

A meeting of the Federal Reserve Board was held in Washington on Friday, March 22, 1935, at 2:40 p. m.

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak
Mr. O'Connor

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Governor

There was presented a memorandum dated March 11, 1935, from Mr. James quoting the following resolution adopted by the board of directors of the Federal Reserve Bank of Atlanta and communicated to Mr. James over the telephone by Mr. Clark, Assistant Federal Reserve Agent at the bank:

WHEREAS, the press is carrying stories to the effect that a general strike is threatened in Cuba; and

WHEREAS, any such strike might be a source of danger to the Havana Agency of this bank,

THEREFORE BE IT RESOLVED That the Federal Reserve Board be, and it hereby is, requested to keep this situation in mind, and, in the event some threat to the security of the property of this bank located in said agency should develop, the Board use its good offices in securing protection for the Agency through the Department of State of the United States or otherwise, as the Board may see appropriate.

Mr. Hamlin moved that the Secretary be requested to prepare a letter to the State Department transmitting the resolution for such action as may be thought necessary in the circumstances.

Carried.

Consideration was then given to a letter dated February 11, 1935,

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from Governor Harrison of the Federal Reserve Bank of New York, replying to the Board's letter of January 22, 1935, with regard to the salary recommendations made by the board of directors of the bank for the officers for the year 1935, and submitting the revised recommendations of the directors with respect to salaries for the current year. There were also presented letters dated January 17 from Governor Calkins of the Federal Reserve Bank of San Francisco, January 18 and February 15 from Mr. Moore, Deputy Chairman of the board of directors of the San Francisco bank, and February 15, 1935, from the executive committee of the bank, urging that the Board give favorable consideration to the recommendations previously submitted by the board of directors with regard to salaries of the officers of the bank for the current year.

Mr. James, as Chairman of the Committee on Salaries and Expenditures, stated that, in view of the fact that the Board's letter of January 5, 1935, with regard to salary policy was not sent out until after agreements had been reached between the directors of the Federal Reserve Banks of New York and San Francisco and the Board's Committee on Salaries and Expenditures and the district committees with regard to salaries for the current year, he would suggest that the recommendations of the boards of directors of the two banks be approved.

Mr. Hamlin moved that the recommendations of the board of directors of the Federal Reserve Bank of San Francisco be approved and that the Secretary be requested to prepare a letter to the Deputy Chairman of the bank advising of the Board's action.

Carried unanimously.

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There followed a discussion of the recommendations of the board of directors of the Federal Reserve Bank of New York, particular consideration being given to the recommendations that increases be made in the salaries of Mr. W. S. Logan, Deputy Governor and General Counsel, from \$22,000 to \$25,000, L. W. Knoke, Assistant Deputy Governor, from \$14,000 to \$15,000, and H. V. Roelse, Assistant Federal Reserve Agent and Manager, Reports Department, from \$8,000 to \$10,000. During the discussion it was pointed out that one of the reasons given by the New York directors for the three increases referred to is that it is desired to bring them into line with the salaries paid other officers of the bank, and in this connection some of the members of the Board expressed the opinion that, instead of increasing these salaries, the adjustment should be accomplished by reducing the salaries of other officers. The recommendations of the board of directors of the New York bank included a recommendation that the salary of Mr. Carl Snyder, General Statistician, be approved for the year 1935 and it was pointed out that the Federal Reserve Board on July 2, 1934, approved the salary of Mr. Snyder only to April 23, 1935.

Mr. James moved that the recommendations of the board of directors of the Federal Reserve Bank of New York be approved with the exception of the recommendation with regard to the salary of Mr. Snyder.

Governor Eccles suggested that, if the Board approved Mr. James' motion, the New York bank be advised that the Board is taking such action because of the fact that its letter of January 5, 1935, was sent after an understanding had been

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reached by the Board's Committee on Salaries and Expenditures and District Committee with the board of directors of the New York bank, and before the receipt of advice of the Board's policy as set forth in Governor Eccles' letter of January 5, 1935, and that it is the feeling of the Board that adjustments of this type in official salaries should be made by reductions in the higher salaries rather than increases in the salaries which it is felt are out of line.

Mr. James' motion was put by the chair and carried, and the Secretary was requested to prepare a letter to the Federal Reserve Bank of New York in accordance with Governor Eccles' suggestion.

In connection with the above matter Mr. O'Connor stated that a short time ago the Chief National Bank Examiner for the Second Federal Reserve District recommended the employment of an additional stenographer with salary at the rate of \$90 per month, and that he had replied to the recommendation that the employment of stenographers at such a low salary was unjustified and that the minimum salary for such a position should be \$125 per month. He said that he felt that the Board should give careful consideration, not only to the salaries of officers of Federal reserve banks, but also to the situation with regard to the lower salary positions at the Federal reserve banks with the view to raising all salaries at the banks to reasonable minimums.

It was stated that a conference of representatives of the Federal reserve banks is being arranged for the purpose of reviewing the personnel classification plans of the banks for the purpose of simplification and to bring about greater uniformity in the plans of the various banks. Mr. O'Connor said that he felt it was important that the Board and the banks

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should adopt the policy of fixing salaries of employees at a figure where the employees would feel that their positions are a little better than the average. He said that he intended to follow such a policy in the office of the Comptroller of the Currency.

There was then presented a draft of a reply, prepared by counsel's office, to a letter dated July 13, 1934, from Mr. Dillistin, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, raising the question whether the Community Water Works Company and its fifty-two subsidiaries are affiliates of the Chemical Bank and Trust Company, New York, New York, it being understood that the trust company controls a majority of the common stock of the Community Water Works Company but, because of a default in payment of dividends on preferred stock, holders of such preferred stock have the right to elect a majority of the board of directors of such company, although common shareholders have the right to elect a minority of the board of directors and to exercise full voting rights on all other matters. The proposed reply stated that the water works company is an affiliate of the trust company for the reason that the latter owns a majority of the voting shares even though, during the continuance of the default, the right to elect a majority of the board of directors of the water works company is in the holders of the preferred stock. The reply also stated that the fifty-two subsidiaries, a majority of the stock of each of which is owned or controlled by the water works company, are not affiliates of the trust company for the reason that, during the period of the default, the trust

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company does not have the power to elect a majority of the directors of the water works company and hence does not control the shares of the fifty-two subsidiaries which the water works company owns.

The file had been circulated among the members of the Board and Mr. Hamlin and Mr. Thomas had attached memoranda to the files expressing the opinion that the water works company, during the period of such default, is not an affiliate of the trust company.

Mr. Miller moved that the Board rule in accordance with the opinion expressed by Messrs. Thomas and Hamlin.

Carried, with the understanding that counsel would be requested to prepare a revised draft of reply in accordance with the Board's action.

Reference was made to memoranda dated February 18, 1935, from Mr. Wingfield, Assistant Counsel, and February 20, 1935, from Mr. Wyatt, General Counsel, with further regard to the disposition by the Mercantile Commerce Bank and Trust Company of St. Louis, St. Louis, Missouri, of the stock of the Mercantile Commerce National Bank. Mr. Wingfield's memorandum stated that counsel for the trust company had discussed the matter with various members of the Board and its staff and had filed a brief setting forth its position in the matter, and in a letter dated January 17, 1934, counsel for the trust company had indicated that the trust company is prepared to contest in the courts the validity of any action taken by the Board to enforce its views regarding the disposition of the stock of the national bank.

The memorandum from Mr. Wyatt expressed the opinion that, while the position heretofore taken by the Board in the matter is legally correct, the Board's record contains several serious weaknesses which

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would make this a very undesirable case in which to test several legal questions of far-reaching general importance which probably would be involved in the case and which affect some of the Board's most important powers with respect to State member banks, and stated that in view of the weakness in its own record he doubted that the Board would have an even chance to succeed in such litigation and in his judgment the possible disadvantages of unsuccessful litigation would be much greater than any possible advantage to be gained from successful litigation. Mr. Wyatt submitted with his memorandum a draft of letter to the Mercantile Commerce Bank and Trust Company in accordance with the position taken in his memorandum.

The file had been circulated among the members of the Board who had discussed informally the question what action should be taken in the circumstances. Mr. Hamlin had attached a memorandum to the file suggesting that the bank be advised that, while the Board has grave doubt whether the bank has fully complied with the spirit of the Board's requirement that it dispose of the stock of the national bank, in view of the fact that the trust company is prohibited by law from exercising its option to purchase the stock of the national bank, the Board is content to take no further action in the matter. Mr. Thomas attached a memorandum criticising the proposed letter, expressing doubt as to the validity of the condition of membership which denied the trust company the right to "retain its full charter and statutory rights as a State bank", and maintaining that the manner of acquiring the stock in controversy was not a violation of the condition of membership nor did the taking of the option to purchase con-

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stitute acquiring an "interest" in the stock. He urged that the Board adopt the suggestion made by Mr. Hamlin. Some of the other members present indicated that they were in agreement with Mr. Hamlin's suggestion.

At the conclusion of the discussion, Messrs. Hamlin and Thomas, in consultation with Mr. James, were requested to prepare a letter along the lines of Mr. Hamlin's suggestion for the consideration of the Board.

There was then presented a draft of a letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, stating that the Board has reviewed the information submitted in connection with the application of the First National Bank of Ketchikan, Alaska, for membership in the Federal Reserve System and that, while it appears that the bank's general financial condition is such that favorable consideration properly could be given to the application, in view of the recommendation of the executive committee of the Federal reserve bank that consideration of the application be deferred until such time as an economic survey can be made of the entire Alaskan territory, the Board does not approve the application at this time. The file had been circulated among the members of the Board and Mr. Hamlin had attached a memorandum suggesting that in view of all the circumstances the Board give favorable consideration to the application.

Reference was made to the following reasons given by the executive committee of the Federal reserve bank for its recommendation:

- (1) Membership in the Federal Reserve System would have little, if any, advantages to banks in Alaska.
- (2) The applicant bank is the only one desirous of membership. The others are not interested unless the applicant is admitted.
- (3) Federal Deposit Insurance is now available to Alaskan banks

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- without membership in the Federal Reserve System and the applications of the First National Bank, Ketchikan and the First National Bank, Juneau, have already been approved by the Corporation, according to advice of the San Francisco Agency.
- (4) Admission of the applicant to membership would no doubt be followed by applications from other three national banks and probably all competing territorial banks.
 - (5) If the stronger banks are admitted and the weaker ones denied admission, confidence of the community would be destroyed and failures would likely follow. This would be disastrous to the member and nonmember banks alike as well as to the whole Territory of Alaska.
 - (6) Membership for the First National Bank, Ketchikan, Alaska, at this time has potential consequences, the responsibility of which the Committee does not care to assume.

The opinion was expressed by some of the members present that, since the applicant apparently is in a position to meet all the requirements of the law and the conditions of membership which would be imposed by the Board, it should not be denied membership because of the unsatisfactory condition of other banks in the territory. It was pointed out that considerable information with regard to the banking and economic situation in the territory had been developed by the national bank examiner who had made examinations of the four national banks in the territory in the Fall of 1934, and by the Federal reserve bank, and it was suggested that another survey of conditions in the territory would accomplish no useful purpose. There was considerable discussion of the question whether the Federal Reserve Board should act on the application without further delay or defer action to afford the Federal Reserve Bank of San Francisco an opportunity to reconsider the matter and, if thought necessary, to have a representative make a survey of the territory and submit a further recommendation to the Board.

At the conclusion of the discussion, upon motion by Mr. Szymczak, the Secretary was requested to prepare, for the Board's consideration, a letter to Mr. Sargent along lines suggested by Mr. Szymczak.

Carried unanimously.

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Mr. James moved that Mr. Hamlin, who is the member of the Board in charge of membership applications, be requested to prepare for the use of the members of the Board in connection with the further consideration of the application of the First National Bank of Ketchikan, a memorandum reviewing the consideration given, and action taken by the Board with regard, to the admission to membership of banks located in the territories, dependencies, or insular possessions of the United States, including Puerto Rico and Hawaii.

Carried.

Mr. Morrill stated that his office had been advised over the telephone today by Mr. Gidney, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, that Mr. J. S. Rippel of Newark, New Jersey, had requested that, in order to avoid the necessity of his making an over-night trip to Washington in connection with the hearing before the Board in regard to his application under the provisions of section 32 of the Banking Act of 1933 for permission to serve as officer and director of the Merchants and Newark Trust Company and of J. S. Rippel & Company, both of Newark, New Jersey, the Board fix a time later than 11:00 a. m. on March 27, 1935, for the hearing.

Messrs. Thomas and Hamlin were requested to meet with Mr. Rippel for a discussion of his application at such time on March 27 as they should agree upon with Mr. Rippel.

The Board then acted upon the following matters:

Letter dated March 21, 1935, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegram dated March 22 from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, both advising that, at meetings of the boards of directors on the dates stated, no

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changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Letter to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of March 12, 1935, transmitting a certified copy of a resolution adopted by the Board of Directors of the Federal Reserve Bank of Kansas City on March 7, 1935, amending certain sections of the by-laws of the Federal Reserve Bank of Kansas City for the operation of its branches at Omaha, Nebraska, Denver, Colorado, and Oklahoma City, Oklahoma, so as to eliminate the requirements that all checks and vouchers be signed by the managing director, cashier, or assistant cashier and to provide that all checks and vouchers for the payment of money be signed by any one of the officers specifically mentioned in the by-laws of each branch.

"It is understood that the Board of Directors of your bank adopted a resolution on December 20, 1934, directing that all checks and vouchers for the payment of money which may be issued by the Federal Reserve Bank of Kansas City or any of its branches shall bear, in addition to such signature as may be required by the by-laws, a counter-signature by an officer or employee duly authorized to sign in such capacity by the Board of Directors or the Executive Committee, but that this resolution did not amend the by-laws of the Federal Reserve Bank of Kansas City for the operation of its branches.

"It appears that the amendments to the by-laws described above are in proper form and the Federal Reserve Board has, this day, approved them.

"It will be appreciated if you will forward to the Board four copies of the by-laws as amended."

Approved.

Letter to the Attorney General of the United States, reading as follows:

"This refers to your letter of March 1, 1935, in which you advise that you have no objection to the Board transmitting to Federal reserve agents copies of your letter of January 16,

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"1935, concerning the question of prosecutions of executive officers of member banks who, through inability, may fail to discharge indebtedness to member banks within the period prescribed by section 22(g) of the Federal Reserve Act as amended by section 12 of the Banking Act of 1933. In this connection, there is attached hereto a copy of a letter to all Federal reserve agents transmitting a copy of your letter of January 16, 1935.

"It is noted that you do not contemplate the publication of your letter of January 16, 1935, as an opinion, but request advice as to whether the Board has any objection to your furnishing copies of such letter to United States Attorneys and to the Comptroller of the Currency for transmission by him to national bank examiners. In the circumstances, you are advised that the Board has no objection to your adopting such a course."

Approved.

Letter to the chairmen of all Federal reserve banks, reading as follows:

"An examination of the summary report on the amount of industrial loans and commitments made by the Federal Reserve banks to March 6, 1935 shows that the banks have approved \$73,660,000 of applications, that \$22,258,000 of this amount represents conditional approvals, and that \$8,287,000 represents applications finally approved which are in process of completion. It is presumed that the delays in connection with conditional approvals and the completion of the necessary details in connection with advances and commitments finally approved are due largely to the borrowers or financing institutions through which the advances have been requested. The Board feels that the completion of advances should be expedited as much as possible and, therefore, requests that you have a careful analysis made of each of these applications to determine whether there is anything that may be done by your bank to expedite the completion of all details in connection with these loans so that funds may be advanced and commitments executed more promptly.

"In the Board's letter, B-1062, of January 17, 1935, sending out the pamphlet on industrial loans, it was stated that in the future it was thought desirable to lay somewhat more stress on advances through member banks and other financing institutions, and that the inclosed pamphlet had

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"been drafted with that idea in mind. Since then, or in a period of two months, applications approved for advances to or in association with member banks and other financing institutions have increased by less than \$5,400,000, of which about \$4,800,000 represented commitments. This might suggest the conclusion that there are now very few enterprises in need of additional funds, but having sufficient collateral and earnings capacity to permit of advances on a reasonable and sound basis, that are not able to get accommodation from the usual sources. Information constantly coming to the Board's attention, however, indicates the existence of a strong feeling that this is not the case and in order that every effort may be made by the System to be as helpful as possible it is requested that a special effort be made by your bank to bring to the attention of the banks in your district the advantages to them and to their communities of making loans for working capital purposes wherever possible. Their attention should, of course, be called to the fact that commitments may be obtained from the Federal reserve banks, in advance of the making of the loans, in cases where the banks themselves do not feel warranted in carrying the full risk.

"While the Board is desirous of seeing loans made direct to borrowers where no financing institution is willing to participate, it believes that it is in the best interests of the borrower and the banking community for advances to be made through financing institutions wherever possible. The reasons for this are obvious.

"It will be appreciated if you will read this letter to your board of directors and if you will keep the Board advised from time to time of such progress as you are able to make in expediting the advancing of funds to industry on approved applications and of your efforts to bring about a more active cooperation by banks in your district in the making of industrial advances to industries in need of additional working capital."

Approved.

Thereupon the meeting adjourned.

Approved:



Governor.


Secretary.