council read Recommendation No. 2. Mr. Crosby cited instances where the impossibility of having claims on the United States assigned by debtors made it more difficult in certain cases for industry to obtain loans from banks.

President Smith announced that an appointment had been made with the Secretary of the Treasury to see him at four o'clock to discuss further the matter of having the Treasury undertake an examination into the extension of credit to businesses by banks. It was decided that Messrs. Smith and Harding would wait upon the Secretary of the Treasury and make a report at a later date to members of the Council regarding their conference with the Secretary of the Treasury.

There was some discussion regarding the change made in bank examinations, and Chairman Eccles stated that he felt at some later date a survey should be made to see whether the bank examiners were really carrying out the spirit of the new regulations.

President Smith brought up the matter of including the recommendations of the Council in the preliminary report of the Board of Governors, and the Chairman of the Board stated that the Board had no objection to this being done in the future.

The meeting adjourned at 12:50 P. M.

WALTER LICHTENSTEIN,
Secretary.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 29, 1938.

TOPIC No. 1. Services to Member Banks.

RECOMMENDATION: In answer to a request made by the Board of Governors of the Federal Reserve System at its meeting with the Federal Advisory Council on February 15, 1938, the Federal Advisory Council, under date of May 17, 1938, presented a report on "How Can the Federal Reserve System Increase the Value or Scope of its Services to Member Banks in Practicable or Desirable Ways?" The survey in question was a compilation based on material furnished by the member banks of the Federal Reserve System.

Subsequently, the Secretary of the Board of Governors in a letter, dated August 3, 1938, requested the Council to state its own views in respect to the problems discussed in the report of May 17, 1938. In answer to this inquiry, the Council submits the following statement.

The Federal Advisory Council has divided the subject under discussion into two parts:

- (a) Subjects dealing with the mechanical services of the Federal Reserve System, and
- (b) Policies which affect the member banks.

As regards mechanical services, the Council has the following suggestions to make:

- (1) It would seem desirable to the Council that the closing hour of each Federal Reserve Bank be extended in accordance with the need of each district.
- (2) The Council suggests the elimination of the present requirement of the sorting and distribution of items offered for credit.
- (3) It would seem desirable to expand the use of the air mail.
- (4) It would be helpful if the return of unpaid items take place more quickly than at present.

In respect to more general policies, the Council offers the following suggestions:

- (1) That the Board be requested to continue its efforts to bring about greater uniformity in examinations and in the forms of the reports required.
- (2) That the Federal Reserve Banks be allowed to exercise more autonomy in their respective districts.
- (3) That the Board encourage and foster more frequent contacts on the part of the officials of regional banks with member banks and to that end stockholders'

meetings be held in each Federal Reserve district. The Council does not believe it necessary that the arrangements for such meetings be the same in each district.

- (4) That the Board of Governors attempt classification and simplification of the rules and regulations issued by it.

TOPIC No. 2. Assignment of Claims on the United States.

RECOMMENDATION: The Federal Advisory Council requests the Board of Governors of the Federal Reserve System to recommend to the proper authorities an amendment to that part of section 3477 of the Revised Statutes of the United States which is Title 31 U.S.C.A., Sec. 203, which makes null and void all transfers and assignments of any claims on the United States. The amendment should permit the assignment of claims where legitimate credit has been extended, excepting in those cases where claims arise in consequence of torts, tax refunds, or the like.

FEDERAL RESERVE BANK
OF PHILADELPHIA

November 18, 1938

*To all Banking Institutions
in the Third Federal Reserve District:*

For your information we are enclosing a copy of the letter and questionnaire which we are sending to a large number of manufacturers and other business concerns in this district. As you will see from the contents, the purpose of the inquiry is to enable us to estimate the type and extent of the financial needs, if any, of small and moderate size business concerns. You will recall that we made similar surveys in 1932 and in 1934. The present survey is intended to bring that information up to date.

It is not feasible for us to discuss the situation personally with each bank in our district, although we expect to visit banks in some of the industrial centers. We shall appreciate receiving, and will hold in confidence, any information you may have on the subjects outlined in the letter and questionnaire to business concerns.

Very truly yours,

JOHN S. SINCLAIR

President

COPY OF LETTER SENT TO BUSINESS CONCERNS.

November 18, 1938.

Dear Sir:

In order to keep ourselves reliably informed on business and credit conditions in this district, we are desirous of obtaining accurate information concerning the financial experiences and current needs of business establishments, particularly with respect to requirements for (a) short term credit for the production and marketing of goods, (b) longer term credit, and (c) investment or equity capital. You will recall that we made similar inquiries in 1932 and in 1934, and the present survey is intended to bring that information up to date.

With this in view, we are submitting a few questions to you in the hope that you will cooperate by sharing with us the benefit of your experience and observations, particularly those relating to the position of your customers as shown by the records of your credit department. We are especially interested in the credit and capital requirements of those establishments which are not sufficiently large to obtain funds through the security markets.

Your early reply and frank comments should be mutually helpful. Any information that you give us will be kept in strict confidence.

We shall appreciate your assistance.

Very truly yours,

(Signed) John S. Sinclair

Enc.

CONFIDENTIAL INFORMATION

to be returned to

JOHN S. SINCLAIR, President
Federal Reserve Bank of Philadelphia

Your frank and full response to the following questions will be appreciated.
Additional comments may be made on the last page.

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1. Based on your experience and observations, have you found that the small and moderate-size business in your community is in need of additional funds?

| | Your own case | Others |
|--|---------------|---------|
| (a) Please answer "Yes" or "No" | | |
| (b) If so, please indicate term and amount of credit needed— | | |
| Up to 1 year | \$..... | \$..... |
| From 1 to 5 years | | |
| From 6 to 10 years | | |
| Investment or equity capital | | |

2. What are the principal difficulties, if any, in securing medium or long term credit or investment capital, encountered by concerns which are not sufficiently large to obtain funds through the medium of security markets?

4. If there is a need for such funds, please state how in your opinion this need can best be met.

5. Have there been any fundamental changes in the methods of financing your business operations during recent years as compared with former times?

(a) If so, what is the nature of these changes?

(b) What influences have brought them about?

Name of concern.....

Location.....

Answered by.....

City.....

(Title)