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Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 10, 1933

To Mr. Carpenter

Subject:

From Mr. Parry

460.1

2—8495

Attached is the material that I promised you by phone relative to the way in which rates on call loans are determined. It is in the form of an extract from a recent letter--that covered in addition a number of other subjects.

The man in our organization who knows the most about this whole matter is Mr. Riefler, Branch 573.

File

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"Call money and time money rates apply to brokers' loans, i.e., loans secured by stock exchange collateral, which are negotiated through brokers at the money desk in the New York Stock Exchange. The bulk of this money is supplied by the large commercial banks in New York, either from their own funds or from the funds of correspondents, which they loan as agents. Most of these loans are call loans, i.e., the loan can be terminated at any time by either borrower or lender. The rates charged on both call and time loans are the result of negotiations between borrowers and lenders."

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Call money Rates

5011

4601

December 23, 1932

Mr. J. T. Groff
924 Chestnut Street
Burlington, Wisconsin

Dear Mr. Groff:

Your letter of November 8 to the Honorable Ogden L. Mills, Secretary of the Treasury, has been referred to the Federal Reserve Board for reply. In this letter you state that about two years ago New York banks offered from 12 to 17 per cent interest on money, but failed to pay more than the legal rate of interest on funds offered to them by Iowa banks.

Although the circumstances stated in your letter are not sufficiently specific to permit us to identify the transactionsyou have in mind, they would appear to refer to the high interest rates which were paid on call loans in the New York money market for a period in 1928 and 1929. These rates were not offered by New York banks, which are lenders rather than borrowers of money, but by brokers on the New York Stock Exchange who borrow money in the call loan market to enable their customers to carry securities. During the height of security speculation, the rate on these loans on some days reached the levels you mention. The actual rate paid on these loans, however, varied considerably from day to day, the highest average for any month during the period on such loans as were renewed being about 9 1/4 per cent in July, 1929. Banks outside New York City which desired to lend money at these rates usually

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did so by employing a New York bank on a commission basis to act as an agent in arranging the loans, and in checking and safeguarding the collateral. In such cases the practice of the New York banks was to pay to the out-of-town banks the entire amount earned by their funds loaned in the call loan market less the commission charge which was agreed upon.

Neither the Treasury Department nor the Federal Reserve Board has any printed matter on the subject of your inquiry.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary

WWR EAG DD

For APPROVAL

Gov. Meyer
Mr. Hamlin
Mr. James
Mr. Magee
Mr. Miller

Mr.

Please initial file copy if you approve and return to Secretary's Office.

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460.1

Mr Tar ✓
Mr King ✓

ACCIDENT AND LIABILITY DEPARTMENT
ÆTNA LIFE INSURANCE COMPANY
THE
ÆTNA CASUALTY AND SURETY COMPANY
AUTOMOBILE INSURANCE COMPANY
OF HARTFORD, CONNECTICUT.
MORGAN B. BRAINARD, PRESIDENT.

J. T. GROFF
AGENT
924 CHESTNUT STREET
BURLINGTON, WISCONSIN

PHONE 141-9

Nov 8-1932

Mr Ogden Mills
Secretary of Treasurer
Washington, D.C.

Dear Sir.

about two or two and half years ago,
New York Banks according to Chicago papers at the time.
Offering 12 to 17% Interest
Iowa Banks. with considerable Money on hand fell for the Call
by sending Millions of Dollars on to New York.
believe when Loans were paid Banks of Iowa, received only
the State Legal Interest
What was the Idea Offering Such interest

was there any printed Comments on this method by
the Treasury Department.
if so kindly send Copy of Same

Yours Truly
J. T. Groff

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Re
my Call money
Rates

5011
460.1
H

MAY 31 1932

Honorable Carl Hayden,
United States Senate,
Washington, D. C.

Dear Senator Hayden:

We regret that there has been a delay due to the pressure of other work in replying to your letter of May 10, 1932, requesting information to be used in replying to a letter addressed to you by Mr. Russ F. Tatum, of Phoenix, Arizona. Mr. Tatum suggests that the "Federal Reserve recall rates" be fixed at a maximum of six per cent daily; but it appears that he has reference to the rates which commercial banks may charge on call or demand loans secured by stocks, bonds or other investment securities.

As you know, the principal market for such loans is in New York City and the rates which are charged there are governed by the laws of the State of New York. Section 114 of the New York Banking Law (New York Laws of 1914, Chapter 369) limits the rate which may be charged on other loans to six per cent, but Section 115 provides that, "Upon advances of money repayable on demand to an amount not less than $5,000 made upon * * * certificates of stock, * * * bonds or other negotiable instruments, pledged as collateral security for such repayment, any bank may receive or contract to receive and collect as compensation for making

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such advances any sum which may be agreed upon by the parties to such transaction."

The Federal Reserve Board has no jurisdiction over the rates which commercial banks may charge their customers, and the question whether the rate on call loans should be limited to six per cent is a question of legislative policy.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

WW/CM-yd

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KENNEDY F. REA, CLERK

United States Senate

COMMITTEE ON APPROPRIATIONS

May 10, 1932.

RECEIVED
MAY 11 1932
OFFICE OF
THE GOVERNOR

Honorable Eugene Meyer,
Governor of the Federal Reserve Board,
Washington, D. C.

My dear Governor Meyer:

I am in receipt of a letter from Mr. Russ F. Tatum, Phoenix, Arizona, which reads in part as follows:

"Now there is one thing which should be done--if it has not already been put into some of the Federal Reserve Acts--and that is, to fix the Federal Reserve recall rates at a maximum of 6% daily. Do it while money is cheap! If another stock market orgy happens, which is bound to come sooner or later, and this gap is left open, when money gets to be more than our banks can get at home, they will again place their depositors' money on call and business will blow up again."

I shall appreciate any information you can furnish me concerning this inquiry, so that I may make a suitable reply to Mr. Tatum's letter.

Very sincerely yours,

Carl Hayden

U. S. S.

g:f

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Send by messenger

FEDERAL RESERVE BOARD
WASHINGTON

Miss Dodds
Please arrange accordingly. MD
See change in first page

Mr Morrill

Senator Hayden's
Office called up
about this
In view of
Mr Meyer's absence
Why not convert it
into a letter for
your signature

[illegible]

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FEDERAL RESERVE BOARD
OFFICE OF THE GOVERNOR

19

[redacted] Senator Hayden's office telephoned to ask when they might expect a reply to the Senator's letter attached.

FLP

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