

Upon call of the Governor a meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, February 7, 1928 at 2:30 p.m.

PRESENT: Governor Young
 Mr. Platt
 Mr. Hamlin
 Mr. Cunningham
 Mr. McIntosh
 Mr. Eddy, Secretary
 Mr. McClelland, Asst. Secretary

Telegram dated February 7th from the Chairman of the Federal Reserve Bank of Boston, advising that the Executive Committee of the bank, under authority of the board of directors, today voted to establish a rediscount rate of 4% on all classes of paper of all maturities, effective the first business day following that on which approved by the Federal Reserve Board. The Secretary stated that Mr. Miller had requested to be recorded as favoring the establishment of a 4% rate at the Federal Reserve Bank of Boston.

Upon motion, the action of the Executive Committee of the Boston bank in establishing a rediscount rate of 4% was approved, such rate to be effective as at the opening of business tomorrow, February 8th, Mr. Cunningham not voting.

Matter approved on initials yesterday, namely, telegram dated February 6th from the Chairman of the Federal Reserve Bank of Minneapolis, advising that the board of directors on that date voted to establish a rediscount rate of 4% on all classes of paper of all maturities, and requesting the approval of the Board.

The rate of 4% established by the Minneapolis directors having been approved informally yesterday, effective as at the opening of business today, was formally approved, Mr. Cunningham not voting.

Mr. Cunningham stated that the members of the Board are already familiar with his reasons for not voting on adjustments in Federal Reserve bank rates being made at this time.

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The Governor then referred to a telephone conversation yesterday with the Acting Chairman of the Open Market Investment Committee who reported that recent sales from the System account have reduced the portfolio to about \$278,000,000. The Governor stated that the member banks in New York City are now borrowing about \$156,000,000 from the Federal Reserve bank and that after discussing the matter with Mr. McGarran, Mr. Case advised him that they were of the opinion that no further sales should be made for a few days.

A detailed discussion then ensued of the market situation during which Mr. Miller joined and Mr. McIntosh left the meeting.

The minutes of the meeting of the Federal Reserve Board held on February 3rd were then read and approved.

Telegram dated February 3rd from the Chairman of the Federal Reserve Bank of Atlanta, advising that the Executive Committee, under authority of the board of directors, on that date established the following schedule of rates for purchases of bankers acceptances:

1 to 45 days	-	3 1/4%
46 to 120 days	-	3 1/2%
121 to 180 days	-	3 3/4%

Without objection, noted with approval.

Memorandum from the Secretary dated February 6th, submitting letter dated February 3rd from the Chairman of the Federal Reserve Bank of Chicago, with respect to changes in buying rates at that bank, and advising that the following schedule of rates is now in effect:

Bankers Acceptances:		
1 to 45 days	-	3 1/4%
46 to 120 days	-	3 1/2%
121 to 180 days	-	3 3/4%

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Trade Bills	-	4%
Government Securities:		
Repurchase	-	4%

Without objection, noted with approval.

Telegram dated February 6th from the Secretary of the Federal Reserve Bank of Minneapolis, advising of the following schedule of rates approved by the directors of that bank for purchases of bankers acceptances:

1 to 45 days	-	3 1/4%
46 to 120 days	-	3 1/2%
121 to 180 days	-	3 3/4%
Repurchase	-	3 1/2%

Without objection, noted with approval.

Memorandum dated February 4th from the Director of the Division of Research and Statistics, submitting the resignation of Miss Bess O. Brougher, stenographer in the Division, and recommending its acceptance as of noon on February 8, 1928.

Upon motion, the resignation was accepted as recommended.

Letter dated February 1st from the Federal Reserve Agent at Minneapolis, requesting continuance of the designation of Mr. Oliver S. Powell, statistician in his Department, as his representative to act as alternate for the Assistant Federal Reserve Agents in the performance of certain duties heretofore specified.

Upon motion, the redesignation of Mr. Powell for the year 1928 was approved.

Report of Committee on Salaries and Expenditures on letter dated February 3rd from the Deputy Governor of the Federal Reserve Bank of New York, requesting approval of a salary of \$5,000 per annum for Mr. Lewis Galantiere, employed to fill a vacancy in the Foreign Department of the

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bank caused by the resignation some months ago of Mr. Robert B. Warren; the Board's Committee recommending approval of the salary fixed by the New York directors.

Approved.

Report of Executive Committee on memorandum dated February 3rd from the Acting Comptroller of the Currency, recommending approval of an application of The Montrose National Bank, Montrose, Col. for permission to reduce its capital stock from \$100,000 to \$50,000 on condition that as much of the reduction as is necessary be used to entirely eliminate "other real estate" owned, amounting to \$22,761.00, and other doubtful assets listed in the last report of examination; the Board's Committee recommending approval, subject to the conditions suggested by the Acting Comptroller.

Approved.

Telegram dated February 6th from the Federal Reserve Agent at San Francisco, advising that on February 4th The United Bank and Trust Company of San Francisco, a member bank, was taken over by the Security Bank and Trust Company of Bakersfield, Cal., a nonmember bank, and the head office of the latter institution was transferred to San Francisco; the Secretary reported that both institutions involved in the above merger are controlled by the Bancitaly Corporation and that application for surrender of Federal Reserve Bank stock held by the former member bank will be made by the merged institution.

Noted.

Memorandum dated February 6th from the Division of Examination concurring in a recommendation made by the Federal Reserve Agent at Chicago in a letter dated February 2nd that the Board issue an order cancelling 19 shares

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of stock in the Federal Reserve Bank of Chicago standing in the name of the First State Bank, Magnolia, Ill., which was closed April 26, 1927 and for which a receiver was appointed on June 9, 1927; the Secretary reported that this recommendation was made due to the fact that the Federal Reserve Agent has been unable to secure from the receiver of the institution an application for the surrender of its Federal Reserve Bank stock.

Upon motion, the cancellation of the stock in question was ordered.

The Secretary then called attention to the fact that the Board a year or two ago adopted the practice of annually directing its Chief Examiner to make at least one examination of each Federal Reserve bank during the current year and of so advising the Federal Reserve banks.

Upon motion, it was voted that the necessary instructions be issued to the Board's Chief Examiner covering the year 1928 and that a letter be addressed to all Federal Reserve banks as follows:

"You are advised that in compliance with the provision of Section 21 of the Federal Reserve Act that 'The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank ***', the Federal Reserve Board has ordered its Chief Examiner, through its Division of Examination to make an examination of each Federal Reserve bank at least once during the calendar year.

In accordance with this action, the Board has directed Mr. J. F. Herson, its Chief Examiner, to make at least one examination of the Federal Reserve Bank of _____ during the year 1928.

The Board has also empowered its Chief Examiner to select the dates on which all examinations will be begun.

You are requested to give him and his force all proper assistance in making the examinations."

The Secretary then submitted report of Committee on Examinations on letter dated January 31st from the Federal Reserve Agent at Kansas City, re-

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porting violations of the Federal Reserve Act by the Farmers State Bank, St. Edward, Nebraska, and recommending that proceedings be instituted by the Board to require the surrender of stock in the Federal Reserve Bank of Kansas City held by the institution and the forfeiture of its membership in the Federal Reserve System; the Board's Committee concurring in the recommendation of the Federal Reserve Agent. He also submitted drafts of letters addressed to the Farmers State Bank of St. Edward, Nebraska and to the Federal Reserve Agent at Kansas City, advising that a hearing will be held by the Federal Reserve Board at which representatives of the bank are requested to appear to show cause why it should not be required to surrender its stock in the Federal Reserve Bank of Kansas City and to forfeit all rights and privileges in the Federal Reserve System; the letter also stating that in the event the member bank desires to waive its right to appear before the Board, it may through its duly appointed representatives appear before the Federal Reserve Agent on a date to be fixed by him to present such evidence as it may care to have transmitted to the Federal Reserve Board for consideration, provided that reasonable notice in advance is given both to the Federal Reserve Board and to the Federal Reserve Agent of the bank's intention to appear before the Agent.

Upon motion, the letters submitted by the Secretary were approved and ordered transmitted, after March 7, 1928 had been fixed as the date for the hearing to be held by the Board.

The Secretary then submitted report of Committee on Examinations on letter dated January 31st from the Federal Reserve Agent at Kansas City, reporting violations of the Federal Reserve Act by the Farmers State Bank, Genoa,

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Nebraska, and recommending that proceedings be instituted by the Board to require the surrender of stock in the Federal Reserve Bank of Kansas City held by the institution and the forfeiture of its membership in the Federal Reserve System; the Board's Committee concurring in the recommendation of the Federal Reserve Agent. He also submitted drafts of letters addressed to the Farmers State Bank, Genoa, Nebraska, and to the Federal Reserve Agent at Kansas City, advising that a hearing will be held by the Federal Reserve Board at which representatives of the bank are requested to appear to show cause why it should not be required to surrender its stock in the Federal Reserve Bank of Kansas City and to forfeit all rights and privileges in the Federal Reserve System; the letter also stating that in the event the member bank desires to waive its right to appear before the Board, it may through its duly appointed representatives appear before the Federal Reserve Agent on a date to be fixed by him to present such evidence as it may care to have transmitted to the Federal Reserve Board for its consideration, provided that reasonable notice in advance is given both to the Federal Reserve Board and to the Federal Reserve Agent of the bank's intention to appear before the Agent.

Upon motion, the letters submitted by the Secretary were approved and ordered transmitted, after March 7, 1928 had been fixed as the date for the hearing to be held by the Board.

Letter dated February 6th from the Chairman of the Federal Reserve Bank of New York, replying to the inquiry directed to him in accordance with the action taken by the Board at its meeting on January 31st, with reference to the application of the First Federal Foreign Investment Trust of New York

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City, for permission to engage in certain acceptance transactions while at the same time having debentures outstanding; the Chairman reporting that he has discussed the matter with his associates and that they are unanimous in the view that the present regulations of the Board, which prohibit so-called Edge corporations from engaging in acceptance business while they have debentures outstanding, is correct in principle. The Chairman in his letter also stated that although the law does not prohibit activities of the two kinds simultaneously, they are distinct and dissimilar; requiring for their successful conduct widely different organizations of capital and reserves, and different qualities and abilities in management and operation.

After discussion, the Secretary was instructed to prepare for submission to the Board draft of a letter to the First Federal Foreign Investment Trust, advising that after consideration of the matter the Board is unwilling to amend its existing regulations which prohibit a corporation from engaging in acceptance practices while at the same having debentures outstanding.

Memorandum from Counsel dated January 30th, submitting letter from the Assistant Attorney General of the United States dated January 19th, with reference to the recent report made to the Attorney General by the Board of apparent violations of the criminal provisions of Section 5209 of the Revised Statutes by three former employees of the Mailing Department of the El Paso Branch of the Federal Reserve Bank of Dallas, who it appears were charged with the theft of certain postage stamps purchased by the Branch for use in the Mailing Department; the Assistant Attorney General stating that the matter reported by the Board does not appear to constitute a

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violation of Section 5209 of the Revised Statutes, although undoubtedly a violation of State Statutes, and inquiring whether the Board has any objection to the United States Attorney turning over the evidence furnished by the Board to the proper state prosecutor for such action as he may deem appropriate. In his memorandum, Counsel set forth several positions which the Board might take in the above matter, but recommended that the Board advise the Attorney General that the matter is entirely within his discretion and the Board's consent is not necessary.

Upon motion, Counsel's recommendation was approved.

Memorandum from Counsel dated February 4th, submitting draft of reply to letter dated January 27th from the Governor of the Federal Reserve Bank of San Francisco, requesting a ruling on the question whether dollar balances carried by member banks in American branches of foreign banks may be considered balances due from banks within the meaning of Section 19 of the Federal Reserve Act, and accordingly deducted from the amount of balances due to banks in computing reserves; the proposed reply containing a ruling that the balance referred to may be deducted from amounts due to other banks by a member bank in computing its reserves under Section 19 of the Act.

Upon motion, the reply submitted by Counsel was approved.

Letter dated February 3rd from the Chairman of the Federal Reserve Bank of Dallas, advising that the final cost of the hearings recently granted by the board of directors of that bank to Mr. J. P. Williams and his associate amounted to \$3,493.97 in the case of the first hearing and to \$3,431.58 for the second hearing; the Chairman requesting approval by the Board of the payment of the completed bill.

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Approved.

The Governor then submitted draft of a letter prepared under his direction to the Federal Reserve Agent at Richmond, in reply to a communication from him dated January 6th recommending that the Palmetto Bank and Trust Company of Florence, S. C. be given sixty days from February 1st in which to make good an impairment in its capital, it to be understood that if the bank does not restore its capital the Board will require it to surrender its membership in the Federal Reserve System; the reply submitted reading as follows:

"Receipt is acknowledged of your letter of the 6th instant, from which it is noted that you and Governor Seay both feel that the Palmetto Bank and Trust Company of Florence, South Carolina, should be given sixty days from February 1st in which to restore its capital.

The recommendation contained in your letter is construed to mean that you will advise the bank that unless its capital is restored within the time stated it will be necessary for you to recommend to the Federal Reserve Board that the bank be required to surrender its stock in the Federal reserve bank.

If, after the stated time has elapsed, you have ascertained that the bank has not restored its capital to the required amount, the Board will be prepared to act on a recommendation from you that the bank be required to forfeit its membership in the System. It is not believed that the Board should participate directly in an effort to have a member bank restore its capital. It appears desirable that the general procedure in matters of this kind should be that all negotiations with member banks should be conducted by the Federal reserve agents and that the Board should confine itself to dealing only with the agents up to the point of approving a recommendation that a member bank's stock in a Federal reserve bank be cancelled."

Approved.

The Governor stated that he proposes to use a letter along the lines of the above in all similar cases arising in the future.

The Secretary then reported that the Treasury Department on March 1st, 2nd and 3rd will hold a conference of Supervisors of Public Buildings and

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would like to secure the use of the Board room for those dates. He stated that there are no meetings scheduled by the Board for that time other than regular Board meetings which could be held in the office of the Governor.

Upon motion, the Secretary was authorized to advise the Treasury Department that the Board room will be available to it on the dates mentioned.

The Governor then submitted a letter dated February 5th from the Chairman of the Federal Reserve Bank of New York, advising that the board of directors have voted to grant a thirty days' leave of absence to Governor Strong because of his continued illness, such leave of absence to be with full pay.

Upon motion, the payment of full salary to Governor Strong during the leave of absence granted by the New York directors was approved.

REPORTS OF STANDING COMMITTEES:

- Dated, February 4th, 5th, Recommending changes in stock at Federal Reserve banks as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.
- Dated, February 6th, Recommending action on an application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.
Recommendation approved.
- Dated, February 3rd, Recommending approval of the application of Mr. Edgar C. Rust for permission to serve at the same time as director of the National Shawmut Bank, Boston, Mass., and as member of the firm of private bankers of E. H. Rollins & Sons, Boston, Mass.
Recommendation approved.
- Dated, February 3rd, Recommending approval of the application of Mr. W. C. Reitz for permission to serve at the same time as director of the Duquesne National Bank, Pittsburgh, Pa. and as director of the Peoples National Bank, Monessen, Pa.
Recommendation approved.
- Dated, February 3rd, Recommending approval of the application of Mr. Edward H. Bindley for permission to serve at the same time as director of the Duquesne National Bank, Pittsburgh, Pa. and as director of the Workingmens Savings Bank and

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REPORTS OF STANDING COMMITTEES: (cont'd)

- Trust Company of North Side, Pittsburgh, Pa.
Recommendation approved.
- Dated, February 3rd, Recommending approval of the application of Mr. Arthur N. Hazeltine for permission to serve at the same time as Vice President and director of the Montclair Trust Company, Montclair, N. J. and as director of the Peoples National Bank, Montclair, N. J.
Recommendation approved.
- Dated, February 3rd, Recommending approval of the application of Mr. William T. Read for permission to serve at the same time as director of the First Camden National Bank and Trust Company, Camden, N. J. and as director of the West Jersey-Parkside Trust Company, Camden, N. J.
Recommendation approved.
- Dated, February 3rd, Recommending approval of the application of Mr. Kenneth K. McLaren for permission to serve at the same time as director of the Liberty National Bank, New York, N. Y., as director of the Commercial Trust Company of New Jersey, Jersey City, N. J. and as President and director of the Corporation Trust Company, New York, N. Y.
Recommendation approved.
- Dated, February 4th, Recommending approval of the application of Mr. A. C. F. Meyer for permission to serve at the same time as director of the Twelfth Street National Bank, St. Louis, Mo., as officer and director of the Lafayette-South Side Bank and Trust Company, St. Louis, Mo., and as officer and director of the South Side Trust Company, St. Louis, Mo.
Recommendation approved.
- Dated, February 4th, Recommending approval of the application of Mr. Hugo F. Urbauer for permission to serve at the same time as director of the Lafayette-South Side Bank and Trust Company, St. Louis, Mo. and as director of the Twelfth Street National Bank, St. Louis, Mo.
Recommendation approved.
- Dated, February 4th, Recommending approval of the application of Mr. Walter R. Medart for permission to serve at the same time as director of the Lafayette-South Side Bank and Trust Company, St. Louis, Mo. and as director of the Twelfth Street National Bank, St. Louis, Mo.
Recommendation approved.
- Dated, February 4th, Recommending approval of the application of Mr. P. J. Pauly for permission to serve at the same time as director of the Lafayette-South Side Bank and Trust Company, St. Louis, Mo. and as director of the Twelfth Street National Bank, St. Louis, Mo.
Recommendation approved.

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REPORTS OF STANDING COMMITTEES: (Cont'd)

Dated, February 4th, Recommending approval of the application of Mr. H. W. Gildehaus for permission to serve at the same time as director of the Lafayette-South Side Bank and Trust Company, St. Louis, Mo. and as director of the Twelfth Street National Bank, St. Louis, Mo.
Recommendation approved.

Dated, February 7th, Recommending approval of the application of Mr. Edward S. French for permission to serve at the same time as director of the Peoples National Bank of Barre, Vt., as director of the National White River Bank of Bethel, Vt., and as director of the Vermont Peoples National Bank of Brattleboro, Vt.
Recommendation approved.

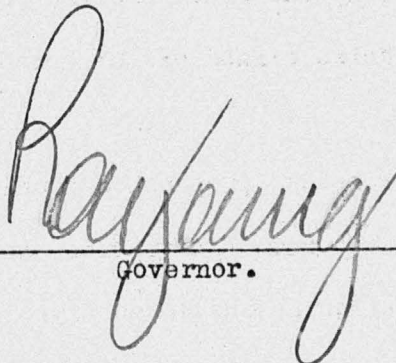
Dated, February 7th, Recommending approval of the application of Mr. E. B. MacNaughton for permission to serve at the same time as director and Vice President of the First National Bank of Portland, Ore., and as director of the First National Bank of Astoria, Ore.
Recommendation approved.

Dated, February 7th, Recommending approval of the application of Mr. Frederick D. Metzger for permission to serve at the same time as director of The National Bank of Tacoma of Tacoma, Wash. and as director of The Army National Bank of Fort Lewis, Wash.
Recommendation approved.

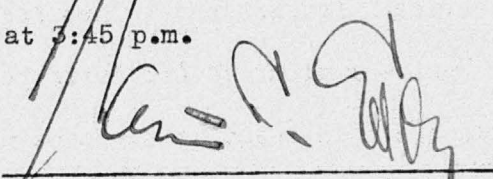
Dated, February 7th, Recommending approval of the application of Mr. Will S. Fawcett for permission to serve at the same time as director of the Bank of Italy National Trust and Savings Association of San Francisco, Cal., and as director of the First National Bank of Garden Grove, Cal.
Recommendation approved.

The meeting adjourned at 3:45 p.m.

Approved:



Governor.



Secretary.