

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, June 20, 1927, at 11:15 a.m.

PRESENT: Governor Crissinger
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. Eddy, Secretary
Mr. McClelland, Asst. Secretary

The minutes of the meetings of the Federal Reserve Board held on June 10th, 13th, 14th, 15th and 16th were read and approved.

The minutes of the meeting of the Board held on June 17th were read and approved as amended.

Discussion then ensued of the matter on which action was deferred at the meeting on June 17th, namely, letter dated June 16th from the Governor of the Federal Reserve Bank of New York requesting that the Board defer separate publication in the weekly statement of the condition of Federal Reserve banks of "bills payable in dollars" and "bills payable in foreign currencies." The Secretary read to the Board its action of December 28, 1926, in voting to add in the statement under the caption "bills bought in open market" two sub-items, "payable in dollars" and "payable in foreign currencies", and its action of February 23, 1927, in voting that the proposed change should not be made effective until the volume of bills held by the Federal Reserve banks payable in foreign currencies should amount to \$5,000,000. Governor Crissinger pointed out that the Federal Reserve Bank of New York requests that separate publication of domestic and foreign bills be deferred merely until the expected visit to this country of the Governor of the Bank of England and the Vice Governor of the Bank of France, who are expected to

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arrive within about two weeks.

Following the discussion, Mr. Cunningham submitted and moved adoption of the following resolutions:

WHEREAS, on December 28, 1926, the Federal Reserve Board voted that two sub-items, "payable in dollars" and "payable in foreign currencies" be added in the weekly statement of condition of Federal Reserve banks after the present caption "bills bought in open market; and

WHEREAS, the Board, at its meeting on February 23, 1927, voted that the proposed publication should not be made effective until the volume of bills held by the Federal Reserve banks payable in foreign currencies should amount to \$5,000,000;

BE IT RESOLVED, that the Board defer such publication until not later than July 13, 1927.

Mr. Cunningham's motion, being put by the Chair was carried, Mr. Miller voting "no".

Telegram dated June 17th from the Chairman of the Federal Reserve Bank of San Francisco, advising that the board of directors at their meeting on that date made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Mr. Cunningham, member of the Committee on District #7, then presented, in accordance with the instructions of the Board at its meeting on June 7th, draft of a letter to the Chairman of the Federal Reserve Bank of Chicago prepared along the lines of the Committee's report submitted at the meeting on June 7th, with reference to the proposal of the directors of the Chicago bank to create the office of Assistant Manager at the Detroit Branch, and at the same time to make certain other changes in the official staff of the branch; the proposed letter stating that the Board, after giving careful

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consideration to the matter, sees no apparent need for the creation of an additional official position at Detroit.

Upon motion, the proposed letter was approved.

Letter dated June 18th from the Assistant Federal Reserve Agent at New York, advising that the Bank of the Manhattan Company, New York City, has received authority from the State Banking Department to establish a branch at the corner of Sutter Avenue and Union Street in the Borough of Brooklyn.

Noted.

Letter dated June 13th from the Federal Reserve Agent at San Francisco, advising that on June 11th the Security Trust and Savings Bank of Los Angeles opened at 7034 Hollywood Boulevard, the branch approved by the Board on April 27th for Hollywood Boulevard and LaBrea Avenue.

Noted.

Letter dated June 17th from the Federal Reserve Agent at Philadelphia, requesting the designation as Assistants to Examiners of Messrs. Herman Haffner and E. J. Elliott, employees of the Audit Department of the bank.

Approved.

Letter dated June 18th from the Chairman of the Federal Reserve Bank of Richmond, advising of the consummation of the purchase by that bank of the so-called Foster property, adjoining the bank's main building.

Noted.

At 1:00 o'clock the Board recessed, and reconvened at 2:00 o'clock, the same members being present as attended the morning session.

Memorandum dated June 18th from the Chief Clerk, approved by the Secretary, recommending that the services of James E. Updyke, messenger

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on the Board's rolls, be discontinued as at the close of business June 30th.

Approved.

Report of Committee on Salaries and Expenditures on letter dated June 15th from the Chairman of the Federal Reserve Bank of Boston, advising of the action of the directors of that bank in voting, subject to the approval of the Board, to extend for a period of thirty days, with full pay, leaves of absence on account of illness granted Mr. Joseph Buckley, Mr. H. L. Thompson, Miss Olive Glover and Miss Mary Quealy, employees of the bank; the Committee recommending approval of the salary payments involved.

Approved.

Report of Committee on Salaries and Expenditures on letter dated June 15th from the Federal Reserve Agent at St. Louis, advising of the action of the Executive Committee of that bank in voting, subject to the approval of the Board, to extend for a period of thirty days from June 11th, with full pay, leave of absence on account of illness, previously granted to Miss Helen Ogden, of the Memphis Branch; the Committee recommending approval of the salary payment involved.

Approved.

Memorandum from Counsel dated June 10th, submitting letter dated May 27th from the Governor of the Federal Reserve Bank of Dallas referring to the recent opinion of the Supreme Court of the State of Texas in the case of Lane Company v. Crum, and advising that the Dallas bank has decided to return all trade acceptances offered it by member banks which bear the

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phrase "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase"; Counsel stating that in view of the recent decision holding trade acceptances to be non-negotiable when they contain the clause above set out, the action of the Dallas bank in declining to take such acceptances for rediscount is pursuant to and in accordance with the regulations of the Board, which require that such acceptances be negotiable.

Noted.

Letter dated June 18th from the Chairman of the Federal Reserve Bank of Richmond, referring to the Board's action of June 16th regarding bids on the vault to be installed in the Baltimore Branch bank building; the Chairman stating that unless the Board disapproves of the procedure, he proposes to write to each of its directors suggesting that by wire they conduct a vote rescinding their acceptance of the alternate bid of the Mosler Safe Company, involving the use of proprietary metals, and accept the low bid for the standard metal called for in the specifications.

Noted without objection.

The Governor, on behalf of the Executive Committee, then submitted a telegram addressed to the Chairman of the Federal Reserve Bank of Atlanta today, advising that the Board interposes no objection to that bank proceeding to ask for bids for the construction of a vault in the new quarters for its Havana Agency and closing with the satisfactory bidder.

Upon motion, the action of the Executive Committee in the above matter was approved.

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Letter dated June 15th from the Deputy Governor of the Federal Reserve Bank of Dallas, advising that it has been definitely decided that the San Antonio Branch of that bank is to open for business on July 5th.

Noted.

In this connection, the Secretary inquired as to the pleasure of the Board with reference to the terms of office to be served by Messrs. Scobey, Houston and Rogers, who were appointed by it to the San Antonio Branch directorate.

After discussion, Mr. James moved that the terms of the Board's appointees to the San Antonio directorate should expire on the following dates:

Mr. Reagan Houston	December 31, 1928
Mr. H. H. Rogers	December 31, 1929
Mr. F. E. Scobey	December 31, 1930

Carried.

Memorandum dated June 11th addressed to the Federal Reserve Board and the Comptroller of the Currency by Mr. Wyatt, General Counsel for the Board, and Mr. Collins, Deputy Comptroller of the Currency, recommending the adoption of the following definition of the term "outlying district" as that term is used in Section 5138 of the Revised Statutes, as amended, and in Section 19 of the Federal Reserve Act:

"The term 'outlying district' is construed to mean that portion of a city which is located outside of, and at a considerable distance from, the recognized business and financial center of such city, and includes all suburban districts."

Upon motion, the above memorandum was ordered circulated.

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Memoranda from Counsel dated June 14th and 15th, commenting on and submitting draft of reply to letter dated June 9th from the Assistant Federal Reserve Agent at Cleveland, inquiring whether first mortgage loans on city real estate may be regarded as having a readily marketable value and as eligible for the security of trust funds deposited in the commercial department of a national bank; the proposed reply stating that whether or not such mortgages are readily marketable securities is a question of fact which should primarily be determined by the bank itself in the exercise of ordinary banking discretion, taking into consideration the character of the mortgages and whether or not there is a reasonably broad or active market for them so that they may be disposed of at any time for full value, and further that the Board sees no objection to the availability of first mortgages of unquestioned value for the purpose in question, provided, of course, they are in fact readily marketable and comply with the other requirements of the Board's Regulation F.

After discussion, it was voted that action on the above should be deferred until a meeting of the Board attended by the Comptroller of the Currency.

Report of Committee on Salaries and Expenditures on letter dated June 17th from the Secretary of the Federal Reserve Bank of Chicago, advising of the action of the Executive Committee of that bank in voting, subject to the approval of the Board, to continue for a period of not to exceed ninety days, payment of full salary to Mr. John Blair, police officer, who is absent from his duties on account of illness; the Committee recommending approval of the salary payment involved.

Approved.

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Memorandum from Counsel dated June 10th, submitting, in accordance with the action of the Board at its meeting on May 27th, draft of circular letter to the Chairmen and Governors of all Federal Reserve banks with reference to the recent decision of the Supreme Court of the State of Texas in the case of Lane Company v. Crum, together with a proposed statement to be published in the Federal Reserve Bulletin in connection with the publication of the decision suggesting that the standard clause now used on trade acceptances be changed to read: "The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer."

Upon motion, it was voted to approve the circular letter submitted by Counsel and the statement proposed for publication in the Bulletin.

Memorandum dated June 17th from Counsel, submitting material for publication in the forthcoming issue of the Federal Reserve Bulletin,

Upon motion, the material submitted with Counsel's memorandum was approved for publication.

Letter dated June 16th from the Federal Reserve Agent at Kansas City submitting newspaper clippings announcing the candidacy for nomination as Governor of the State of Nebraska of Mr. A. J. Weaver, one of the Board's appointees to the directorate of the Omaha Branch.

This matter, being an apparent violation of the Board's ruling with respect to directors of Federal Reserve banks and branches holding or becoming candidates for political office, was referred to the Committee on District #10 with power.

In accordance with the action of the Board at the meeting on June 17th, the Governor then submitted draft of a letter, prepared by Mr. Miller,

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addressed to the Governor of the Federal Reserve Bank of New York, replying to his letter of June 16th commenting upon the changed position of the money market and the possibility of further purchases of securities by the Open Market Investment Committee.

In this connection, the Governor stated that he understood from a telephone conversation with Governor Strong that a further letter on this subject is being forwarded to the Board, and action on the letter prepared by Mr. Miller was therefore deferred.

Letter dated June 16th from the Deputy Governor of the Federal Reserve Bank of New York, advising of the action of the board of directors of that bank in voting, subject to the approval of the Board, to authorize the officers to appoint the National Bank of the Kingdom of Serbs, Croats and Slovenes as the agent and correspondent of the Federal Reserve Bank of New York and to establish relations with it along the same general lines as those which exist with other foreign central banks.

Upon motion, it was voted to approve the action of the New York directors, with the understanding that the agreement entered into between the two institutions will be submitted to the Board later.

Memorandum dated June 20th from the Board's Fiscal Agent, stating that to meet the estimated expenses of the Board for the six months beginning July 1st next, it will be necessary to levy upon the Federal Reserve banks an assessment of one hundred three thousandths of one per cent (.00103) of the total paid in capital and surplus of the Federal Reserve banks as of June 30, 1927, which will produce \$368,946.

Upon motion, the following resolution submitted by the Fiscal Agent was unanimously adopted:

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"Whereas, under Section 10 of the Act approved December 23, 1913, and known as the Federal Reserve Act, The Federal Reserve Board is empowered to levy semi-annually upon the Federal Reserve banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees for the half-year succeeding the levying of such assessments, together with any deficit carried forward from the preceding half-year; and

"Whereas, it appears from estimates submitted and considered that it is necessary that a fund equal to one hundred three thousandths of one per cent (.00103) of the total paid-in capital stock and surplus of the Federal Reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal Reserve notes; Now, therefore,

BE IT RESOLVED, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal Reserve banks of an amount equal to one hundred three thousandths of one per cent (.00103) of the total paid-in capital and surplus of such banks as of June 30, 1927, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board, receipts for payments made. Such assessments will be collected in two installments of one-half each; the first installment to be paid on July 1, 1927, and the second half on September 1, 1927."

Memorandum from Mr. Cunningham dated June 18th, advising that in accordance with the request of the Board at its meeting on June 15th, he has taken up with the office of the Comptroller of the Currency the action of the State Bank of Madelia, Minnesota, in absorbing, without the approval of the Board, the First National Bank of Madelia, and stating that the Comptroller's office is inclined to favor the idea of the Federal Reserve Bank of Minneapolis making an examination of the State Bank of Madelia, and if the Board decides to request such an examination, the Deputy Comptroller of the Currency requests permission for his office to make an analysis of the report.

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Mr. Cunningham, therefore, asked for consideration of the motion made at the meeting on June 15th that the Board approve the following recommendations contained in his report of June 7, 1927, as follows:

"In view of the adverse report on the two institutions involved in the consolidation, and the further report that the merger had been consummated without first obtaining the approval of the Federal Reserve Board, I recommend that the analysis hereto attached be forwarded to Mr. Mitchell, Federal Reserve Agent of Minneapolis, with the request that he proceed to make an examination of the State Bank of Madelia, Minnesota; and that Mr. Mitchell be further advised that the services of Mr. Black, an examiner on the Board's force, are available for making this examination; and that on completion of the examination, a report of same be forwarded immediately to the Federal Reserve Board. I would also recommend that further consideration of this question be deferred until the report of examination herein requested is before the Board."

Mr. Cunningham's motion was thereupon put by the Chair and carried.

Mr. Cunningham then submitted and moved adoption of the following resolutions:

WHEREAS, Federal Reserve Agent Heath advised the Board in a telegram under date of June 17th, as follows:

"Answering your telegram even date. For six months all cash at Detroit Branch has been carried as vault cash agent carrying no reserve supply. The experiment has proven very satisfactory to us and we see no reason why same practice should not be carried on permanently."

THEREFORE, BE IT RESOLVED, That the position of Assistant Federal Reserve Agent at the Detroit Branch of the Federal Reserve Bank of Chicago be discontinued, effective on and after July 1st, 1927; and that in the future all cash at the Detroit Branch be carried as vault cash.

BE IT FURTHER RESOLVED, That Federal Reserve Agent Heath be advised of the foregoing action, and requested to act accordingly.

Carried.

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Letter dated June 17th from the Federal Reserve Agent at Chicago, advising of the pending resignation of Mr. C. A. Woodhouse, of the Credit Department of the Detroit Branch, who at the present time is authorized to act for the Federal Reserve Agent in the receipt, endorsement and delivery of collateral to Federal Reserve notes in the absence of the Assistant Federal Reserve Agent, and requesting that Mr. John F. Billig, Manager of the Discount Department at the branch be designated as the Agent's representative to succeed Mr. Woodhouse. In his letter, the Agent called attention to the fact that with the discontinuance of the Assistant Federal Reserve Agent at the Detroit Branch, which will become effective in less than two weeks, it will be imperative to designate two representatives to act for the Agent in the matter of custody of collateral at the Detroit Branch.

Upon motion, the designation of Mr. Billig recommended by the Federal Reserve Agent, was approved.

Letter dated June 20th from the Chief Clerk of the Treasury Department, requesting that to provide proper servicing of quarters occupied by the Federal Reserve Board's Division of Issue and Redemption, Jeanette Thomas, charwoman, be transferred to the Federal Reserve Board roll effective June 1, 1927, with compensation at the rate of forty cents an hour, four hours a day.

Upon recommendation of the Secretary, the above addition to the Board's rolls was approved.

Memorandum from Counsel dated June 1st, submitting correspondence referred to the Board by the Comptroller of the Currency, with reference

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to the right of the National Bank of Topton, the Peoples National Bank of Zellenople, and the Industrial National Bank of West York, all located in Pennsylvania, which have received permission from the Board to exercise fiduciary powers, and which have a capital of less than the amount required for trust companies and state banks exercising trust powers in Pennsylvania, to exercise the powers granted them by the Board in that state; Counsel (1) stating that trust powers were granted to the banks prior to September 26, 1918, the date on which Section 11 (k) of the Federal Reserve Act was amended to provide that "no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by state law of state banks, trust companies and corporations exercising such powers; (2) suggesting that the banks be advised that in the Board's opinion they are entitled to exercise the trust powers granted by the Board prior to September 26, 1918, although they have a capital less than that required by state law, but that in view of the position taken by the Attorney General of Pennsylvania and the banking authorities of that state, it will be necessary for a judicial decision to be obtained from a court of competent jurisdiction to establish definitely their right to exercise such powers; and (3) that the banks be advised, in accordance with the position that the Board has heretofore taken in cases of this kind, that the Board will be glad to cooperate with Counsel representing the banks if a suit is instituted, but does not feel that it can take an active part in initiating or carrying on a suit to settle a controversy between the banks and the Pennsylvania authorities.

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In this connection, the Governor also submitted a memorandum from the Comptroller of the Currency, stating that he is in agreement with the opinion of the Board's Counsel, but would propose the following substitution for the language suggested for use by the Board in communicating with the banks: "That in the Board's opinion they have a lawful right to exercise the trust powers granted by the Board prior to September 26, 1918, although they have a capital of less than \$125,000, and that the state officials are without authority to prohibit the exercise of such trust powers. However, in the event of litigation upon the initiative of the state authorities, the Board, following the position that it has heretofore taken in cases of this kind, would not take an active part in any such suit to settle the controversy, but would be glad to cooperate with Counsel representing the banks."

Upon motion, the recommendations and suggestions contained in Counsel's memorandum, with the amendment proposed in the memorandum from the Comptroller of the Currency, were approved.

Report of Committee on District #5, dated June 16th, on various letters received from the Federal Reserve Bank of Richmond, with respect to arrangements for the opening of the branch of that bank to be established at Charlotte, North Carolina; the Committee report dealing with four major subjects, namely, by-laws, directors and officers, housing and personnel, which were considered by the Board separately and action taken thereon as follows:

(1) Recommendation that the Federal Reserve Bank of Richmond amend the proposed branch by-laws so as to provide (a) for seven directors at the branch rather than five; (b) for the number of directors necessary to constitute a quorum; (c) for travel expenses of directors residing outside of Charlotte when attending meetings of the Executive Committee; and (d) if the recommendation for seven directors is not adopted, for the election of a temporary chairman in the absence of directors appointed by the Board.

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Upon motion, by Mr. Hamlin, it was voted to advise the Federal Reserve Bank of Richmond that in the opinion of the Board, it would be better to have a branch directorate consisting of seven directors, and to submit to the directors the other amendments to the by-laws recommended by the Committee.

(2) Recommendation that the Board approve salaries of \$7,500 and \$4,500 per annum, respectively, proposed for Mr. Hugh Leach as Managing Director and Mr. W. T. Clements as Cashier of the Branch, and that the following branch directors be appointed by the Board:

One year	-	Mr. John L. Morehead, Charlotte, N. C.
Two years	-	Mr. C. A. Cannon, Concord, N. C.
Three years	-	Mr. John Law, Spartanburg, S. C.

After discussion, upon motion by Mr. Hamlin, it was voted to approve the salaries recommended for the Managing Director and Cashier of the Branch, and to tentatively appoint the directors recommended by the Committee, with authority to the Committee to make any changes which may later become necessary in the event the size of the directorate is finally fixed at five members.

(3) Recommendation that the Board withhold its approval of the renting and vault building program outlined by the Richmond bank, and study the question of comparative costs and expense of housing as set out in an exhibit accompanying the Committee report, and further that the Richmond bank be requested to make a study and investigation of available property for a building and the matter of erecting a building to be owned by the bank, and to make further report and recommendation to the Board.

Upon motion, the recommendations of the Committee were approved.

(4) Recommendation that the suggestion be made to the Richmond bank that it send a committee consisting of a senior officer, the Managing Director of the Branch, and if possible, one or more directors, to at least the branches at Houston, Jacksonville, and Birmingham, to make a study of the work, equipment, personnel, etc., at those branches, and to submit a report to the Richmond bank and the Board in order to justify the request for the approval of salaries, etc., for so large a force as is or may be then proposed.

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Upon motion, the recommendation of the Committee was approved.

Upon recommendation of the Committee, it was then voted that a copy of the Committee's report, with exhibits, be forwarded to the Federal Reserve Bank of Richmond with a request that it be submitted to the board of directors of the bank.

At this point, Mr. Wyatt, the Board's Counsel, was called into the room, and the Board proceeded with further consideration of the proposed revision of its regulations. Mr. Wyatt submitted to the Board a supplemental memorandum dated June 18th, submitting proposed amendments to the revised regulations, (1) along the lines of the action of the Board at its meeting on June 16th with reference to the method of computing reserves of member banks and assessing penalties for reserve deficiencies; and (2) a proposed new regulation on the subject of non-cash collections.

The Board then considered Mr. Wyatt's original memorandum of June 16th, submitting the revision, and the supplemental memorandum just referred to, in which it is recommended that the Board tentatively approve the draft of the revised regulations as amended, send out the regulations with such changes to all Federal Reserve banks for further criticism and comment, and set a definite date for final Board action requiring all banks to have their suggestions in the Board's hands before such date. The various provisions of the regulations were discussed in detail and certain amendments or alternative provisions were suggested. Mr. Wyatt stated that he had discussed the regulations with Mr. Platt before his departure, and that Mr. Platt approved them with two changes in the proposed Regulation H, (1) the use of a general Section 4 on conditions of

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membership not setting out specific conditions which will be imposed by the Board, and (2) the elimination from Section 5 of the provision that the Board considers that among the actions which may result in changes in assets and functions as set out in the general condition of membership ordinarily imposed by the Board "consolidations or mergers with or purchases of the assets of other banks or branch banks."

Mr. Miller referred to the provisions of the proposed Section 2 of Regulation D, relating to savings deposits, in which it is stated that "deposits which are permitted to be withdrawn by check or otherwise, without the actual presentation of the passbook, certificate, or other similar form of receipt whenever a withdrawal is made; shall not be considered 'savings accounts' within the meaning of this regulation". He suggested that this might be changed to read "deposits which are permitted to be withdrawn by check or otherwise, without the actual presentation of the passbook, certificate, or other similar form of receipt whenever a withdrawal is made, shall not be considered 'savings accounts' within the meaning of this regulation, if withdrawals in this wise are made oftener than six times in any one calendar year." He stated that the number of withdrawals might be fixed at any figure which the Board might deem proper. In this connection, Mr. Wyatt expressed the opinion that the Board could not properly fix such a definition of savings accounts. It was understood, however, that in order to secure a reaction from Counsel for the Federal Reserve banks, Mr. Miller's suggestion should be transmitted with the revised regulations as an alternative proposal.

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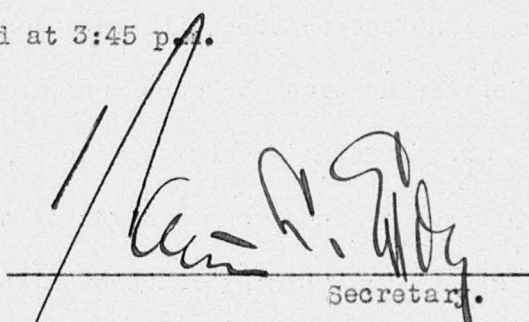
Following a detailed discussion, Mr. Hamlin moved that the revised regulations, with amendments submitted at this meeting, be tentatively approved by the Board, and that copies be sent, with a memorandum of all alternative proposals, to each Federal Reserve bank, all suggestions and comments thereon to be forwarded to reach the Board not later than July 16th.

Mr. Hamlin's motion being put by the Chair was carried.

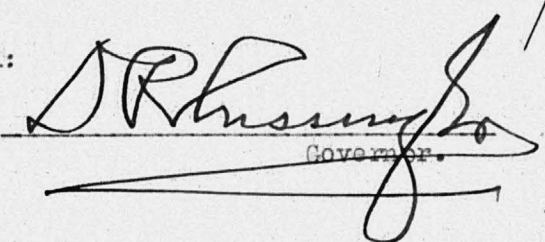
REPORTS OF STANDING COMMITTEE:

Dated, June 18th, Recommending changes in stock at Federal Reserve banks
20th, as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

The meeting adjourned at 3:45 p.m.


Secretary.

Approved:


Governor.