

At the meeting held in Washington on December 18, 1934, at 10 a.m. of members of the Federal Reserve Board and members of its staff with representatives of the Industrial Advisory Committees of the twelve Federal reserve districts, the following individuals were present:

Mr. Marriner S. Eccles, Governor, Federal Reserve Board
Mr. J. J. Thomas, Vice Governor, Federal Reserve Board
Mr. Charles S. Hamlin, Member, Federal Reserve Board
Mr. A. C. Miller, Member, Federal Reserve Board
Mr. George R. James, Member, Federal Reserve Board
Mr. M. S. Szymczak, Member, Federal Reserve Board
Mr. J. F. T. O'Connor, Comptroller of the Currency and ex officio member of the Federal Reserve Board

Messrs. Albert M. Creighton, Wm. H. Pouch, J. Ebert Butterworth, F. A. Smythe, John Sanford, Max Epstein, Wm. K. Norris, Sheldon V. Wood and Clarence Ousley, Chairmen of the Industrial Advisory Committees of the First, Second, Third, Fourth, Sixth, Seventh, Eighth, Ninth and Eleventh Federal Reserve Districts, respectively.

Messrs. Walter J. Berkowitz and Ralph Burnside, members of the Industrial Advisory Committees of the Tenth and Twelfth Federal Reserve Districts, respectively.

Mr. Chester Morrill, Secretary, Federal Reserve Board
Mr. L. P. Bethoa, Assistant Secretary, Federal Reserve Board
Mr. S. R. Carpenter, Assistant Secretary, Federal Reserve Board
Mr. E. L. Smead, Chief of the Division of Bank Operations, Federal Reserve Board

-2-

Mr. Walter Wyatt, General Counsel, Federal Reserve Board
Mr. George B. Vest, Assistant Counsel, Federal Reserve Board
Mr. C. R. McKay, Deputy Governor, Federal Reserve Bank of Chicago
Mr. J. S. Walden, Jr., Controller, Federal Reserve Bank of Richmond
Mr. S. F. Gilmore, Controller, Federal Reserve Bank of St. Louis
Mr. W. M. Hale, Cashier, Federal Reserve Bank of San Francisco

Mr. Creighton stated that a meeting of the Chairmen and representatives of the Industrial Advisory Committees was held yesterday evening and that the action taken at that time would be reported to the Board at this meeting. He then called upon the individual members of the Federal Reserve Board to address the meeting.

The substance of Governor Eccles' statement was as follows:

There are many who feel that the making of direct loans to industry does not belong in the Federal reserve banks. There are others who feel that the Federal Reserve System can perform a useful function in this undertaking, but whatever the opinions may be with reference to the problem, Congress decided that issue last session and delegated the responsibility to the Federal Reserve System of making such loans. The Industrial Advisory Committees have been chosen to undertake this important responsibility, and are in a position which requires the patriotic giving of their time, effort and thought without compensation in this emergency. Their efforts in this connection are greatly appreciated by the Board. The results up to the present time are indicative of the fine work the committees have done in their respective communities, and while the results are disappointing to some it is not the fault of the Industrial Advisory Committees or of the Federal reserve banks.

It is a difficult thing to create credit where there is no basis for credit. It is perfectly natural after four or five years of the most devastating depression this country has ever seen that there would be many businesses in a state of financial collapse, which would immediately grasp at every effort of the Government toward providing credit, which explains the deluge of applications that has come to the Industrial Advisory Committees. It is felt that while the field for credit of this kind is much more limited

-3-

than many people thought prior to the passage of the legislation, there has been much more good accomplished than is indicated by the actual volume of loans approved. The program of direct lending has caused the banks to give more consideration to credits than they would have been inclined to give in the past. It has also tended to relieve the pressure being exerted for the liquidation of outstanding credits, so that it is difficult to measure the amount of total credit that has been carried that otherwise would have been retired, or the amount of new credit that the banks have extended which possibly would not have been extended had it not been for this legislation. There have been a number of cases where the committees have done very valuable work in advising companies with reference to changes they could make in management and policy.

All that the committees can do is to do the best they can and attempt to develop as many loans in the respective communities as it is possible to develop, being as liberal in their interpretation of eligible credit as it is possible to be. Inasmuch as the country is in a condition of general business depression, an improvement in business volume, prices and profits over a period of time can be expected, the banks can be more liberal in the extension of credit than they could be if the country was at the peak of prosperity facing the credit dangers inherent in a period of deflation. It would be better to err on the side of liberality in the present situation than on the side of conservatism. While the banks do not want to incur losses knowingly, it is not expected that no losses will result. The Federal Reserve System should be prepared to show that their policy has been liberal, that the borrower has been given the benefit of the doubt, and that the Federal reserve banks have been willing to assume every reasonable risk.

Most individual banks cannot take any substantial losses without becoming insolvent and the earnings of the banks are so low at the present time that they are not in a position to take losses, whereas the Federal reserve banks can, without disaster, assume a greater risk than the private bank. If losses do develop they are socialized, and do not tend to destroy the banking system as do the losses in individual banks which cause the banks to close.

Bankers have a three-fold duty. They must safeguard the funds of their depositors, and they must safeguard the principal and earn dividends for their stockholders. They are charged in a very large measure with a more important responsibility than either of the above, that of creating and extinguishing that part of the country's money supply represented by checking accounts. This last duty to the com-

-4-

munity at large is often overlooked. A contraction of loans and investments which may be desirable on individual grounds, may be undesirable from the viewpoint of the country as a whole for the reason that a contraction of loans involves also a contraction of deposit money or deposit currency. In the process of liquidation from 1929 to 1933 approximately one-third of the total deposits of the country was so extinguished. The process of recovery requires that a substantial part of this lost deposit currency be replaced. This can be done if the banking system as a whole will expand its loans and investments. In the event that the banking system fails to do this the Government is then forced to supply the deficiency. That can be supplied through Government financing and budgetary deficits, the banks constantly increasing their investments in Government bonds. If the banks fail to take Government bonds, and fail to increase loans and investments, the deficiency must be supplied either through the Federal Reserve System buying such bonds as are required, the creation of a central bank upon the failure of the Federal reserve banks to take the bonds, or the issuance of currency by the Government. The desirable way is to do it through the private banking system to the greatest extent possible, but it cannot be done and it will not be done if the bankers feel that the banks are unsound unless they are liquid. We found in the depression that there is no such thing as liquidity except in the case of paper which can be converted into currency through rediscounting with the Federal reserve banks, and what appeared to be a sound bond with an \$85,000,000,000 national income appeared to be perfectly unsound with a \$50,000,000,000 income.

Bankers have insisted, and there can be no question of their sincerity, that they are willing and anxious to make good commercial loans. But that is not enough. We must frankly face the fact that the supply of such loans is not sufficient both to offset the liquidation of old loans and to bring about the requisite expansion of total assets and deposits. Even in 1929 commercial loans eligible for rediscounting at the Federal reserve banks comprised only 12.7% of the member banks' total earning assets. At the present they are less than 8%. Bankers cannot confine themselves to such loans and still supply an adequate amount of deposit currency. In other words, if the bankers of this country are to perform their money supplying functions satisfactorily they must be prepared to increase their earning assets other than commercial loans. It is true that the banks have increased their holdings of Government securities by approximately five billion dollars, however, even with this increase the contraction of all loans and investments has been about \$18,000,000,000 since 1929. I should, however, like to see banks increase their holdings of other investments, sound real estate mortgage loans and local loans of good security but with a maturity much longer than six months.

-5-

I would not make the suggestion if I thought that it would prove detrimental to the interests of the depositors or stockholders of banks. I appreciate thoroughly the harrowing nature of the bankers' experiences with frozen assets in the past. It is possible, however, that wrong lessons are being drawn from our 1929 to 1933 banking experiences. Superficially, the trouble may have appeared to have been lack of sufficient liquidity. But no banking system can be both liquid enough to pay off any substantial amount of its deposits at a moment's notice and at the same time serve the country by providing the amount of money necessary for business stability. Fundamentally, the real trouble lay in the circumstances that gave rise to the need of great liquidity. These circumstances are now happily past and hence the need of great liquidity is obviated. The insurance of bank deposits is designed to protect the banks from runs. Banks may lose deposits to other banks, but as a system they are going to gain rather than lose deposits. We have the will and, we believe, possess the power to prevent the recurrence of widespread liquidation and the collapse of values that have characterized recent years.

If we can get the private credit system to function in the field of mortgage loans, we will go a long way toward causing the private banking structure to occupy the place that it was designed to occupy. If the banks fail to do that, then it becomes inevitable that the Government must continue in the field of providing private credit as they have been doing in the past. If this tendency is not stopped, it will only be a short time before we have socialized and nationalized the credit structure of America. And this is a significant and dangerous trend that many bankers are entirely unaware of. The administration cannot be blamed for that development because the political pressure and circumstances that have developed have forced the administration into the credit field on an unprecedented scale and it becomes the duty of all of us to try to divert so far as we possibly can into private channels the credit functions. With between \$13,000,000,000 and \$15,000,000,000 of time deposits in the banks, there should be no hesitancy on the part of the banks to enter the mortgage field. Either that should occur or time deposits should be divorced from commercial deposits so that time deposits can be used in the field in which they were designed to be used.

The Board appreciates the time that you have given to come to Washington to discuss the problems pertaining to undustrial loans and the interest that you have shown and the cooperation that you have given. The Board pledges its support to the Industrial Advisory Committees in their work.

Upon request from Mr. Ousley for a statement of Governor

Eccles' remarks, the Governor said that he had no objection to such

-6-

a statement being included in the statement of this meeting provided it is treated as confidential by those present.

At the conclusion of his statement the Governor left the room to attend another meeting.

Mr. O'Connor reviewed the situation concerning national banks, giving statistics with regard to the progress made in connection with the reopening of unlicensed banks following the banking holiday, the issuance of preferred stock by national banks, and the liquidation of deposits in national banks in receivership. He referred to the statement which has been made that banks in the United States are subject to examination by as many as three supervising agencies and stated that national banks are examined only by national bank examiners, and that there is no duplication in examination by Federal agencies of State banks. In connection with the statement that banks are not making loans because of the critical attitude of national bank examiners, Mr. O'Connor stated that in October, 1933, all national bank examiners were instructed to appraise assets of banks on an intrinsic value basis rather than on the basis of a distressed market value, and that an analysis of the examination reports received in his office showed that of the total loans and investments of national banks only 3% had been classified as loss, 4% as doubtful, and 27% as slow. He also referred to the instructions issued by his office to examiners to make a separate classification of industrial loans in the examination reports and to classify such loans as losses only when losses have actually been determined.

-7-

Following his statement, Mr. O'Connor left the meeting.

Mr. Miller's statement was substantially as follows:

The Board had plenty of evidence that the pressure of the depression had made very deep inroads into the working capital of industrial concerns, even in those cases that had enjoyed for years before the depression a high rating. That being so, it appeared that there might be an opportunity to relieve the pressure of a slender supply of working capital upon the morale and psychology of business through opening a source of supply for this purpose through the Federal reserve banks, and might in time be expected to show results in accelerating business recovery and industrial production.

In order that the problem should be properly conceived, Industrial Advisory Committees were set up to function in connection with the Federal reserve banks because the problem was viewed as a broader, more difficult and more novel one than merely a banking problem, and one that might require a judgment different in many particulars from the judgment of even the skilled bankers. It is primarily a business problem; a problem of re-awakening business through the effective use of this new instrumentality of credit and the judgment of active business men is desirable to broaden the approach to the problem. The Federal reserve banks have selected the members of the Industrial Advisory Committees to perform this rather vague but nevertheless tremendously important task.

Underlying the whole matter of industrial credit through the Federal reserve banks was the feeling that it involved a risk too large to be undertaken by individual banks no matter what their attitude might be. It was a risk general and social in character, a risk that had to be undertaken by some agency that could afford to take the loss and could afford to take a generous attitude in the activity because if the venture succeeded the results would far outweigh the losses incurred.

The results have been disappointing to the country, and even to those who have been thoroughly sympathetic with the Federal Reserve System. They have been surprised that there has not been more alacrity shown on the part of business in availing itself of this new resource. One of the fundamental reasons for the small amount of loans approved is that commercial and industrial concerns have not been inclined to seek credit. The concerns that are good credit risks have not wanted to borrow, but have been as anxious to keep out of debt as the banker is to keep his institution liquid. But the problem of providing credit is still

-8-

present and one of the primary functions of the Industrial Advisory Committees is to try to induce a better attitude of mind on the part of banker and business man and particularly to see what can be done to bring the banker and the business man together and to create an atmosphere conducive to growth of a spirit of enterprise. The committees will function best when they make the contribution of optimism to the business psychology of the country. That is not easily done, but if the committees can accomplish it they will justify their existence many times over and the time they have given to the work will be a very great service to the country.

The results may have been disappointing also for the reason perhaps that it was not possible in the circumstances to accomplish very much through the industrial loan facility. But possibly more could be accomplished if there were a more acute perception of the larger purpose behind the activity and what the particular responsibility of the committees is. These committees, perhaps more than any other group in this country, should help to create an atmosphere of optimism, because they have an official status, they have a right to speak for business America in the present emergency. As they themselves develop individually and collectively an attitude of confidence in the future of the country, it will be an indication of what the attitude of business should be in handling the emergency. The problem is a larger one than that of merely passing on loans. The problem is much larger. It is a problem of leadership. What we need most in the present emergency is an attitude of faith in the America of the future.

After his statement Mr. Miller left the meeting.

Mr. Hamlin stated that he appreciated the difficulties confronting the Industrial Advisory Committees. He said while the committees could not recommend loans when worthy borrowers are not making applications, they should go over the ground and be sure that all such borrowers are acquainted with the industrial loan activity. He added that he considered the Advisory Committees as a kind of special jury representing the public interest, and in their deliberations they should not be worried about the banking problems as the banks would apply the regular banking tests. The good that the committees have

-9-

done cannot be measured because much that they have accomplished is not a matter of record.

Mr. Hamlin withdrew from the meeting at this point.

Mr. James expressed the thought that perhaps some of the delay in making industrial loans results from a too technical consideration of what the law intended, and that in his opinion the Industrial Advisory Committees and the Federal reserve banks are justified in considering largely the reasonable soundness of the loan rather than technical interpretations of the law.

Mr. Thomas said that statistics as to the amount of industrial loans made are no fair measure of what has been accomplished by the Industrial Advisory Committees, and that their greatest contribution is the immeasurable influence they have exerted in the business world. He stated that one great hindrance to recovery is the feeling of uncertainty and fear as to the future, which applies as much to the prudent borrower as to the banker; that when economic troubles come self-interest prompts the individual to safeguard himself by liquidation which means deflation, and deflation means more liquidation, and thus we go on the downward spiral; and that in order to break this descent and reverse its direction, government credit has come to the rescue. He also added that by making loans to industry the Industrial Advisory Committees and Federal reserve banks not only aid production but give courage to others, the borrower as well as the lender, and that, therefore, the committees should not be discouraged by what may

-10-

seem disappointing amounts, as they are performing a valuable service and are to be commended for their devotion and self-sacrifice.

Mr. Szymczak stated that material had been prepared which he would hand to Mr. Creighton for use in preparing a statement for the press should it be decided to issue such a statement. He also said that material is being prepared so that a complete report of industrial loans may be ready in January of next year and, in this connection, he referred to the pamphlet on industrial loans prepared by Mr. Creighton and distributed in the First Federal Reserve District and said that the other committees might use it, or the material for a pamphlet now being prepared by the Board, in the preparation of a pamphlet for use in their respective districts.

Mr. Szymczak's statement then continued along the following lines:

The release to the press and the appearance in the morning papers of the so-called Viner report, which contained the suggestion that the Industrial Advisory Committees might be eliminated and that it would be better not to have the Federal reserve banks make industrial loans, was of course without the approval of the Board which was not consulted as to the date of the release, nor was the Board asked to approve or disapprove the content of the report.

One might think from a preliminary survey of the situation that a much larger total amount of industrial loans would have been made by the Federal reserve banks, but when there is personal contact with the type of application that is received at the Federal reserve bank the individual gets an entirely different point of view. This is an entirely new field of endeavor, new to the Industrial Advisory Committees, to the Federal reserve banks, and to the country as a whole. Certainly no one thought twenty years ago that the Federal reserve banks would be making this kind of loan.

-11-

The number of complaints received directly and indirectly by the Board from applicants for loans because of the refusal of the application or dissatisfaction with the terms imposed, has been relatively small, two such complaints being received in July, fourteen in August, twenty-three in September, twelve in October, twenty-six in November, and three in December, or a total of eighty.

The number of applications approved in each district is not an indication of the work done by the advisory committees but of the character of the applications received. All of the committees are doing splendid work and the Board appreciates their efforts.

At the September meeting it was pointed out that the advisory committee is a statutory body. The purpose of creating this committee was to turn over to it all applications received by the banks for consideration and recommendation to the bank after obtaining such facts as are necessary. The committee's work has been of such importance that Federal reserve bank officers in many cases have seen fit to attend meetings of the committee. The committees may want the advice of the bank, but from the standpoint of the law which is very clear, the advisory committees have the responsibility of making independent recommendations and they, therefore, have the power to direct the employees engaged in work for the committee notwithstanding the fact that there is no power under the law to provide a budget to cover the expenses of persons working for the committee, and the salaries of such persons are paid by the Federal reserve banks. It should be made clear at all times, particularly to the applicant for a loan, that the committee has not turned over to the bank any of its functions, but as a statutory body has considered the application and made its recommendation independently. The function of the bank is to act after it receives the committee's recommendation.

There is also the thought that perhaps each member of the committee should receive compensation for his work. The Board has considered that matter very carefully and it has been studied by the Federal reserve banks, but the law is plain that the members shall receive no compensation, although it provides for the payment of the expenses incurred by the members in performing their work or a per diem allowance in lieu thereof. The suggestion has been made that the Board should have interpreted the law differently, but after a very careful study of the matter it reluctantly felt compelled to reach the decision that has been reached and of which the committees have been advised. The work that the members of the committees are doing and the time they are taking from their own businesses cannot be measured in fees of \$5.00 or

-12-

\$10.00 or even \$25.00, and the Board feels that if any reasonable fee were to be allowed it could not start at a point below \$50.00. The work that the committees are performing is a service which only they can perform in a time of emergency, and if the Board feels any disappointment it is not in connection with the work of the committees, but in the total amount of loans made.

During Mr. Szymczak's statement Governor Martin of the Federal Reserve Bank of St. Louis and Mr. Goldenweiser, Director of the Division of Research and Statistics of the Federal Reserve Board, entered the room, and Mr. James left the meeting.

Mr. Walden stated that Mr. J. G. Holtzclaw, because of the necessity of his being in New York today, had requested Mr. George E. Probest, Jr., one of the other members of the Industrial Advisory Committee for the Fifth Federal Reserve District, to attend this meeting; that Mr. Probest had found it necessary to go to Pittsburgh, and that he (Mr. Walden) was attending the meeting at the request of the other two members of the Industrial Advisory Committee residing in Richmond for the purpose of listening to the discussion.

Mr. Creighton expressed the appreciation of the representatives of the Industrial Advisory Committees of the statements made by the **members** of the Federal Reserve Board.

He then presented a statement of the actions taken by the Chairmen and representatives of the Industrial Advisory Committees at the meeting yesterday evening. The topics discussed at that meeting and the decisions reached are set forth below. Topics 1 and 2 were presented by Mr. Norris, topics 3 and 4 by Mr. Pouch, topics 5 and 6 by Mr. Epstein, topics 7 and 8 by Mr. Sanford, topics 9 and 10 by Mr. Ousley,

-13-

and topics 11 and 12 by Mr. Butterworth:

QUESTIONS

ANSWERS

1. What is feeling in regard to operation of Section 13b by the Federal Reserve banks,

- (a) Among industrialists, whether potential borrowers or not?
- (b) Among other business leaders?
- (c) Among financial institutions?

(a) Where they are acquainted, or have a knowledge of the law, they are favorable.

(b) Same answer as above.

(c) Financial institutions which are acquainted with the law are favorable; our great duty is to acquaint more with the real possibilities under the law.

2. Need for working capital for industry and commerce.

- (a) Has experience indicated that there was a substantial need not being met through usual sources of credit?

(a) Yes. While the need apparently is not as great as at first thought, there is need and this present law takes care of it, all of which is supported by the number of loans that have been made in the short period we have been operating.

- (b) If such need now exists can it be adequately met under the present Section 13b?

(b) Yes. We feel that practically all worthy cases so far presented have been taken care of either directly or indirectly and existing needs can be taken care of in the future.

3. Assuming that there will be a continuing need for 13b advances or commitments,

- (a) Will applications for the most part take the form of:

(1) Applications for direct advances.

(3a-1) At the present time

-14-

QUESTIONS

ANSWERS

(3a-1 continued)

most of the applications are for direct advances in most of the Federal Reserve Districts although the percentage varies considerably.

- (2) Applications involving separate advances by the Federal Reserve bank and by financing institution, or

(3a-2) There is no general rule throughout the entire system. Applications direct to Federal Reserve banks are decreasing and those to the local banks are increasing in the majority of the districts. Most members of the Committee feel that applicants should be encouraged to make applications through the local banks, which should be encouraged as it is most advantageous for the local banks.

- (3) Applications from financing institutions for commitments covering proposed advances.

(3a-3) If financing institutions refers to Factor and Finance Companies, there have been very few cases of this kind.

- (b) Should the rates charged by the Federal Reserve banks be so fixed as to encourage applications under 1, 2 or 3 above?

(b) It seemed to be the consensus of opinion that the present rates were satisfactory and should be continued. Such rates should encourage the local banks to cooperate.

4. Recognizing that subsection "a" of Section 13b is designed to meet emergency situations, should it be a permanent provision of law, and if so, should it be amended as regards:

QUESTIONS

ANSWERS

- (a) Requirement that applicant be unable to obtain requisite assistance from usual sources.
- (b) Requirement that loans be for working capital purposes.
- (c) Requirement that loans be made on a reasonable and sound basis.
- (d) Requirement that loans be confined to established businesses.
5. Should subsection "b" of Section 13b be a permanent provision of law, and if so, should it be amended as regards:
- (a) Authorization of advances through financing institutions other than member banks.
- (b) Amount of obligation as to loss sustained.
- (c) Authorization of separate loans by Federal Reserve banks and by a financing institution on which repayments are made pro rata.
6. Would the making of loans for working capital purposes presumably have been conducted more effectively if Intermediate Credit Banks affiliated with the Federal Reserve banks had been set up for this purpose as provided in the first bill proposed by the Federal Reserve Board? If so, why?
7. What has been experience as regards applications?
- (a) Extent to which fear of rejection and of possible adverse effect upon applicant's
- The Committee feels that Section 13b should be continued in its present form as long as the emergency exists and that subdivisions a, b, c and d be continued. Two Members believed that b might be broadened to include proprietary capital.
- It was the consensus of opinion that subsection "b" of Section 13b should be retained and a, b and c be not changed in the law.
6. The Committee felt that the answer to this question is NO; the Chicago Chairman dissenting.
- (a) It is not felt that fear of rejection and adverse effect upon an applicant's credit has

-16-

QUESTIONS

ANSWERS

credit standing has discouraged submission of applications.

discouraged applications in more than a few instances.

(b) Extent of and reasons for withdrawal of applications.

(b) Negligible, and usually for the reason that applicant has found that funds would not be needed, or has obtained funds from usual banking sources.

(c) Is character of applications improving? Is the proportion of applications for direct advances declining?

(c) Character of applications is improving and varying. The proportion of applications for direct advances is continuing in varying proportions.

(d) Has there been any substantial number of complaints of a lack of courtesy on the part of the Committee or of officials or employees of Federal Reserve banks?

(d) We are not aware of any complaint of lack of courtesy on the part of the Committee or officials or employees of the Federal Reserve banks.

(e) Is there any evidence that Federal Reserve banks are requiring an excessive amount of collateral to secure loans?

(e) There is no evidence that Federal Reserve banks are requiring an excessive amount of collateral to secure loans. On the other hand, every effort is being made to make loans when the security may be regarded as reasonable.

(f) Is there evidence of any other ground for criticism of either the committees or the banks?

(f) There is no evidence of any other ground for criticism of either the Committees or the Federal Reserve banks.

8. Assuming that more participations by and commitments to financial institutions are desirable, what is your recommendation as to how to best obtain the cooperation of financial institutions to this end?

8. It is the consensus of opinion that more participations by and commitments to financial institutions are desirable, and this can be best obtained by direct contact with the applicants and the banks. Further that the present publicity be continued within each district and that

-17-

QUESTIONS

ANSWERS

this be supplemented by publicity of a national character and that the aid of the Federal Reserve Board be solicited in this connection.

9. Has the Federal Reserve bank taken adequate measures to bring to the attention of financial institutions, and particularly of member banks, the advantages to them of actively seeking out commercial and industrial enterprises in their territory in need of additional working capital and furnishing such capital under the protection of a commitment from the Federal Reserve bank?
9. It is the opinion that the Reserve banks have made diligent efforts to acquaint all financing institutions, particularly member banks, with the advantages to them of actively seeking out commercial and industrial enterprises in their territory in need of additional working capital and furnishing such capital by commitment from the Federal Reserve banks. At the same time we submit that such efforts might well be intensified and we especially recommend to the several Reserve banks the action of the New York Reserve Bank in engaging the services of a practical and well known banker for a period of several months (the banker to be well known in the district) to visit banks and personally discuss with them and with borrowers in arrears or in temporary embarrassment the wisdom of negotiating loans under the terms of Section 13b.
10. What, in your experience, has been the most important service rendered industry and commerce under Section 13b?
10. In our opinion the most important services rendered to industry and commerce under Section 13b are (a) Accommodation to industrial and commercial enterprises that could not be obtained otherwise, (b) the stimulation of credit confidence and accommodation to industrial and commercial enterprises by other banks, many of which have changed their credit policies since the administration of Section 13b began, and (c) the enlightenment of many

-18-

QUESTIONS

ANSWERS

applicants concerning their own affairs and possibilities afforded by the expert analysis and advice of the Advisory Committees and Federal Reserve officers.

- | | |
|--|---|
| 11. Has the administration of Section 13b to date had any effect not shown in regular reports of Federal Reserve banks on the extension of credit through regular and usual channels to industry and commerce by private financing institutions? | 11. The favorable recommendation of loans by the several Federal Reserve banks has influenced many local banks to take over loans, extending credit where they would not have done so otherwise. |
| 12. Recommendations, not covered elsewhere, on the subject of the administration of Section 13b. | 12. It is felt wise to continue this act as an emergency measure. It will not bring back prosperity, but it will be a material help to many who cannot secure necessary capital for two to five years. This will bridge the gap where the capital market should function. |

During the discussion of the topics, Mr. John N. Peyton, Chairman and Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, and Mr. Daiger of the Board's staff, joined the meeting.

At the conclusion of the discussion the meeting adjourned with the understanding that the representatives of the Industrial Advisory Committees would meet again in separate session this afternoon.