

A meeting of the Federal Reserve Board was held in Washington on Friday, January 18, 1935, at 11:25 a. m.

PRESENT: Mr. Eccles, Governor
 Mr. Thomas, Vice Governor
 Mr. Hamlin
 Mr. Miller
 Mr. James
 Mr. Szymczak
 Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Governor

Governor Eccles referred to the accounts appearing in the newspapers with regard to the policy of the Federal Reserve Board concerning the appointment of directors of Federal reserve banks and branches as set forth in its letter of January 9, 1935 (X-9083), and stated that, inasmuch as the press had learned of the matter apparently from some unauthorized source, he felt that in order that the Board's position might be properly stated it would be advisable to give the letter to the press immediately with an explanatory statement in the form in which it will appear in the forthcoming issue of the Federal Reserve Bulletin which will not be released for two or three days.

In connection with the above matter, Mr. Miller presented the following letter addressed to him under date of January 10, 1935, by Mr. Owen D. Young, Class C director of the Federal Reserve Bank of New York:

"The letter of the Governor of the Federal Reserve Board to the Chairman of the Federal Reserve Bank of New York, dated January 9, 1935, stating the policy of the Board with reference to the service of directors, was read at the meeting of our

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"Board today. For convenience, I quote from that letter the following paragraph:

"Therefore the Board has reached the conclusion that six years of service represents the maximum period during which a director should remain continuously in office. It will be guided by this view in future and will not continue in office as directors men appointed by it who have served six or more consecutive years (except in the cases of chairmen of the Federal reserve banks)."

I have served on the Board of Directors of the Federal Reserve Bank of New York since January 1, 1923. At that time I was elected a class "B" director by the large banks of the district. I was reelected a class "B" director on January 1, 1926. I resigned as a class "B" director on January 13, 1927, and on that day was appointed a class "C" director and designated as Deputy Chairman. Since then I have been reappointed by the Board with each successive expiration of my term and each year the Board has designated me as Deputy Chairman.

"My present term expires on December 31, 1935. In view of my long service which so conspicuously conflicts with the policy of the Board, now for the first time announced, I hereby present my resignation as director and Deputy Chairman of the Federal Reserve Bank of New York, to take effect at the pleasure of the Federal Reserve Board.

"I shall be glad to serve as I have in the past at the pleasure of the Board but do not wish to hold my office in conflict with the Board's policy merely because my term does not expire until the end of this year."

After a brief discussion, Mr. Miller was authorized to advise Mr. Young, in such manner as he thinks appropriate, that the Federal Reserve Board desires him to remain a director of the bank for the remainder of his term; that the policy announced in the Board's letter of January 9, 1935, was not intended to apply in any way to directors now holding office, but to future appointments; and that the policy was announced at this time in order that the Federal reserve banks and the directors of the banks and branches might have ample time within which to become familiar with the policy.

Mr. Thomas referred to the Board's letter of January 9, 1935, and stated that no draft of the proposed letter had been submitted to him before being read at the meeting; that he had expected it would be circulated among the members of the Board following the meeting of January 9 after it had been rewritten; and that when the minutes of December 28, 1934,

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were circulated for approval (January 11th) he had added a memorandum suggesting that the subject matter be more thoroughly discussed, and that the proposed letter be deferred until further consideration, but that he had learned later that the letter had been sent out immediately after the meeting of January 9. He further stated that while he was in accord with the general policy of limiting tenures to prevent the crystallizing of control, the Board should be guided by the facts as they exist in each case, and should not tie its own hands and thereby arbitrarily deprive the System of the services of high class men where the objectionable condition did not exist.

Governor Eccles reviewed the informal consideration which had been given by the members of the Board to the subject matter of the letter prior to the meeting on January 9, and he called Mr. Thomas' attention to the fact that after the letter was read at that meeting it had been approved, with only one change, by all members of the Board present, except Mr. James, who had voted against the letter for the reason that he felt it was an inopportune time to send it to the Federal reserve banks.

As a result of Mr. Thomas' reference to the letter of January 9, 1935, there ensued a detailed discussion of the procedure followed in handling the matters presented to the Board for approval.

At the conclusion of the discussion it was agreed that in the future:

1. All drafts of communications which are circulated among the members of the Board for approval shall be sent out as soon as the communications are returned to the Secretary's office with the Board members' initials affixed.
2. If a matter is put into circulation for approval and a question is raised regarding it by a member of the Board, upon which he desires Board consideration, the matter will be presented for action at the next meeting of the Board.

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3. If a matter is not circulated among the members of the Board and is presented at a meeting, any communication approved at the meeting with regard to such matter shall not be dispatched until either the communication is initialed for approval by the members of the Board or the minutes of the meeting have been approved by them, unless it is decided at the meeting that the matter is not to be held for such approval.
4. When a communication is approved at a meeting of the Board and circulated to the members for approval in accordance with the above procedure and a question is raised with regard to the communication by a member of the Board upon which he desires further Board consideration, the matter will be presented at the next meeting and the action of the Board at that meeting will be final and further circulation will not be necessary.

Governor Eccles referred again to the question of a press statement with regard to the Board's letter of January 9, 1935, on the subject of the appointment of directors of Federal reserve banks and branches.

After further discussion, upon motion by Mr. Szymczak, the Governor was authorized to give the letter to the press with an introductory statement in the form in which it will appear in the forthcoming issue of the Federal Reserve Bulletin. On this motion Mr. Thomas requested to be recorded as 'not voting'.

Mr. Miller stated that in accordance with a suggestion made by one of the members of the Board at a meeting on January 16, he had prepared a draft of a letter to Mr. Charles Moore, Chairman of The Commission of Fine Arts, reading as follows:

"The program for the Federal Reserve Board's competition for the selection of an architect is nearing completion.

"About the only step necessary to complete it is the

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"selection of the architects who are to be invited into the competition and the selection of a jury to judge the plans and designs submitted.

"The Federal Reserve Board is of the opinion that the number of competitors should not be less than ten nor more than fifteen, and the number of the jury five, of whom three should be of the architectural profession.

"I am writing to ask, on behalf of the Board, your cooperation in making the competition as successful as possible by giving us your judgment as to the architects who should be invited to participate in the competition, and likewise your judgment as to the members of the architectural profession in your opinion best qualified to judge the plans and designs submitted.

"I hardly need to say to you again that I think you feel and understand, because of the deep interest you have shown in the Federal Reserve Board's building project and the assistance you have already given, that it is the Board's desire that the competition should yield the best possible result that may be expected from the architectural profession in America, and that the Board is inviting your cooperation in the selection of the architects with the desire that this result may be achieved.

"Let me take this occasion again to thank you for giving Dean Meeks the opportunity to confer with you and let me also express through you to the Commission our appreciation of the willingness of the Commission to permit the competition to contemplate a building somewhat higher than the nearby buildings on Constitution Avenue and projecting somewhat south of the building line of the National Academy of Sciences and Public Health Service buildings, provided it enhances the general composition of the group.

"Will you give the matter of this letter your prompt attention in order that we may proceed with winding up the details in connection with the program for the competition."

In this connection Mr. Miller referred to the matters which were discussed at the meeting on January 16 in connection with the program of competition for the selection of an architect for the Board's building and stated that he desired to recommend:

1. That if it is decided to invite 10, 11 or 12 architects to participate in the competition, the allowance to each competitor be \$1,500 and that if 13, 14 or 15 architects be invited to compete the allowance to each competitor be

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fixed at \$1,000.

2. That the jury be composed of five members, three of whom would be architects.

Mr. Miller's recommendations were approved, following which, upon motion by Mr. Szymczak, the letter to Mr. Moore referred to above was approved with the understanding that it would not be necessary to circulate it among the members of the Board for initials.

It was also agreed that Mr. Miller and Mr. Frederic A. Delano, Chairman of the National Capital Park and Planning Commission, should be designated as members of the jury.

Mr. Miller stated that he felt certain a reply to the letter referred to above would be received from Mr. Moore not later than Monday, January 21, 1935, and that he would like to have a meeting of the Board as soon as the reply is received in order to make final arrangements for the announcement of the program of competition.

It was agreed that a meeting would be held on Saturday if the reply is received in time to have the meeting before 1:00 p. m., otherwise on Monday, for the purpose stated, when consideration would also be given to the question of the compensation for the professional members serving on the jury.

Governor Eccles then handed to each member of the Board a copy of a short outline of proposed legislation affecting the Federal Reserve System, together with a copy of a memorandum setting forth briefly the principal reasons for the proposed legislation.

After a detailed discussion, it was understood that the members of the Board would study the proposals over the week-end and that further consideration would be given thereto at a meeting of the Board to be held early next week.

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There was presented a telegram just received from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, stating that the Executive Committee of the bank, at its meeting today, under authority of the board of directors, voted to establish a rediscount rate of 2% on rediscounts of eligible paper for member banks and advances to member banks under the provisions of sections 13 and 13(a) of the Federal Reserve Act, effective the first business day following that on which approved by the Federal Reserve Board.

The rate of 2% established by the Executive Committee of the Federal Reserve Bank of Chicago was approved, effective January 19, 1935.

The Board then acted upon the following matters:

Letter dated January 17, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, advising that, at the meeting of the board of directors on that date, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated January 14, 1935, from Dr. Goldenweiser, Director of the Division of Research and Statistics, recommending an extension, for a period of three months from January 26, 1935, of the temporary appointment of Miss Lois Crim, a stenographer in the division, with salary at the rate of \$1,440 per annum.

Approved.

Letter dated January 17, 1935, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

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"This refers to your letter of December 6, 1934, with which you inclosed a copy of a letter dated December 3, 1934, from the Southern Arizona Bank and Trust Company, Tucson, Arizona, regarding the effect of one of the conditions of membership it accepted at the time of its admission to membership in the Federal Reserve System upon the participation by that bank in the housing program under the National Housing Act.

"The Southern Arizona Bank and Trust Company is not prohibited by the condition of membership referred to from lending on real estate mortgages, since that condition of membership only forbids the bank to 'engage in the business of issuing or selling' such mortgages, or participations therein. It is assumed from the bank's reference to the sale of mortgages insured under the National Housing Act to 'mortgage discount corporations', that it is interested in selling such insured mortgages to national mortgage associations organized under Title III of the National Housing Act, and it is noted that you recommend that the bank be granted permission under the condition of membership to engage in the business of selling such insured mortgages.

"As you know, section 21(a) of the Banking Act of 1933 provides in part:

"'Sec. 21. (a) After the expiration of one year after the date of enactment of this Act it shall be unlawful -

"'(1) For any person, * * * engaged in the business of * * * selling, * * * stocks, bonds, debentures, notes, or other securities, to engage at the same time to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor;
* * * '

"Furthermore, as the Board pointed out in the ruling published on page 302 of the May 1934 Federal Reserve Bulletin, section 21 of the Banking Act of 1933 provides a penalty of fine or imprisonment for violation of its provisions, and the question whether in any case a prosecution should be instituted under the provisions of that section is a matter within the jurisdiction of the Department of Justice. The Board understands that the Department of Justice is unwilling to rule on the question whether real estate mortgages and mortgage notes come within the provisions of section 21.

"The provision quoted above, of course, places no prohibition upon the right of banks to make loans upon mortgages, but it might lead to some question being raised as to the right of

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"banks to engage in the business of selling mortgages. In addition, it is understood that no national mortgage associations have as yet been organized under the provisions of Title III of the National Housing Act and, therefore, in view of all the circumstances, the Board prefers at this time not to act upon the question presented by your letter.

"However, the Board is giving consideration to the advisability of recommending the enactment of legislation to clarify the meaning of section 21 of the Banking Act on the point here involved, and you will be advised further on the subject."

Approved.

Memorandum from Mr. Morrill, Secretary, stating that the Board has been advised of the selection by the boards of directors of the Federal reserve banks of the following members of the Federal Advisory Council for the year 1935:

<u>District</u>	<u>Name and Affiliation</u>
No. 1	*Thomas M. Steele, President, First National Bank & Trust Co. of New Haven, Connecticut.
No. 2	James H. Perkins, Chairman, The National City Bank of New York, New York.
No. 3	*Howard A. Loeb, Chairman, Tradesmens National Bank & Trust Co., Philadelphia, Pennsylvania.
No. 4	Arthur E. Braun, President, Farmers Deposit National Bank, Pittsburgh, Pennsylvania.
No. 5	Charles M. Gohen, President, First Huntington National Bank, Huntington, West Virginia. #*Charles E. Rieman, President, Western National Bank of Baltimore, Maryland.
No. 6	*H. Lane Young, Vice President and Executive Manager, The Citizens and Southern National Bank, Atlanta, Georgia.
No. 7	*Solomon A. Smith, President, The Northern Trust Company, Chicago, Illinois. #*Howard W. Fenton, President, Harris Trust and Savings Bank, Chicago, Illinois.
No. 8	*Walter W. Smith, President, First National Bank in St. Louis, Missouri.
No. 9	*Theodore Wold, President, Northwestern National Bank and Trust Company, Minneapolis, Minnesota.

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- No. 10 *W. T. Kemper, Chairman, Commerce Trust Company,
Kansas City, Missouri.
- No. 11 *J. H. Frost, President, Frost National Bank,
San Antonio, Texas.
#*W. W. Woodson, President, First National Bank,
Waco, Texas.
- No. 12 *M. A. Arnold, President, First National Bank of
Seattle, Washington.

*Reappointment

#Alternate

Noted.

Letter to Mr. Paulger, Chief of the Division of Examinations,
reading as follows:

"Section 5240 of the United States Revised Statutes (Section 21 of the Federal Reserve Act), as amended, provides in part that the Federal Reserve Board, at least once each year, shall order an examination of each Federal reserve bank.

"In accordance with this requirement of the law, the Federal Reserve Board orders that an examination of each of the twelve Federal reserve banks be undertaken during the year 1935, and the Board authorizes and directs you to institute and conduct such examinations at such time or times as may seem advisable in your judgment."

Approved.

Telegram to Mr. McKay, Deputy Governor of the Federal Reserve Bank of Chicago, reading as follows:

"Referring your January 15 letter, position of Board regarding safekeeping of securities for member banks in Federal Reserve bank and branch cities remains as stated in paragraph beginning at bottom of page 2 of its letter of June 6, 1934, X-7907. Bearing in mind position of Board as stated in its letter X-7907, policy to be pursued by your bank in this matter is one for determination by board of directors of your bank."

Approved.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve

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Bank of New York, reading as follows:

"Your letter of December 18, 1934, regarding a conference with representatives of the New Jersey Banking Department has been noted with interest by the Board and it is hoped that your efforts will be successful in furthering cooperation with the State authorities."

Approved.

Letters to the respective Federal reserve agents stating that the Board has reconsidered the following Clayton Act applications and, in accordance with the procedure set forth in the Board's letter of January 9, 1935, X-9082, has issued permits for the period ending January 14, 1936:

Mr. R. W. Oakes, for permission to serve at the same time as an officer of The Jefferson County National Bank of Watertown, Watertown, New York, and as a director and officer of The First National Bank of Lacona, Lacona, New York, for the period ending January 14, 1936.

Mr. C. N. Abernethy, for permission to serve at the same time as a director of the Arsenal Bank, Pittsburgh, Pennsylvania, and as a director of the First National Bank of Etna, Etna, Pennsylvania, for the period ending January 14, 1936.

Mr. F. E. Hertzell, for permission to serve at the same time as a director and officer of The Warren National Bank, Warren, Pennsylvania, and as a director and officer of the Tidioute State Bank, Tidioute, Pennsylvania, for the period ending January 14, 1936.

Mr. W. T. Tredway, for permission to serve at the same time as a director of The Coraopolis National Bank, Coraopolis, Pennsylvania, and as a director of The Coraopolis Trust Company, Coraopolis, Pennsylvania, for the period ending January 14, 1936.

Mr. George P. Sacks, for permission to serve at the same time as a director and officer of the Bank of Bethesda, Bethesda, Maryland, and as a director of The National Bank of Washington, Washington, D. C., for the period ending January 14, 1936.

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Mr. John M. Hoy, for permission to serve at the same time as a director and officer of the First National Bank of Woodstock, Woodstock, Illinois, and as a director of the State Bank of Huntley, Huntley, Illinois, for the period ending January 14, 1936.

Approved.

Letters to applicants for permits under the Clayton Act, advising in accordance with the procedure set forth in the Board's letter of January 9, 1935, X-9083, of approval of their applications as follows:

Mr. T. L. Cathcart, for permission to serve at the same time as a director of The First National Bank of Smithville, Smithville, Tennessee, and as a director of the Alexandria Bank & Trust Company, Alexandria, Tennessee, for the period ending January 14, 1936.

Mr. O. E. Hodge, for permission to serve at the same time as a director and officer of The First National Bank of Ruston, Ruston, Louisiana, and as a director and officer of the Jonesboro State Bank, Jonesboro, Louisiana, for the period ending January 14, 1936.

Mr. J. S. Hunt, for permission to serve at the same time as a director of The First National Bank of Ruston, Ruston, Louisiana, and as a director of the Central Savings Bank and Trust Company, Monroe, Louisiana, for the period ending January 14, 1936.

Approved.

There were then presented the following applications for changes in stock of Federal reserve banks:

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>
<u>District No. 1</u>	
The Third National Bank and Trust Company of Springfield, Springfield, Massachusetts	300
The Union Trust Company of Boston, Boston, Massachusetts	<u>28</u> 328

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<u>Applications for ADDITIONAL Stock: (Continued)</u>		<u>Shares</u>	
<u>District No. 2</u>			
Ramapo Trust Company, Spring Valley, New York		18	
The New York State National Bank of Albany, Albany, New York		900	
The First National Bank of East Islip, East Islip, New York		15	
Citizens First National Bank of Frankfort, Frankfort, New York		69	
The Little Ferry National Bank, Little Ferry, New Jersey		15	
The Livingston Manor National Bank, Livingston Manor, New York		37	
The First National Bank and Trust Company of Massena, Massena, New York		3	
The West Winfield National Bank, West Winfield, New York		13	
The First National Bank of Winthrop, Winthrop, New York		<u>9</u>	1079
<u>District No. 7</u>			
The Illinois National Bank and Trust Company of Rockford, Rockford, Illinois		15	
Main State Bank, Chicago, Illinois		9	
Davenport Bank and Trust Company, Davenport, Iowa		<u>60</u>	<u>84</u>
		<u>Total</u>	<u>1491</u>
<u>Applications for SURRENDER of Stock:</u>			
<u>District No. 4</u>			
The First National Bank of Garrettsville, Garrettsville, Ohio		37	
First National Bank and Trust Company of Covington, Covington, Kentucky		<u>300</u>	337
<u>District No. 7</u>			
The Macomb National Bank, Macomb, Illinois		90	90
<u>District No. 12</u>			
First National Bank in Condon, Condon, Oregon		<u>36</u>	<u>36</u>
		<u>Total</u>	<u>463</u>

Approved.

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Thereupon the meeting adjourned.

Chester Morrell
Secretary.

Approved:

W. C. C. C.
Governor.