MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

October 8-10, 1939

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

October 8, 1939

The third statutory meeting of the Federal Advisory Council for 1939 was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Sunday, October 8, 1939, at 10:40 A.M., the Vice President, Mr. Loeb, in the absence of the President, in the chair.

Present:

Mr. Thomas M. Steele	District No. 1
Mr. Leon Fraser	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. T. J. Davis	District No. 4
Mr. Charles E. Rieman (Alternate for Mr. Robert M. Hanes)	District No. 5
Mr. Edward Ball	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Sidney Maestre (Alternate for Mr. Walter W. Smith)	District No. 8
Mr. John Crosby	District No. 9
Mr. John Evans	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

The Vice President announced that Mr. Walter W. Smith was ill and, therefore, unable to attend the meeting. It was unanimously voted to instruct the Secretary to send a telegram to Mr. Smith, expressing the regret of the members of the Council at his absence and wishing him a speedy recovery, with the hope that he would be able to be present at the next meeting of the Council.

The Secretary reported that, in accordance with the request of the Board of Governors of the Federal Reserve System, information had been given the Board, as far as such was possible, regarding complaints of undue centralization in the System in so far as such appeared in the statistics collected by a committee of which Mr. Lewis B. Williams had been chairman.

It was decided to discuss the "easy money" policy in accordance with the request transmitted in the letter, dated August 18, 1939, from the Secretary of the Board of Governors of the Federal Reserve System to the Secretary of the Council. The feeling was expressed by most of the members of the Council that it would be undesirable to present a formal recommendation, but that it might be well to draw up a memorandum to form the basis of a discussion with the Board of Governors at the joint conference of the Board and the Council. Mr. Brown was asked to prepare such a memorandum.

A discussion took place regarding the proposed investigation of the banking system as directed in an act introduced by Senator Wagner (S. R. 125). It was decided to invite Mr. D. J. Needham, General Counsel of the American Bankers Association, to discuss the matter. However, it was found that Mr. Needham was out of the city and not expected to return for several days. As there was a general feeling that nothing would be done in regard to this investigation of the banking system prior to the next meeting of the Council, it was decided to postpone consideration of this problem for the present.

There was some discussion in regard to the ruling of the National Labor Relations Board in favor of the C. I. O. in the Bank of America case. Mr. Steele pointed out that in view of the recent decisions of the Supreme Court of the United States, it was, in his opinion, very doubtful whether any action by banks seeking to have the ruling changed would be advisable at this time.

No action was taken in regard to the bill passed by the Senate which would exempt inter-bank deposits from being subject to payments to the Federal Deposit Insurance Corporation.

The members of the Council lunched together in Room 859 from 12:30 P.M. to 2:15 P.M. and then reconvened in Room 836.

Discussion took place regarding the various proposed amendments to the Federal Home Loan Bank Act, as approved June 22, 1932. Mr. Dick pointed out that branches of these banks would be in competition with all classes of savings banks.

The Secretary read a memorandum submitted by Mr. Loeb, which was made a part of the records of this meeting.

It was finally agreed that the Chair appoint a committee to report back regarding the amendments to the Federal Home Loan Bank Act at the next meeting of the Council. The Chair appointed the following committee: Messrs. Dick, Chairman, Steele, and Hanes.

Mr. Brown submitted a memorandum on "easy money" policy, which was discussed at length. It was decided to request Messrs. Brown, Fraser, and Evans to re-draft the memorandum and incorporate in it a preamble. It was, however, unanimously agreed that the memorandum expressed the views of the members of the Council.

The meeting adjourned at 4:00 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

October 9, 1939

At 10:05 A. M. the Federal Advisory Council convened in the Board Room in the Federal Reserve Building, Washington, D. C., the Vice President, Mr. Loeb, in the Chair.

Present: Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, C. E. Rieman, Edward Ball, E. E. Brown, Sidney Maestre, John Crosby, John Evans, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

At the beginning of the meeting, Mr. Rieman was not present, but joined the meeting at 10:25 A. M.

The Secretary of the Council reported that, in accordance with instructions, he had sent a telegram to Mr. Smith.

The Secretary read a draft on "easy money" policy submitted by Messrs. Brown, Fraser, and Evans. A very exhaustive discussion took place regarding the memorandum submitted and many changes in detail were suggested.

At 11:10 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 12:35 P. M. and the Council adjourned at 1:00 P. M. for luncheon with Chairman Marriner S. Eccles.

The meeting reconvened at 3:40 P. M.

Discussion continued regarding the memorandum embodying the views of the Council on "easy money" policy, and it was unanimously agreed to present the following at the joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System as representing the unanimous opinion of the members of the Council:

"In connection with further consideration of the 'easy money' policy, as suggested in the letter of the Secretary of the Board of Governors of the Federal Reserve System to the Secretary of the Federal Advisory Council, dated August 18, 1939, the Federal Advisory Council was led to examine the recent changes in the yields of corporate and Government bonds. As to the general topic of extreme easy money, the Council reaffirms the views expressed in its recommendation to the Board of Governors, dated June 6, 1939.

"While the Council fully recognizes the need in a grave emergency, such as that recently experienced, of taking steps designed to preserve an orderly market in Government securities, it also believes that the market price of Government bonds should be allowed to find its natural level, free of official intervention, as rapidly as possible consistent with an orderly market.

"The operations of the Open Market Committee, acting for the Federal Reserve banks, in maintaining an orderly natural market (as distinguished from a pegged market) should not be influenced by its judgment as to what the proper price level should be, but that level should be the result of general operations of willing normal buyers and sellers. Neither should it be influenced by any considerations of maintaining or extending the former policy of extremely easy money.

"The Council believes that any policy of maintaining an orderly natural market in Government securities makes advisable the sale of the bonds and notes bought in the process of maintaining an orderly market as and when the free market will absorb them, and that these bonds and notes should not be withheld with a view to forcing the price of bonds back toward pre-September prices."

The meeting adjourned at 4:10 P. M.

WALTER LICHTENSTEIN,
Secretary.

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

October 10, 1939

At 10:40 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 John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea, Assistant Secretary of the Board of Governors; Walter Wyatt, General Counsel for the Board of Governors; J. P. Dreibelbis, Assistant General Counsel of the Board of Governors; L. P. Paulger, Chief, Division of Examinations; R. F. Leonard, Assistant Chief, Division of Examinations; Dr. E. A. Goldenweiser, Director, Division of Research and Statistics; E. L. Smead, Chief of Division of Bank Operations, and C. E. Parry, Chief of the Division of Security Loans of the Board of Governors.

Present: Members of the Federal Advisory Council:

Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, C. E. Rieman, Edward Ball, E. E. Brown, Sidney Maestre, John Crosby, John Evans, R. E. Harding, P. S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the statement on "easy money" policy appearing in the minutes of the meeting of October 9, 1939. A long discussion took place between the members of the Council and the members of the Board. The members of the Council presented some criticisms as to certain details in respect to the methods employed in carrying out the recent decisions of the Open Market Committee, but stated that they were in accord with the general policy adopted by the Open Market Committee during the recent emergency brought on by the outbreak of the European war. The principal criticism on the part of members of the Council was in respect to the requirement that for a time names of proposed sellers of Government bonds, if these were offered directly to the Federal Reserve banks, had to be revealed by the agent of the seller. Members of the Council felt that this might prevent a certain amount of entirely justifiable selling, and in so far as this was true, interfered with the establishment of an orderly natural market.

Members of the Board of Governors stated that the memorandum of the Council was not critical and also declared that they were entirely satisfied with the answers made by individual members of the Council to various questions raised by members of the Board. In concluding, Chairman Eccles made a lengthy statement, explaining his position and what his policy in the past had been.

The meeting adjourned at 12:30 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

October 10, 1939

At 12:35 P. M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the Vice President, Mr. Loeb, in the Chair.

Present: Mr. Howard A. Loeb, Vice President; Messrs. T. M. Steele, Leon Fraser, T. J. Davis, C. E. Rieman, Edward Ball, E. E. Brown, Sidney Maestre, John Crosby, John Evans, R. E. Harding, and P. S. Dick.

It was unanimously voted to adopt the memorandum on "easy money" policy as expressing the views of the members of the Council and to instruct the Secretary to place the statement upon the minutes of the Council. It was also unanimously voted to request each member of the Council to give a copy of this statement to his respective local Federal Reserve bank.

The meeting adjourned at 12:50 P. M.

WALTER LICHTENSTEIN,
Secretary.

COPY

October 2, 1939

COMMENTS ON THE AMENDMENTS TO THE

FEDERAL HOME LOAN BANK ACT, HOME OWNERS' LOAN ACT OF 1933

AND THE NATIONAL HOUSING ACT

Proposed in the 1st Session of the Seventy-sixth Congress

It seems entirely within the scope of the Federal Advisory Council to review these amendments and to make suitable representations to the Board of Governors of the Federal Reserve System as the contents of the amendments are related to "the general affairs of the reserve banking system". The proposed broadening of credit powers of the federal mortgage-lending agencies would affect the reserve conditions of the reserve banks and the banking structure as a whole. The proposed amendments are objectionable on several grounds.

The Federal Home Loan Bank Act, as approved June 22, 1932, was adopted primarily to furnish a more flexible means by which various building, savings and loan associations, and other institutions engaged in making long term home-mortgage loans might furnish credit for home building, and thereby encourage home ownership. It was to provide a source of reserve credit for these agencies in periods of financial emergency. The twelve Home Loan banks created under this Act were to make advances on the security of home mortgages to their members. For that reason these banks are permitted to accept as collateral mortgages on properties designed for residential use for no more than four families. The proposed amendments would remove this limitation, so that an advance may be made on a mortgage up to $100,000, and the maturity of such a mortgage would be extended from twenty to twenty-five years.

As the proposed amendments would permit Federal Home Loan banks to make advances on collateral secured by any first mortgage, they would place the members of the Federal Home Loan banks - building and loan associations, federal savings and loan associations, etc. - in direct competition with banks, insurance companies, and other institutions making first mortgage loans on business as well as home properties. This broadening of the powers of savings and loan associations in effect would establish another banking system outside of the present supervision and control.

Federal Home Loan banks are authorized to issue bonds and debentures. The proposed amendments would also authorize the Secretary of the Treasury to buy these bonds and debentures and in turn issue Treasury bonds to raise the necessary funds with which to pay for such obligations. The Treasury bonds so issued are to be treated as public debt. The significance of this provision is further emphasized by the fact that any impairment of capital of a Federal Home Loan Bank - a minimum of such capital being $5,000,000 for each bank subscribed by the Secretary of the Treasury - would result in a loss to the Treasury.

As each Federal Home Loan Bank has powers to accept deposits from its members, to invest in obligations of the United States, and to borrow funds, it is not unlikely that the twelve Federal Home Loan banks may acquire government securities and then use them as collateral for borrowing from the Reserve banks. While the Reserve banks under the present laws and regulations presumably enjoy a considerable latitude of discretion in accepting or rejecting such obligations, it is conceivable that a stringent situation might arise wherein such a discretion would become purely academic. By means of interpretations, regulations, or enactment of additional laws, the Federal Reserve banks may be forced to make advances, secured by government obligations, to the Federal Home Loan banks, as well as other governmental credit agencies having powers to invest and to borrow. The proposed amendments constitute a step in that direction and are therefore dangerous to the reserve conditions of the banking system.

The Home Owners' Loan Act of 1933 was adopted to provide relief with respect to home mortgage indebtedness, to finance home mortgages, to extend relief to the owners of homes occupied by them, and who are unable to amortize their debt elsewhere. The purpose of this Act and that of the Home Loan Bank Act was to encourage people to save enough to make a down payment on a home and to assist those in distress, and it was never intended that savings and loan associations would do a savings bank business. The proposed amendments broadening credit powers of such associations would change the original intention and tend to aggravate further the existing relationship between the associations and the banking and insurance systems of providing mortgage credit.

Under the National Housing Act, there was created a Federal Savings and Loan Insurance Corporation, a title which is proposed to be changed to Federal Savings Insurance Corporation. The insurance coverage is placed at $5,000 for each "insured account". It is estimated that the average amount invested by individuals in the shares of Federal Savings and Loan Associations does not exceed $700. Every effort is being made to extend Federal Savings and Loan Associations and place them in competition with savings banks, cooperative banks, mutual savings bank, state chartered building and loan associations, and other thrift institutions. The proposed as well as previous amendments apparently give no regard to the safeguard and limitations to which other existing institutions must subscribe.

Federal Savings and Loan associations, newly established and those converted from state associations, have been charged with unfair solicitation of business. These charges are based on direct or veiled misrepresentation. For example, the word "federal" has been used freely, suggesting that such associations are protected by the government; the word "guarantee" has been stretched to mean an assurance of dividend or interest payments; and that all funds invested in shares were "fully insured" and "prompt cash settlement" would be made in the case of failure. While these practices have been officially recognized and disapproved, it is difficult to control those who are in the field working in the interest of these associations.

In short, Federal Savings and Loan Associations have been placed in and they have been prone to usurp a privileged competitive position largely because of advantages through tax exemption, investment policies, irregular examinations, and other features which may not be practiced by the established thrift organizations. They are able to pay interest on shares at the rate of 4 per cent. This is obviously unfair to savings banks because of limitations, restrictions and requirements with respect to the maintenance of reserves, limited investment fields, nontax exemption, as well as other minor restrictions which limit their earnings, so that these banks are unable to pay more than 2 per cent interest on savings accounts. It seems to be a clear case of private institutions, which have provided one of the most important sources for capital formation, and are now being pushed to the wall by the associations which are in effect encouraged and subsidized by the government regardless of possible loss to the tax payers in the future. The proposed extension of their powers is an unjustifiable attempt to make further inroads into the existing credit structure by governmental agencies and their skillfully contrived policies and methods.

The proposed amendments would foster a further centralization of this type of credit financing under the supervision of a federal bureau responsible only to the President. Together with the existing powers over credit, these amendments would tend to undermine the private institutions unless such institutions chose to abandon their present charters or convert their business to Federal Savings and Loan Associations. This would mean a further exposure to the control and domination of federal bureaus.

Viewed from the point of money, credit, and banking, the proposed amendments are highly objectionable because they tend to set up a nation-wide branch banking system of a peculiar sort, to monetize mortgages of long maturities, and to centralize the management of credit under a politically-constituted federal authority. It is a further evidence of determined efforts to socialize our banking and credit system - a most decisive step in breaking down our democratic processes.

C O P Y

Excerpt from a letter from Mr. E. N. Dekker, August 22, 1939.

"In an effort to answer the questions propounded in your letter of July 18, I have re-examined the material which furnished the basis for the Federal Advisory Council's report to the Federal Reserve Board on the question of increasing the System's services to member banks.

Comments advocating more authority for the District bank in examining members appear in letters from two State banks and two National banks in the Second District.

One National bank in the Second District expresses preference for the Comptroller's examination, and one State bank in the Third District advocates an examination by State authorities, of sufficient scope to satisfy all of the other supervising bodies. The rest of the comments on examination advocate uniformity, without expressing preference as to the agency which should make the examination.

On the question of the centralization of authority in Washington, the sentiment of the bankers universally is against such centralization.

There follows a tabulation of the comments by Districts, broken down into State and National banks wherever possible:

Against Centralization

	State		National
District 2	13		7
3	1		-
4	1		5
5		5	
6	-		-
7		Comment	
8		Comment	
9	-		3
10	-		-
11	-		1
12	-		1

In the Fifth, Seventh, and Eighth Districts, the banks were not identified as to type."