

A meeting of the Federal Reserve Board was held in the office of the Vice Governor on Wednesday, June 30, 1926 at 12:00 o'clock noon.

PRESENT: Governor Crissinger  
Mr. Platt  
Mr. Hamlin  
Mr. James  
Mr. McIntosh  
Mr. Eddy, Secretary  
Mr. McClelland, Asst. Secretary

The minutes of the meeting of the Federal Reserve Board held on June 29th were read and approved.

Mr. Hamlin referred to the action of the Board yesterday in voting to refer to the Governor of the Federal Reserve Bank of Boston the communications received from members of the Tennessee delegation in Congress with respect to the controversy between the Fourth and First National Bank of Nashville, Tenn. and the Federal Reserve Bank of Atlanta arising out of certain liberty bond transactions of several years ago.

Mr. Hamlin stated that in looking over the file he had found previous communications from Governor Harding expressing his views regarding the transaction and he therefore moved that the Board reconsider its action of yesterday in voting to refer the present correspondence to Governor Harding.

Unanimously carried.

Memorandum dated June 30th from the Acting Director of the Division of Research and Statistics, recommending the appointment of J. Alvin Croghan to the position of messenger boy in the Division of Research and Statistics at a salary of \$900 a year, effective July 1st, to succeed Robert Nelson whose resignation has been filed, effective July 9th.

Approved.

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Report of Committee on Salaries and Expenditures on the matter referred to it at the meeting yesterday, namely, letter dated June 23rd from the Chairman of the Federal Reserve Bank of New York, submitting a modification of the standardization of positions, grades and salaries of the Auditing Department of the bank; the Committee recommending that the modification be "noted" by the Board.

Noted.

Report of Committee on Examinations on letter dated June 28th from the Federal Reserve Agent at Boston, transmitting and recommending approval of an application of the Fidelity Trust Company of Portland, Maine for permission to acquire the assets, liabilities and good will of the United States Trust Company of Portland, Maine and to continue to operate the branches now maintained and operated by that institution at Fryeburg, Harrison and South Portland, Maine; the Committee recommending approval.

Approved.

Report of Committee on Salaries and Expenditures on letter dated June 24th from the Governor of the Federal Reserve Bank of San Francisco, recommending approval of increases in the salaries of officers and employees as follows; the Committee also recommending approval:

	Present	Proposed
Mudie McRitchie, Asst. Manager, Los Angeles Branch	- Salary \$4500	Salary \$4800
E. C. Mailliard, Asst. Cashier, Head Office	- 4200	4500
Fred C. Bold, Asst. Cashier, Head Office	- 3600	3900
K. S. McBride, Chief, Discount & Credit Department, Head Office,	- 3300	3480
J. P. Read, Assistant Examiner	- 3420	3600
C. R. Hupp, Examiner	- 4800	5000
E. B. McBride, Examiner	- 4800	5000
D. S. Thompson, Statistician	- 2520	2760

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Approved.

Report of Committee on Examinations on letters dated June 18th and 25th from the Governor of the Federal Reserve Bank of Philadelphia and letter dated June 17th from the Chairman of the bank, requesting approval of increases as follows, in the salaries of officers of that bank, effective July 1st:

<u>Name</u>		<u>Present Salary</u>	<u>Proposed Salary</u>
C. A. McIlhenny, Cashier,	-	\$10,000	\$11,000
J. M. Toy, Assistant Cashier	-	7,500	8,000
F. LaBold, " "	-	7,500	8,000

Discussion then ensued regarding the recommendations inasmuch as the Committee on Salaries and Expenditures was divided in its report; Mr. Platt recommending approval and Mr. James disapproval.

Following the discussion, Mr. Platt moved that the Board approve the increases recommended.

Mr. Platt's motion being put by the Chair was carried, the members voting as follows:

Governor Crissinger, "aye"  
 Mr. Platt, "aye"  
 Mr. Hamlin, "aye"  
 Mr. James, "no"  
 Mr. McIntosh, "no"

Letter dated May 15th from the Governor of the Federal Reserve Bank of New York replying to the Board's letter of April 27th, requesting advice as to the present status of the credit which the Board on March 8th tentatively approved being extended by the Federal Reserve banks to the National Bank of Belgium; the Governor stating that the transaction as then proposed was not and cannot be consummated and that the Federal Reserve Bank of New York is under no commitment of any kind to the National Bank of Belgium.

Noted.



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The Secretary then read to the Board the following memorandum dated June 29th prepared by himself, Mr. Smead, Chief of the Board's Division of Bank Operations, and Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, addressed to and approved by the Board's Committee on Salaries and Expenditures:

"Toward the end of 1925, the Federal Reserve Bank of New York submitted to the Federal Reserve Board for its approval a plan establishing a permanent standardization of grades and salaries of the employees of the New York Bank. The plan provided for six groups of employees with varying salary ranges, the maximum of which was \$5,000, except in the case of the Chief of the Auditing Department, whose salary range was from \$5,000 to \$6,500. The plan also provided for a number of appraised positions, for which no salary ranges were prescribed.

The plan was designed to simplify the procedure between the New York Bank and the Board which had prevailed for some time in connection with adjusting the salaries of the employees of the bank, and to permit the directors of the bank, from time to time throughout the year, to adjust, without first securing the Board's approval, the salary of any employee of the bank whose position came within one of the six groups. It was definitely stated and understood that no employee would be moved from one grade to another unless his work was changed in such a way as to automatically move him to a higher grade.

The Board in formally approving the plan set up several conditions, one of which prevents operation of the plan as contemplated by its designers, namely, "That no promotion shall be made from one grade to another where the salary to be paid is in excess of \$2,500 per annum, without the prior approval of the Federal Reserve Board". It would appear that this condition was set up by the Board as an administrative control designed to check any disposition toward too rapid advancement in the salaries of the employees through promotion from one grade to another.

The undersigned were instructed by your committee at its meeting this morning to work out and submit a plan of operation which would permit the New York Bank to make promotions within the six grades and to increase salaries of employees up to \$5,000, without first securing the approval of the Federal Reserve Board, but which would retain within the Board sufficient administrative control over salary payments. With this in view, the undersigned suggest the following in lieu of the several conditions imposed by the Board at the time it approved the plan, as set forth in its letter to Governor Strong of January 12, 1926:

- (1) That the directors of the Federal Reserve Bank of New York shall have authority to promote or demote employees from one grade or group to another and to make adjustments in

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"the salaries of employees in such grades or groups, provided the maximum salary to be paid does not exceed \$5,000 per year.

(2) That the establishing of any new groups or grades, or any modification of salary ranges shall be approved by the Federal Reserve Board before becoming effective.

(3) On or before December 15th of each year, the Federal Reserve Bank of New York shall submit to the Federal Reserve Board, for its approval, a report showing all employees of the bank according to groups, the salary paid to each such employee at the beginning of the year, the amount of salary adjustment made in the case of each employee during the year, and the salary which the bank proposes to pay each employee as of the beginning of the succeeding year.

(4) In order that the Board may keep currently informed of the movement of the bank's employees toward higher grades and be in a position throughout the year to query the bank on its policy of promotion and salary increases, in the event it appears to the Board that there is any unusual movement of employees toward higher grades, the Federal Reserve Bank of New York shall at the end of each month report to the Federal Reserve Board any salary changes or promotions in grades affecting employees receiving more than \$2,500 per annum.

SUGGESTED CLASSIFICATION OF APPRAISED POSITIONS.

With respect to the so-called appraised positions referred to in the first paragraph of this memorandum and for which as stated no salary ranges have been provided by the New York Bank, the undersigned believe that several of these positions can be classified and included in one or more of the six existing groups, the salary ranges incidental to such classification to be approved by the Federal Reserve Board. These particular positions are as follows:

Social and Physical Directors  
 Supervisor of the Federal Reserve Club Store  
 Cafeteria Employees  
 Secretaries to Governor, Deputy Governors and  
 Federal Reserve Agent

The undersigned further suggest that the examiners in the Bank Examinations Department and the special representatives in the Member Bank Relations Department be placed in a separate group, with salary ranges as follows:

Grade A \$5,000 and above  
 Grade B \$4,000 to \$5,000  
 Grade C \$3,000 to \$4,000

It is also suggested that the physicians and dentists be taken out of the appraised class and in lieu thereof the bank enter into a contract at the beginning of each year for such service rendered by the physicians and dentists as



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"may be required, but in no case shall the bank contract with any individual physician or dentist for a fee in excess of \$5,000 a year, without the prior approval of the Board.

If the above suggestions are approved, the following only will remain as appraised positions:

Chief of the Foreign Division  
 Chief of the Loan Application Division  
 Chief of the Securities Division  
 Superintendent of the bank building  
 Chief Engineer of the bank building

The duties and responsibilities of these positions are such that the value must necessarily be determined largely by the ability and training of the incumbent. It is, therefore, suggested that no salary range be fixed at this particular time, but that any increase in the salaries of such employees shall be subject to the approval of the Federal Reserve Board."

The Secretary stated that Mr. Sailer was not authorized to act for the Federal Reserve Bank of New York in the matter and stated all that is desired of the Board at the present time is its general agreement with the suggestions contained in the above memorandum, which will later be submitted to the directors of the Federal Reserve Bank of New York and, if approved by them, formally submitted to the Board.

After discussion, Mr. James moved that the Board give tentative approval to the recommendations set out in the memorandum, subject to favorable action thereon by the directors of the New York bank.

Carried.

Memorandum from Counsel dated June 29th on application of The First National Bank of Massena, N. Y. for permission to exercise general fiduciary powers, the bank having a capital of only \$50,000 whereas under the laws of the State of New York trust companies and state banks exercising trust powers in a place the size of Massena are required to have a capital of \$100,000; Counsel stating that although the First National Bank proposes to increase its capital to \$100,000 if it receives permission from the Board to exercise trust powers, the Board is not authorized to issue its permit to a national bank to exercise trust powers unless such bank at the time the permit is issued has the capital required of state banks and trust companies. In his memorandum, Counsel stated

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however, that the Board can approve the application, such approval to become effective if and when the bank increases its capital to an amount equal to that required of state banks and trust companies.

After discussion, upon motion by Mr. Hamlin, it was voted that the Board approve the application of the First National Bank of Massena, N. Y. for permission to exercise general fiduciary powers, effective if and when the bank increases its capital to \$100,000.

The Governor then referred to the action of the Executive Committee on June 22nd in voting to postpone indefinitely the hearing to be granted by the Board to Mr. Joseph L. Campbell, Deputy Governor of the Federal Reserve Bank of Atlanta, in accordance with the resolution adopted by the Board at its meeting on June 9th.

After discussion, upon motion by Mr. Platt, it was unanimously voted that the hearing referred to be held on Monday, July 19, 1926 at 10:00 a.m., and the Secretary was instructed to so notify Mr. Campbell and the Federal Reserve Bank of Atlanta.

Memorandum from Mr. James dated June 5th, as follows:

"In accordance with the action of the Board taken on May 20th in voting -

'That the conduct of Mr. McCrary be investigated by a special committee with a view to determining whether or not he also should be eliminated from the Federal Reserve System',

I beg to submit this as my report covering the result of my investigation.

(1) Mr. McCrary accompanied the party headed by Deputy Governor Campbell which on April 10, 1926, accompanied a special shipment of a very large sum of money from the Federal Reserve Bank of Atlanta to Havana, Cuba, of his own volition and not at the request or suggestion of any officer of the Federal Reserve Bank of Atlanta.

(2) Mr. McCrary took with him on the trip a friend or business associate without any authority whatsoever and over the protest of Mr. Creed Taylor, Deputy Governor of the Bank, and against the wishes of Governor Wellborn and Deputy Governor Campbell. (See letter from Deputy Governor Creed Taylor marked Exhibit "C" in my report of June 2).



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"(3) Mr. McCrary was aware of the fact that the officers of the Cuban Gunboat at Key West protested against a large party going aboard the boat and that objections had been raised to the party going on the trip from Key West to Havana, but he (Mr. McCrary) made no effort to prevent this party going aboard the Gunboat but on the contrary he and his guest did go on the Gunboat and did make the trip to Cuba.

Mr. McCrary admitted in my presence that he knew there was some drinking done by members of the Atlanta party while on the Cuban Gunboat, and also admitted that he himself had participated in this drinking. He further admitted that he had made no efforts to prevent the drinking.

(4) Mr. McCrary contributed nothing whatsoever to the services rendered by the Atlanta Bank in conveying the shipment of currency to Havana and apparently there was no reason whatsoever for his going other than that he wanted to make the trip. It is, therefore, a question in my mind whether he was actuated by the desire to take a joy ride or to share in the glory that might accrue to those officials connected with the enterprise, or to further his own business interests by using this opportunity to make the trip without expense to himself.

(5) From time to time during the past three years there has come to my attention in a more or less confidential way certain rumors that Mr. McCrary was using his position as a Director in the Atlanta Bank for furthering his own personal interests, especially in a business way; that he had let it be known rather generally among a large number of the member banks in the Sixth District that he was a Director and as such was also a member of the Executive Committee of the Atlanta Bank which passed on such paper as was sent to the Atlanta Bank for rediscount or as collateral to loans, and that consequently he was in a position where his influence could count very materially one way or the other in the relationship of the member banks with the Federal Reserve Bank of Atlanta.

In this connection, I desire to call attention to the memorandum dated June 5th to me from Mr. Eddy which is in reference to action taken by the Board on December 5, 1924 which action resulted in the Department of Justice making an investigation of Mr. McCrary's activities. This memorandum is attached hereto and marked Exhibit 'A'.

(6) As a result of the gossip which I heard regarding Mr. McCrary and his using his position for his own personal advantage, and which was to the effect that Mr. McCrary made quite a nice little salary by his attendance at the bank each day, I made some inquiries along this line, particularly with reference to the Executive Committee meetings and I had Mr. W. S. Johns, General Auditor of the Atlanta Bank, prepare for me statements showing the amount of money drawn from the bank by each of the Directors of the Atlanta Bank for the years 1924 and 1925. This report from Mr. Johns I have submitted with my report to the Federal Reserve Board on June 2nd and is marked Exhibit "C" to that report.

The report in question shows that Mr. McCrary's fees were greatly in excess of the fees paid to other directors of the Atlanta bank, - the payments to him exceeding those of any other director in an amount in excess of \$1,000 in 1924 and more than \$1,100 in 1925.



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"I had Mr. Ward Albertson furnish me extracts from the by-laws of the Federal Reserve Bank of Atlanta covering the authority for the Executive Committee of that bank and am attaching hereto his letter and memorandums, marked Exhibit 'B'.

It appears that Mr. McCrary's attendance at the Executive Committee meetings of the bank continuously is without authority of the by-laws and this, to my mind, is conclusive evidence that there is justification in the idea that Mr. McCrary has used his office for his own financial benefit.

I might say also that I was advised by one of the officers in the Atlanta Bank that it was customary for the officers of the bank to pay \$6.00 per month for their luncheons served in the cafeteria of the bank, which made the cost of the luncheons approximately twenty-five cents per meal, and that Mr. McCrary made this contribution of \$6.00 and that he took his luncheon in the bank practically every day accordingly.

While I am not sure in my own mind that the information I have gained is sufficiently conclusive to warrant the Board's acting to remove Mr. McCrary as a Director of the Federal Reserve Bank of Atlanta, I am myself convinced that he lacks many of the qualifications which I deem requisite and necessary for a director or an officer of a Federal Reserve Bank.

I recommend, therefore, that each member of the Board review carefully my report of June 2nd and the exhibits thereto, and also this report with Exhibits "A" and "B" hereto attached, and that then the matter be discussed in open Board meeting and the conclusion reached as to what would be proper action on the part of the Board with reference to Mr. McCrary and his activities.

Respectfully submitted,

(S) Geo. R. James

6/16. See letter this date from Mr. Newton with reference to the action of Mr. McCrary on June 7th, 1926 in returning to the bank as 'Part of advance to J. L. Campbell, Deputy Governor, 4-14-26, by Havana Agency of \$36.13.' Said letter and auditor's statement handed Mr. Wyatt on June 17th to be put with Campbell file.

(S) G. R. J. "

In this connection, Mr. James referred to the action of the Board at its meeting on December 5th, 1924 in adopting the following resolution - 'Whereas statements have from time to time come to the Board reflecting upon conditions at the Federal Reserve Bank of Atlanta, the Board directs its Committee on District #6 to investigate conditions at the Atlanta bank, incurring any necessary expense for that purpose, in order to ascertain whether or not there is any foundation for the statements, and to recommend to the Board what, if any, action is necessary in the premises.'

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He stated that pursuant to the above resolution the Committee had caused, through the Department of Justice, an investigation to be made concerning certain alleged unethical practices indulged in by Director McCrary in the matter of obtaining bank credit and other matters. The investigators, he stated, had been handicapped through the Board's informal decision not to permit the use of Mr. McCrary's name in connection with their investigations and that finally the investigation had been suspended.

He expressed the opinion that the matter should be reopened and moved that the Board request the Department of Justice to proceed with all authority and with full permission of the Board, to complete the investigation regarding Mr. McCrary.

Mr. James' motion being put by the Chair was unanimously carried.

Mr. James then moved that a special meeting of the Board be held tomorrow morning at 10:00 o'clock to read the Board's past records with reference to Mr. McCrary.

Unanimously carried.

Telegram dated June 30th from the Federal Reserve Agent at Kansas City requesting approval of the appointment of Mr. E. J. Julick, audit clerk at the Oklahoma City Branch, as Assistant Federal Reserve Agent at the branch at a nominal salary of one dollar per year to succeed Mr. Oliver A. Leamon, who has resigned effective July 1st.

The Secretary called attention to the fact that Mr. Julick is at present an employee of the branch and that under the Board's previous interpretation of the law he can not properly be appointed Assistant Federal Reserve Agent. He pointed out, however, that in other similar cases appointments have been made by transferring employees of a Federal Reserve Bank or Branch to the Federal Reserve Agent's Department, designating them as Assistant Federal Reserve Agents, and permitting the loan of their services by the Federal Reserve Agent's Department to the Branch.

Upon motion, it was voted to approve Mr. Julick's appointment at Oklahoma City, effective July 1st, under a similar arrangement.



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Mr. James then referred to the letters presented at the Board meeting yesterday from Congressman Byrns and Hull and Senators Tyson and McKellar of Tennessee, regarding a controversy between the Federal Reserve Bank of Atlanta and the Fourth and First National Bank of Nashville, Tennessee; his memorandum reading as follows:

"This matter has been before the Federal Reserve Board many times during the past three years and the Board has held repeatedly that this was a matter strictly between the Fourth and First National Bank of Nashville and the Federal Reserve Bank of Atlanta.

The question involves the payment of money by the Federal Reserve Bank of Atlanta out of its surplus which, as I see it, practically the same as being paid out of the Treasury of the United States.

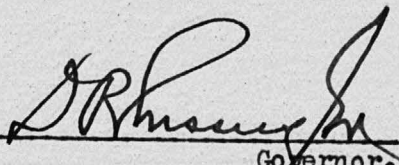
If the claim is a proper one, certainly there is recourse through a court of law. If the claim is merely a 'moral' obligation, then I submit that the payment of the money so claimed can be made properly only on or through authorization by Congress.

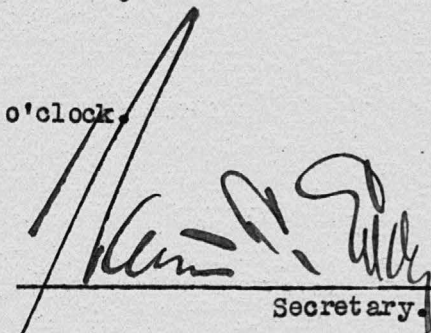
I, therefore, move that the letters above referred to be answered in accordance with the above statement."

Following a brief discussion of the matter, the Comptroller of the Currency was called from the meeting and due to lack of a quorum the Board adjourned without action on the above memorandum.

The meeting adjourned at 1:15 o'clock.

Approved:

  
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 Governor.

  
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 Secretary.