

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, July 5, 1927, at 11:00 o'clock a.m.

PRESENT: Governor Crissinger
Mr. Miller
Mr. James
Mr. Cunningham
Mr. McIntosh
Mr. Noell, Assistant Secretary
Mr. McClelland, Assistant Secretary

PRESENT ALSO: Mr. Newton, Federal Reserve Agent,
Mr. Agnew, Counsel,
Federal Reserve Bank of San Francisco
Mr. Gilbert, Supervisor of Examinations
Mr. Wyatt, General Counsel

At the request of the Governor, Mr. Miller, as Chairman of the Board's Committee on District #12, stated briefly the Board's position regarding the matter on which Messrs. Newton and Agnew are in Washington, namely, the question of whether or not, in view of existing conditions, an immediate report should be made by the Federal Reserve Agent and the Board to the United States District Attorney at Los Angeles and the Department of Justice in Washington of certain apparent violations of the criminal provisions of the Federal Reserve Act and the Revised Statutes disclosed by the recent examination and credit investigation of the Pacific Southwest Trust and Savings Bank of Los Angeles. Mr. Miller stated that while all members of the Board agree that these apparent violations must be reported, some members feel that the Board's duty could better be performed by deferring report pending the development of steps which it is understood are under way for the rehabilitation of the bank. Other members, he stated, believe that the Board has no option in the matter and should make an immediate report of the apparent violations which have been brought to its attention.

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Mr. Newton then presented to the Board in detail the information in his possession regarding the situation in Los Angeles and on the Pacific Coast in general, plans which have been outlined for the reorganization of the Pacific Southwest Trust and Savings Bank and its conversion into a national bank, and the effects which in his opinion may result from an immediate report to Federal authorities of the apparent criminal violations by officers of the bank.

As to the legal question involved, Mr. Agnew stated that there is no doubt as to the legal obligation resting upon the Board to report apparent criminal violations of law, but he stated there is no legal obligation on the Board to make an immediate report. He expressed the opinion that the purposes of the Board might be better met if by delaying their report additional information concerning the apparent violations could be obtained. He also stated that although it was a matter of policy to be determined by the Board, he believed that in view of the plans for reorganization of the Pacific Southwest Trust and Savings Bank and the prospects of saving the institution, a delay in reporting the violations would be justified.

Following the discussion, Messrs. Newton, Agnew, Gilbert and Wyatt withdrew from the room, and the Board proceeded with consideration of its regular business.

The reading of the minutes of the meetings of the Board held on June 29th and 30th was dispensed with.

Letter dated June 30th from the Assistant Secretary of the Federal Reserve Bank of New York, 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.

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Noted.

The Governor then presented a memorandum dated June 30th from the Deputy Comptroller of the Currency advising that on July 2nd the Comptroller would call upon all national banks for reports of condition as of June 30th. The Governor also presented copy of a telegram sent to all Federal Reserve Agents requesting them to instruct all state member banks to send in their reports of condition as of the same date.

Upon motion, the call for reports of condition of state member banks was ratified.

The Governor then announced that, effective July 1, 1927, the salary of his Secretary, Mr. Henry Giovanetti, would be increased from \$2,500 to \$2,800 per annum.

Letter dated June 30th from the Federal Reserve Agent at New York advising that he would leave on that date for a vacation during the month of July, but that he can be communicated with at any time and should the Board desire a conference with him in Washington, he will arrange to attend.

Noted.

Memorandum dated July 1st from the Secretary, advising that under authority recently granted by the Board, Mr. M. Bowden has been employed as vacation relief operator in the Board's Telegraph Office at a salary of \$165 per month, effective July 1st.

Noted.

Letter dated June 30th from the Cashier of the National City Bank of New York, advising that the branch of that institution formerly operated at San Francisco de Macoris, Dominican Republic, was closed on June 11, 1927, and that on June 27th a branch was opened for business

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at Caguas, Porto Rico.

Noted.

Bond dated June 24, 1927, in the amount of \$100,000, executed by Mr. Oliver S. Powell, recently authorized by the Board to act for the Federal Reserve Agent at Minneapolis in the performance of certain duties.

Approved.

Report of Executive Committee on letter dated June 28th from the Comptroller of the Currency, recommending approval of increases in the salaries of national bank examiners as follows:

A. J. White	District #4	\$4,000 to \$4,800
W. H. Donahue	District #10	3,600 to 3,900
R. B. Hewitt	District #10	3,600 to 3,900
L. G. Kennedy	District #10	3,600 to 3,900
L. A. Miller	District #10	3,600 to 3,900
Nels Nelson	District #9	2,700 to 3,300

Approved.

Letter dated June 29th from the Deputy Governor of the Federal Reserve Bank of New York, advising of the death of Mr. John A. Kloepper, one of the Board's appointees to the directorate of the Buffalo Branch.

Noted with regret and referred to the Committee on District #2 for recommendation as to the appointment of a successor to Mr. Kloepper.

Report of Committee on Salaries and Expenditures on memorandum dated June 28th from the Fiscal Agent, recommending that the Board approve payments aggregating \$4,942.12 to the Federal Reserve Banks of Boston, Philadelphia, Cleveland and Richmond, covering actual traveling expenses and allowances for employees of those banks detailed to assist the Board's Examiner in the recent examination of the Federal Reserve Bank of New York; the Committee recommending approval.

Approved.

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Report of Committee on District #11 on telegram dated June 28th from the Chairman and Governor of the Federal Reserve Bank of Dallas, referring to the action of the Board on that date in voting to approve by-laws submitted for the San Antonio Branch with an amendment to provide that each year the Cashier shall be designated to perform the routine duties of manager of the branch in the absence or disability of the Managing Director; the Committee recommending that the Board's action of June 28th be reconsidered and that the by-laws for the San Antonio Branch be approved as submitted by the Dallas Bank.

Upon motion, the recommendation of the Committee was approved.

The Governor then submitted the matter which at a recent meeting of the Board was ordered circulated, namely, the proposed review of the month for publication in the July Bulletin, dealing with mid-year banking developments.

Upon motion, the article was approved for publication.

Letter dated June 30th from the Governor of the Federal Reserve Bank of New York, transmitting copy of letter addressed to all other Federal Reserve banks, advising that it is proposed to abolish all charges heretofore made by the Federal Reserve bank for services in investing funds of foreign correspondent banks in this market and in conducting usual banking operations for them, except for the continuance of a charge of $1/8$ of 1% per annum on bills bought with the Federal Reserve bank's guarantee of payment at maturity.

Noted without objection.

Letter dated June 28th from the Deputy Governor of the Federal Reserve

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Bank of New York, transmitting copy of a letter addressed to the National Bank of the Kingdom of Serbs, Croats and Slovenes, in connection with the appointment of that bank as agent and correspondent of the Federal Reserve Bank of New York, the letter outlining certain terms and conditions under which the appointment will be made.

Noted.

Matter approved on initials today, namely, memorandum dated July 1st from the Chief of the Division of Bank Operations, submitting a proposed revision of the Board's weekly statement of the condition of reporting member banks with amendments made necessary by the practice just adopted by the Board of releasing on Thursday of each week, four days in advance of the issuance of the regular statement, a statement of the condition of reporting member banks in New York City and Chicago.

Formally approved.

The Governor then presented letters dated July 1st addressed to the Federal Reserve Agent at Kansas City, with the approval of the Executive Committee; the letters referring to analyses made by Mr. Gilbert of reports of the last examinations of the Farmers State Bank of Genoa, Nebraska, the Farmers State Bank of St. Edward, Nebraska, and the Custer State Bank of Broken Bow, Nebraska.

Upon motion, the three letters were formally approved.

Letter dated July 1st from the Federal Reserve Agent at Chicago, referring to the termination on that date of the office of Assistant Federal Reserve Agent at the Detroit Branch, and inquiring as to what official at the branch should now be considered as custodian of reports of examinations of member banks in the Detroit territory.

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After discussion, it was voted to advise the Federal Reserve Agent that these reports should be transmitted to the Managing Director of the Branch for his confidential use only, and the Secretary was instructed to prepare and submit to the Board an appropriate letter to the Federal Reserve Agent.

Matter ordered circulated at the meeting on June 29th, namely, letter dated June 25th from the Governor of the Federal Reserve Bank of Philadelphia, commenting upon the recent action of the Board in advising all Federal Reserve banks that it is not in harmony with the view of the recent Governors' Conference that, in principle, the Federal Reserve banks should be reimbursed for services performed for Governmental agencies other than the Treasury, when the expense involved is sufficient to justify the banks asking for reimbursement.

After discussion, it was voted to advise the Governor of the Philadelphia bank that in accordance with his suggestion the matter will be brought up for further consideration at the Fall Conference of Governors.

The Governor then reported informally that Messrs. Gilbert and Black, employed by the Board in connection with member bank examinations, have both informed him that at the present time they have personal notes in banks which are members of the Federal Reserve System, and inquired as to whether in the opinion of the Board these obligations should be removed from the member banks.

After discussion, the matter was referred to the Executive Committee with power.

Letter dated June 27th from the Federal Reserve Agent at Minneapolis with reference to the existing tendency in banks of the country to convert deposits from demand to time classification; the Federal Reserve Agent stating that he considers the matter of reserves as most important

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and believes it should be the principal topic of discussion at the next meeting of Governors and Federal Reserve Agents.

Upon motion, the Agent's letter was ordered circulated.

Matter ordered circulated at the meeting on June 21st, namely, memorandum dated June 11th addressed to the Board and the Comptroller of the Currency by Mr. Wyatt, the Board's Counsel, and Mr. Collins, former Deputy Comptroller of the Currency, submitting a proposed definition of the term "outlying district" as used in Section 5138 of the Revised Statutes as amended, and in Section 19 of the Federal Reserve Act.

In this connection, the Governor presented a memorandum from Mr. Miller, suggesting modification of the definition to read as follows: "The term 'outlying district' is construed to mean that portion of the territory included within the corporate limits of a city which lies so far outside of the recognized business and financial area of such city as to give to the business and accounts in banks so located a character essentially different from those of banks in the business area."

Attention was called to the fact that the definition submitted in the memorandum from the Board's Counsel and the Deputy Comptroller of the Currency has been incorporated in the revision of the Board's Regulations which recently were tentatively adopted and transmitted to all Federal Reserve banks for comment.

It was thereupon voted that the definition submitted by Mr. Miller be referred to the Board's Counsel for consideration and report prior to the date on which the regulations are to come up for final action.

The Governor then read to the Board the motion submitted by Mr. Miller at the meeting on June 30th, regarding the authority of the Board in connection with the purchase and sale abroad by Federal Reserve banks of bills of exchange and bankers acceptances, which Mr. Miller had stated he would

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bring up for consideration at the next meeting of the Board.

Mr. Miller stated that he had expected Mr. Hamlin would be in Washington for today's meeting and that he would not bring his motion up until tomorrow, when he understood Mr. Hamlin would be present.

The Governor then referred to the matter which was discussed at the meeting of the Board on June 30th, namely, report of Committee on District #7 with regard to letter dated April 11th from the Federal Reserve Agent at Chicago, requesting permission to build up a field force engaged in bank relations work; the Committee report reading as follows:

"Your committee has given consideration to the request contained in the above mentioned letter, and would recommend that Mr. Heath be advised that in view of the effort now under way by the Federal Reserve Board to require through the Federal Reserve Bank in each district, a closer and more efficient supervision of State Member Banks, the object of the Federal Reserve Agent in each bank should be to build up a very efficient Examination and Bank Relations Force within his institution. This force so far as possible should be composed of men who are experienced and efficient in bank examination work. In the event it should become necessary to employ men who are not experienced bank examiners, they should be men who have had practical banking experience, who could act as assistant bank examiners until sufficiently trained in the work to enable them to conduct examinations. In selecting men for this work, the Federal Reserve Agent should have in mind that part of their duties will be in bank relations work, and therefore they must have the ability, tact, and discretion necessary to perform such services. In this way the Federal Reserve Agent in each bank should be able to build up a force of qualified men to serve as bank examiners and also as bank relations men."

Upon motion by Mr. McIntosh, the report of the Committee was adopted.

REPORTS OF STANDING COMMITTEES:

- Dated, July 1st, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.
- Dated, June 29th, Recommending action on applications for fiduciary powers
July 2nd, as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.
- Dated, June 29th, Recommending action on an application for admission of a state bank, subject to the conditions stated in the individual reports

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REPORTS OF STANDING COMMITTEES: (Cont'd)

attached to the application, as set forth in the Auxiliary Minute Book of this date.

Recommendation approved.

Dated, June 29th, Recommending approval of the application of Mr. Alexander D. Irwin for permission to serve at the same time as director of the Eighth National Bank, Philadelphia, Pa., and as director of the Commonwealth Title Insurance & Trust Company, Philadelphia, Pa.

Recommendation approved.

Dated, June 29th, Recommending approval of the application of Mr. Agnew T. Dice for permission to serve at the same time as director of the Franklin-Fourth Street National Bank, Philadelphia, Pa., and as director of the Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, Pa.

Recommendation approved.

Dated, June 29th, Recommending approval of the application of Mr. T. W. Synnott for permission to serve at the same time as President and director of the First National Bank, Glassboro, N.J., and as director of the Security Trust Company, Camden, N.J.

Recommendation approved.

Dated, June 29th, Recommending approval of the application of Mr. S. Stanger Iszard for permission to serve at the same time as director of the First National Bank, Glassboro, N.J., and as director of the Security Trust Company, Camden, N.J.

Recommendation approved.

Dated, June 29th, Recommending approval of the application of Mr. Percy H. Johnston for permission to serve at the same time as President and director of the Chemical National Bank, New York, N.Y., and as director of the Montclair Trust Company, Montclair, N.J.

Recommendation approved.

Dated, June 29th, Recommending approval of the application of Mr. William H. Folwell for permission to serve at the same time as director of the Corn Exchange National Bank, Philadelphia, Pa., and as director of the Industrial Title & Trust Company, Philadelphia, Pa.

Recommendation approved.

Dated, July 1st, Recommending approval of the application of Mr. William F. Rice for permission to serve at the same time as director of the Morton National Bank, Morton, Pa., and as an employee of the First National Bank, Philadelphia, Pa.

Recommendation approved.

Dated, July 1st, Recommending approval of the application of Mr. George B. Yerkes for permission to serve at the same time as director of the Merchants National Bank, Detroit, Mich., as director and Vice President of the Fidelity Trust Company, Detroit, Mich., and as director and Vice

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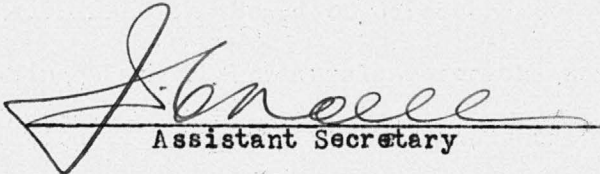
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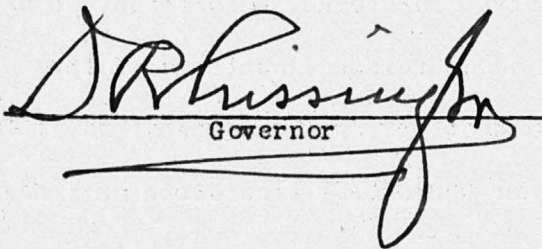
President of the Michigan Industrial Bank, Detroit, Mich.
Recommendation approved.

Dated, July 1st, Recommending approval of the application of Mr. Joseph E. Lindquist for permission to serve at the same time as Vice President of the Central Trust Company of Illinois, Chicago, Ill., and as Chairman of the board of directors of the National Builders Bank, Chicago, Ill.
Recommendation approved.

The meeting adjourned at 1:00 p.m.


Assistant Secretary

Approved:


Governor