The first meeting of the Special Legislative Committee appointed by the Federal Reserve Board upon the recommendation of the recent Conference of Governors, was held in Washington on Monday, June 8, 1925, at 10:30 A.M.

Present: Governor Harding
Governor Strong
Governor Seay
Mr. Wills
Mr. Talley
Members of the Committee

Also Present: Governor Crissinger
Dr. Stewart, Director of the Board's Division of Research and Statistics.
Professor Sprague, Special Research Assistant.

The meeting was called to order by Governor Crissinger, and the first business of the Committee was to elect Governor Seay as its permanent Chairman.

Thereupon ensued a full discussion of the second McFadden Bill (H. R. 12453). The various members of the Committee expressed their opinions on the principal amendments to the Federal Reserve Act provided in the bill, namely, (1) to prohibit the use of gold as collateral for Federal Reserve note issues; (2) to eliminate purchased acceptances from the collateral eligible against Federal Reserve notes; and (3) to permit member banks to maintain up to 40 per cent of their required reserves in vault. It was the general opinion that the provision that a portion of member banks reserves be carried in vault is unwise and dangerous, and would increase the possibilities of inflation. It was also brought out that it is essential at times for the Federal Reserve banks to exercise the right to issue Federal Reserve notes against the deposit or purchase of gold, which is prohibited in the bill, and further

that the bill, in eliminating purchased bankers acceptances from the collateral eligible for Federal Reserve notes, is a discrimination against one of the strongest recent developments of American banking. Particular emphasis was laid upon the effect of the proposed amendments on the Federal Reserve banks located in the agricultural districts, particularly those at Atlanta, Minneapolis and Dallas.

Governor Strong then moved that the Committee adopt the expressions contained in the letter addressed by the Federal Reserve Board to Congressman McFadden, under date of May 27, 1925, as follows:

> "Your letter asking the Board for its opinion of the bill which you introduced prior to the adjournment of Congress proposing certain amendments to the Federal Reserve Act has been carefully considered by the Board. In general, the two lines of modification proposed by the bill relate to the nature of the collateral to be eligible against Federal Reserve note issues, and to the manner in which member banks shall be permitted to hold their legally required reserves.
>
> "The Board is not in favor of the proposal prohibiting the use of gold as collateral for Federal Reserve notes, because this proposal without increasing the elasticity of the Federal Reserve note would introduce complications making it more difficult for the reserve banks to meet the country's currency requirements. The proposed elimination of purchased acceptances from the collateral eligible against Federal Reserve notes would also be undesirable in the Board's opinion because it would constitute a discrimination against one of the most liquid forms of credit and would be contrary to the reserve system's policy of encouraging the development of an acceptance market in the United States. Bankers' acceptances are not only being used to a large and increasing extent to finance our foreign trade more cheaply than was formerly possible, but also have an important place in the reserve system's open market policy.
>
> "Authority for member banks to keep up to 40 per cent of their reserves in vault, as proposed in the bill, would have the effect of counting as reserves the currency which the banks carry as till money and would make available as reserves an additional amount of from $400,000,000 to $500,000,000. Such an increase in reserve funds would greatly enlarge the lending and investing power of member banks and would, therefore, be an influence toward credit inflation. A committee of Federal Reserve agents

has been for more than a year making a study of member bank reserves and has given careful consideration to the question of what, if any, modifications in the present law or practice would be desirable from the point of view of the banking system as a whole. This committee is expected to make a report to the Board on this subject in the near future.

"The Federal Reserve Board would welcome the opportunity of presenting to the Banking and Currency Committee in detail any information that the Committee may desire when proposed amendments to the Federal Reserve Act are under consideration."

Governor Strong's motion, duly seconded, was put by the Chair and unanimously carried.

The Chair then presented draft, dated May 12, 1925, of the final report to the Federal Reserve Board of the Federal Reserve Agents Committee on Member Bank Reserves.

After discussion, upon motion by Governor Strong, duly seconded, it was voted that members of the Committee be furnished with a copy of the report of the Committee on Reserves, and that they forward to Dr. Stewart or Professor Sprague an individual opinion in writing upon the different phases of the report and its conclusions in general, and that each member of the Committee should furnish a copy of such comments to each other member.

Governor Harding then suggested that later in the day the Committee, as a whole, again take up the report of the Committee on Reserves, and after discussion, the report was laid aside with that understanding.

The discussion then reverted to the second McFadden Bill and the steps which should be taken to formulate in an argumentative way the various objections to the bill. Governor Strong stated that he would like to know what effect the bill would have on the positions of the Atlanta, Minneapolis and Dallas banks, what effect it would have on the Atlanta bank with reference to the issuance of currency in Cuba,

and also what the position of the Federal Reserve System would have been under the bill in 1919-1920, when gold was being withdrawn from the Federal Reserve banks for export. Dr. Stewart suggested that Professor Sprague and himself could draw up, for submission to the members of the Committee, a skeleton outline of the various statements and analyses which each Federal Reserve bank might be requested to furnish to the Committee.

Upon motion, the above suggestion was unanimously adopted.

Discussion then ensued of the first McFadden bill (H.R.8887) which passed the House of Representatives at the last session of Congress.

Governor Harding briefly advised the Committee of the position of Senator Glass with reference to the first McFadden bill, as stated by him before a recent convention of the Massachusetts Bankers Association.

Governor Strong moved that it is the view of the Committee that any legislation on the subject of branch banking should be expressed in a bill separate from that proposing general amendments to the National Bank Act or the Federal Reserve Act.

Governor Strong's motion, duly seconded, was unanimously adopted.

The Comptroller of the Currency then entered the meeting and joined with the Committee in a discussion of the present status of the bill. It was agreed that at the afternoon meeting of the Committee consideration would be given to the bill in its present form in an effort to see to what extent the Committee could agree with the various amendments of the National Bank Act and Federal Reserve Act proposed, leaving out of consideration matters relating to branch banking.

The Committee then took under consideration a memorandum dated May 14, 1925, prepared by Professor Sprague, containing suggestions as to investigations which might prove helpful in formulating changes in the present law and commenting upon the various provisions of the present H.R.8887. Professor Sprague outlined in a general way his ideas on the subject, stating that in his opinion, after considering the number of bank failures, the question of safe-guarding depositors needs to be considered along with any proposals for liberalization of banking laws. He reviewed the various suggestions for such safe-guards listed in his memorandum, stressing particularly that which provides for the segregation of assets against time deposits. He stated that savings depositors are now at a distinct disadvantage compared with those having demand deposits. Governor Strong also expressed the opinion that the savings depositor, who may be called upon to give 30 or 60 days' notice prior to withdrawal, has a most inequitable position in that the choice assets of the bank are often liquidated for the benefit of the demand depositor, while the savings depositor must await the slow realization on remaining odds and ends.

During the above discussion, Governor Young, a member of the Committee, entered the meeting.

At 1:05 P.M., the meeting recessed for luncheon.

At 2:45 P.M., the Committee reconvened, the same members being in attendance as were present at the conclusion of the morning session.

The Chairman then read from the report of the Federal Reserve Agents Committee on Member Banks Reserves the following four major recommendations for amendments in the reserve requirements of member banks:

> "1. Permit the deduction from demand deposits of (a) exchanges for clearing house, (b) checks on other banks in the same place and (c) checks in process of collection (whether with Federal Reserve banks or correspondent banks) according to Federal Reserve schedule of time required for collection of checks.
>
> "2. Retain the present provision of the law that 'the net difference of amounts due to and from other banks' shall be taken as the basis of ascertaining the net amount of balance due to banks.
>
> "3. Provide that the reserve required to be held against net balances due to banks be 10 per cent. for all member banks except those in New York City and Chicago. This involves an increase from the present requirement of 7 per cent. for country banks.
>
> "4. Provide that reserve shall be carried against government deposits at the same rate as against demand deposits."

Governors Strong and Harding pointed out that Recommendation No. 4 relating to reserves against Government deposits was adopted by the Committee on Reserves with the understanding that it would be taken up with the Secretary of the Treasury before being formally presented to the Federal Reserve Board.

> After discussion of the above recommendations, Governor Strong moved that the Legislative Committee adopt in principle the recommendations of the Committee on Reserves, each member reserving the right to file exceptions to any particular point with Dr. Stewart or Professor Sprague, and that the Committee proceed upon the theory that in general the report represents the ideas of the Legislative Committee as to modifications in reserve requirements.
>
> Governor Strong's motion, being put by the Chair, was carried.

Governor Seay stated that he would like to have it understood that his reservation relates to Paragraph 1, and Governor Harding advised that his objection was to Paragraph 4, which he thought to be unnecessary.

Attention was called to the fact that no definite action was taken at the morning session with regard to the suggestions contained in Professor Sprague's memorandum, dated May 14, 1925, for investigations as to the necessity of changes in the National Bank law looking toward the safe-guarding of depositors.

Governor Strong moved that the Committee record itself as believing in the principle of affording better protection to savings depositors of member banks, and recommend that steps be taken at once looking to such protection, by the segregation of assets or otherwise.

Governor Strong's motion, duly seconded, was put by the Chair and unanimously carried.

The Committee then proceeded to consider various amendments contained in the first McFadden bill (H.R.8887) as follows:

1. The amendment to Section 5150 of the Revised Statutes providing that the board of directors of a National bank may designate a director in lieu of the President to be Chairman of the Board.

Upon motion by Governor Strong, the above amendment was unanimously approved.

2. The amendment to Section 5136 of the Revised Statutues providing for indeterminate charters for National banks, rather than for 99 year charters.

Upon motion by Mr. Wills, the above amendment was approved.

In this connection Governor Harding stated that in his opinion an amendment should be introduced to the bill to provide also for indeterminate

charters for Federal Reserve banks.

3. The amendment to Section 3 of the Consolidation Act of November 7, 1918, simplifying the procedure in the consolidation of State and National banks.

Upon motion of Governor Strong, it was voted to approve the above amendment, with the exception of those provisions relating to branch banking.

4. The amendment to Section 5137 of the Revised Statutes providing for the purchase of real estate by a National bank such as shall be necessary for its accommodation in the transaction of business rather than for immediate use as at present provided.

Upon motion by Governor Strong, it was voted to approve the above amendment.

5. The amendment to Section 5142 of the Revised Statutes providing for simplification of the process of capital increase by stock dividends.

Upon motion by Mr. Wills, it was voted to approve the above amendment.

6. Amendment to Section 5138 of the Revised Statutes authorizing the chartering of National banks in outlying sections of large cities with a capital of $100,000.

Upon motion by Governor Young, it was voted to approve the above amendment.

7. The amendment to Section 22 of the Federal Reserve Act relating to thefts by National bank examiners.

Upon motion by Governor Strong, it was voted to approve the above amendment.

8. The amendment to Section 5211 of the Revised Statutes granting authority for the signing of reports of condition by the vice president or assistant cashier.

Upon motion by Governor Strong, it was voted to approve the above amendment.

9. The amendment to Section 5208 of the Revised Statutes relating to the certification of checks.

Upon motion by Governor Strong, it was voted to approve this amendment in principle, with the thought that improved phraseology might be suggested.

10. The amendment to Section 13 of the Federal Reserve Act providing that National banking associations may engage in safe deposit business.

Upon motion by Governor Harding, it was voted to approve the above amendment.

11. The amendment to Section 24 of the Federal Reserve Act to authorize any National banking association to engage in the business of purchasing and selling investment securities.

After discussion, Mr. Talley moved that Governor Strong and Mr. Wills be appointed a sub-committee to make an investigation of this matter, embracing comparisons of the provisions of the amendment with good state bank laws on the subject, the sub-committee to collaborate with Professor Sprague in the study.

Mr. Talley's motion, duly seconded, was unanimously carried.

12. Discussion then ensued of the practice of certain National banks of receiving securities for safe-keeping, following which Mr. Wills made the following motion:

That the Committee recommend to the Comptroller of the Currency that he consider whether regulations should not be promulgated in his office governing safe-keeping by National banks, or whether legislation should not be requested covering this matter.

Mr. Wills' motion, duly seconded, was unanimously adopted.

13. The amendment to Section 24 of the Federal Reserve Act lengthening the maturity period of city real estate loans by National banks from 1 to 5 years, allowing such loans anywhere within the Federal Reserve district, as well as within a 100 mile radius as at present, opening this business to the banks of central reserve cities, and increasing the amount to which such loans may be made from 33 1/3 per cent to 50 per cent of the National bank's time deposits.

Mr. Wills moved approval of the amendment, except the provision increasing the amount of such loans which may be made, and that it is

the view of the Committee that such amount should remain at 33 1/3 per cent of time deposits.

Mr. Wills' motion, duly seconded, was put by the Chair and carried, Mr. Talley voting "no".

14. The amendment to Section 24 of the Federal Reserve Act providing that the rate of interest which National banks may pay upon time deposits, or upon savings or other deposits, shall not exceed the maximum rate authorized for State banks or trust companies organized under the laws of the State in which the National bank is located.

After discussion, Governor Young moved that it is the sense of the Committee that it is not prepared to pass upon the amendment referred to.

Governor Young's motion, duly seconded, was put by the Chair and unanimously carried.

The amendments to Section 5200 of the Revised Statutes were not considered by the Committee for the reason that it was understood they would be the subject of further investigation by Professor Sprague.

The meeting adjourned at 5:30 P. M.

Secretary.

Chairman