

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 2, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Thomas, Vice Chairman  
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 Chairman  
Mr. Vest, Assistant General Counsel  
Mr. Kramer, Superintendent of Construction for the Board's new building.

Mr. Miller outlined the program for the demolition of Temporary Building No. 5 now standing on the site for the Board's new building and stated that it appeared that a sufficient portion of the site would be cleared to enable the Board to break ground for the new building between the 1st and 10th of February and that the program for the erection of the new building contemplated that it would be ready for occupancy about the first of July, 1937.

He also stated that some of the drawings and specifications have been received from the architect; that it was expected that the final plans and specifications would be in the Board's hands by Monday, January 6; that the drawings and specifications were being reviewed by Mr. Kramer and would be submitted to the Board promptly after receipt for approval; and that it was hoped that invitations for bids could be sent out not later than January 8. He added that, allowing 21 days for the contractors to submit their bids, it would be possible for the

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Board to award the contract before February 1, 1936, which he believed was a desirable course for the Board to follow.

He then referred to the consideration which had been given to the procedure to be followed in connection with the selection of the contractors who would be requested to bid on the construction of the new building and stated that, in order to insure the highest possible quality of work in connection with the construction of the building, he had conferred with representatives of the departments of the Government which had had the greatest experience in handling building projects, and had requested them to submit lists of contractors to whom they would recommend that invitations for bids be sent. These lists were submitted, Mr. Miller said, and after a conference and upon assurance from him that their names and recommendations would not be divulged, the representatives had unanimously agreed upon a list of contractors who, in their judgment, were the best qualified to construct the proposed building. He pointed out that the number of architects invited to participate in the competition for the selection of an architect for the building was limited to nine, and stated that, as the program for the competition was very favorably commented upon, it was felt there was merit in limiting the number of contractors to the same number, and that he desired to recommend to the Board the approval of the following list of contractors to whom invitations for bids would be sent if upon inquiry they indicated that they would be interested in participating in the competition and would submit bids:

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Consolidated Engineering Co., St. Paul and Franklin Streets,  
Baltimore, Maryland.  
George A. Fuller Co., Munsey Building, Washington, D. C.  
Jno. W. Cowper Co. Inc., National Press Building, Washington, D. C.  
James Stewart & Co., Inc., 230 Park Avenue, New York, New York.  
John Griffith & Son, 228 N. LaSalle Street, Chicago, Illinois.  
James Baird Company, 810 18th Street, N. W., Washington, D. C.  
Turner Construction Co., 17th and Sansom Streets, Philadelphia,  
Pennsylvania.  
McCloskey and Co., Inc., 1620 Thompson Street, Philadelphia,  
Pennsylvania.  
Hegeman-Harris Company, Inc., 360 Madison Avenue, New York, New  
York.

Mr. Miller then stated that the following list had also been prepared on which the names of six contractors had been placed in the order of their qualifications, who, while being well qualified, were not considered as being in a class which would justify their being placed on the first list in the first instance, and that it was recommended that, in the event one or more of the contractors in the first list declined to submit a bid, contractors from the second list be substituted, in the order listed, beginning at the top of the list:

Irwin and Leighton, 1505 Race Street, Philadelphia, Pennsylvania.  
Lundorf & Bicknell, 100 N. LaSalle Street, Chicago, Illinois.  
Starrett & Eken, 350 Fifth Avenue, New York, New York.  
S. M. Siesel, 514 East Ogden Avenue, Milwaukee, Wisconsin.  
N. P. Severin Co., 222 West Adams Street, Chicago, Illinois.  
John McShain, 1610 North Street, Philadelphia, Pennsylvania.

Mr. Eccles inquired as to the basis upon which Mr. Miller, and the individuals whom he had consulted, had selected the contractors whose names appeared on the lists referred to above, and Mr. Miller stated that the selection was based in each case on the record of the contractor for efficient workmanship, financial responsibility, and proof of performance in connection with other large projects undertaken.

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Mr. Eccles stated that, if the list were limited, as recommended by Mr. Miller, it would undoubtedly result in complaints from other contractors who were not included on the list and that the Board should be prepared to state the basis upon which the lists of contractors were made up. Mr. Miller said that some of the contractors included on the first list had appeared on all of the lists submitted by the representatives of the Government departments consulted and others on two or three of the lists, and that, after discussion with the representatives, the first list of nine contractors was unanimously agreed upon as the contractors best equipped and qualified to do the highest quality of construction work. Mr. Miller repeated his earlier statement that the representatives of the Government departments had cooperated in the preparation of the two lists with the distinct understanding that their names and recommendations would not be divulged, and stated that he would have no hesitation in assuming responsibility for limiting the list of contractors as recommended by him.

Mr. Eccles then inquired as to the procedure followed in connection with the contracts for the construction of the Government buildings recently erected in Washington, and Mr. Miller replied that, while in accordance with the requirements of the law, bidding on these projects was unrestricted, the representatives of the Government departments had advised that if they were free to do so they would adopt a procedure of requesting bids from only a limited list of contractors and that they approved the plan recommended by Mr. Miller as being a most desirable one. He added that he felt that should the Board adopt

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the policy of not restricting the list of contractors who would be invited to bid, it would result in some of the contractors included in the first list, and who were eminently qualified to do high quality construction work, refusing to participate in the competition.

Mr. Thomas inquired how many contractors were suggested by the Government representatives with whom Mr. Miller conferred, and Mr. Miller replied that there was a total of thirty names on the lists.

Mr. Hamlin inquired whether it would be possible to add the two lists recommended by Mr. Miller together, making a total of fifteen contractors to whom invitations would be sent. Mr. Miller replied that he would be willing to take the responsibility for limiting the list to nine and that he felt that if the list were increased to fifteen, the Board would almost be forced to make the list an unlimited one, and that he feared that if the list were expanded to fifteen some of the contractors now on the first list would refuse to bid.

After some further discussion, Mr. Thomas moved that Mr. Miller's recommendations be approved.

Carried unanimously.

Mr. Miller then read the following draft of a letter which it was proposed to send to the contractors whose names appeared on the first list of nine:

"The Board of Governors of the Federal Reserve System contemplates issuing within a few days to a limited number of building contractors invitations to submit competitive bids on a lump sum basis for the construction of its proposed building on its property in the square bounded by Constitution Avenue, 20th Street, "C" Street and 21st Street,

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"N. W., in the city of Washington. The plans and specifications for the building are being drawn by Paul P. Cret, of Philadelphia, on the basis of the winning design submitted by him in the competition of nine outstanding architects which was held some months ago. For your information in this connection there is inclosed a copy of the announcement which was made by the Board at the time of Mr. Cret's selection as the architect.

"The proposed building is to have a capacity of approximately 3,400,000 cubic feet in four principal stories (including the ground floor), and it will be required that the building be constructed within 485 calendar days after receipt by the contractor of notification to proceed with the work. Each bid is to be accompanied by a bid bond in the sum of \$300,000 and the contract when executed is to be accompanied by a performance bond in an amount equal to 25% of the consideration to be paid to the contractor together with a 'payment bond' equal to 40% thereof.

"Before determining the list the Board desires to know whether you would be interested in receiving an invitation to participate in the bidding and would submit a bid. Therefore it will be appreciated if immediately upon receipt of this letter you will let me have your response by wire, treating the matter as confidential until an announcement is made by the Board."

The letter was approved unanimously with the understanding that, if any of the contractors on the first list declined to participate, substitutions would be made from the second list beginning at the top.

Mr. Miller referred to the draft of contract covering the construction of the new building which had been prepared by the Legal Division and copies furnished to all of the members of the Board with a memorandum from Mr. Vest, Assistant General Counsel, under date of December 28, 1935. He said that the draft of contract, as finally prepared, had been reviewed again by the Procurement Division of the Treasury Department and by Mr. Kramer.

Mr. Miller then moved that the form of contract be approved.

Carried unanimously.

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Messrs. Vest and Kramer left the meeting at this point.

Mr. Eccles presented a draft of letter to Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, which had been prepared in accordance with the action taken at the meeting on December 27, 1935. There was a detailed discussion of the various aspects of the subject matter of the letter, during which certain amendments to the letter were agreed upon.

At the conclusion of the discussion, upon motion by Mr. Szymczak, the letter was approved unanimously in the following form, with the understanding that it would be sent immediately and that copies thereof would be sent to the chairmen of the respective banks for the information of the boards of directors:

"Your letter of December 16 in which you quoted a resolution of a clearing house association recommending that the Federal Reserve Banks of St. Louis and Chicago select as their member of the Open Market Committee a man of wide experience in business and financial affairs who is not an officer of either bank was brought to the attention of the members of the Board. In this connection several informal inquiries which have come to the attention of the members of the Board of Governors indicated that there was doubt at some of the Federal reserve banks as to what course should be followed with respect to the selection of their representatives to serve after March 1, 1936, as members of the Federal Open Market Committee.

"The law is silent as to the procedure which shall be followed by the boards of directors in the selection of such representatives and it does not place upon the Board of Governors of the Federal Reserve System any duty or responsibility with respect to the determination of such procedure. However, since the question has arisen the Board feels that it may be of some assistance to the directors of the Federal reserve banks by giving them its views and suggestions regarding these matters.

"Without reviewing in detail the history of the legislation, it is clear that throughout the discussions the persons whom the proponents of representation of the Federal reserve

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"banks on the Open Market Committee had in mind were the Governors of the Federal reserve banks, as shown for example by the recommendations of the American Bankers' Association, the Reserve City Bankers' Association, and the Federal Advisory Council. When, in addition to this, the fact is taken into consideration that the amendment took away from the Federal reserve banks the power of declining to participate in open market operations recommended by the Federal Open Market Committee and instead made the decisions of the committee binding upon the banks, it becomes especially significant that the members of the committee to be selected by the banks are referred to in the amendment as 'representatives of the Federal reserve banks'. The Board therefore believes that it is clear that the Congress intended that these members should be persons in position to present adequately the views of the Federal reserve banks and to speak authoritatively for them.

"Aside from these considerations it is evident that any person having otherwise satisfactory individual qualifications who might be selected from outside the official personnel of the Federal reserve banks would almost certainly have or represent interests of a business or investment character which might affect his action as a member of the committee. Even though not influenced by his personal interests, their existence might affect the public interpretation of the actions of the Federal Open Market Committee in which he participated. Moreover, he could not be intimately acquainted with the affairs of the member banks and the Federal reserve banks, the financial policies of the Government, and other phases of monetary matters to the extent that would be desirable and as fully as would be possible in the case of representatives who served only the Federal reserve banks. Although he would have a vote, his contribution to the deliberations of the committee would be more likely that of a consultant or adviser called in at the meetings than that of a true spokesman for the Federal reserve banks.

"It is apparent that the situation also presents the question of an appropriate method by which the directors of the banks may contact each other and determine their selections in a mutually satisfactory manner and it seems to the Board that this might be accomplished by preliminary meetings between committees of directors of the banks who could be authorized to formulate procedure and make recommendations for the consideration of the full board of directors of each Federal reserve bank concerned.

"The Board will be glad to be advised as to the views of the directors of your bank regarding these suggestions."

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Mr. Hamlin then discussed certain matters of interest to the Board with regard to the issuance of general voting permits.

The Board then acted upon the following matters:

Letter to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the bank on December 30, 1935, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter to Mr. Hubert H. D'Autremont, Vice President, Southern Arizona Bank & Trust Company, Tucson, Arizona, reading as follows:

"This refers to your letter of October 25, 1935, requesting the elimination of condition of membership numbered 12 and the modification of condition of membership numbered 17 which conditions were accepted by the Southern Arizona Bank & Trust Company at the time of its admission to membership in the Federal Reserve System.

"The Board of Governors of the Federal Reserve System has had under consideration the matter of excepting from the prohibitions of condition of membership numbered 12 mortgages covered by insurance under the provisions of the National Housing Act, and, as you will note from subsection (b) of section 6 of the inclosed copy of the Board's revised Regulation H, which becomes effective January 1, 1936, the Board has made such an exception to that condition as it is set out in such revised regulation. In the circumstances, the Board excepts from the prohibitions of the condition of membership applicable to the Southern Arizona Bank & Trust Company mortgages covered by insurance under the National Housing Act, but the Board does not feel that such condition should be eliminated or modified in any other respect at this time.

"With respect to condition of membership numbered 17, you have stated that the investment of trust funds in mortgage pools is now provided for in the National Housing Act and in the regulations issued thereunder, and you have requested that the condition be modified so as to permit your bank to make investments of trust funds in pools of mortgages insured under the National Housing Act. However, your attention is invited to the fact that the Federal Housing Administration has provided

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"in its existing regulations on the subject of insured mortgages that the contract of insurance provided for under the National Housing Act shall terminate upon the happening of the events set forth in the following quoted provisions of subsection (b) of paragraph 2 of Article VII of such regulations:

'(b) the disposal by an approved mortgagee of any partial interest in an insured mortgage or group of insured mortgages (whether to another approved mortgagee or otherwise) by means of a declaration of trust, or by a participation or trust certificate, or by any other device.'

"The Board understands from informal advice received from the Federal Housing Administration that the above-quoted provision of its regulations is intended to prohibit the investment of trust funds in any participations in pools of insured mortgages and, accordingly, the Board does not feel that its condition of membership numbered 17 should be amended as you have requested."

Approved unanimously.

Letter to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter dated November 25, 1935, regarding the Board's determination that the Woodlawn Trust Company, Aliquippa, Pennsylvania, is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

"You stated that you concurred in the Board's determination in this matter, but you requested that the Board withhold announcement of such determination for the time being, pending completion of the rehabilitation program undertaken some time ago.

"The Board is of the opinion that, under all of the circumstances, the letter to the Woodlawn Trust Company advising it of the Board's determination should be delivered to such company. Accordingly, you are requested to deliver such letter to the Woodlawn Trust Company upon receipt of this letter. It will be appreciated if you will change the date of the Board's letter to the Woodlawn Trust Company from November 22, 1935, to the date of this letter."

Approved unanimously.

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Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Retel December 28 requesting expression of Board's views regarding following inquiry from First Security Corporation of Ogden, Ogden, Utah, with reference to agreement to be executed in connection with issuance of general voting permit: 'Is it the intention of the Federal Reserve Board that such agreement applies to the present investment in stock of affiliates and also to any future investments in stock of affiliates?' Generally speaking, it is Board's view that such agreement applies to subsidiary and affiliated organizations, stock of which is acquired after date of execution of such agreement, as well as to subsidiary and affiliated organizations, stock of which is owned at the date of execution of such agreement. If applicant desires expression of Board's views as to applicability of particular provision to particular set of facts it should submit inquiry as to such provision together with full statement of facts."

Approved unanimously.

Telegram to the governors of all Federal reserve banks, reading as follows:

"Referring TRANS 2353 retirement contributions reported on Forms B-23 for 1935 should be at full rate, i.e., including prior service rate, but should not include any part of additional contribution at end of year. Beginning January 1, 1936, retirement contributions reported on Form B-23 should be based on contributions at current rate only."

Approved unanimously.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Referring your telegram December 27 regarding service of directors of First Industrial Loan Company of California, Los Angeles, California, as directors of member banks, reply to Mr. Sonne's letter November 27 is being deferred pending issuance in near future of Board's Regulation L which may dispose of question. If such regulation when issued does not dispose of any question relating to service of any directors referred to please then advise Board as to facts involved in

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"particular case. With respect to eligibility for membership in System of Morris Plan companies and industrial loan companies in California, it is view of Board that such institutions, if organized and operating under California statute relating to Morris Plan companies, are included in phrase 'Morris Plan banks and other incorporated banking institutions engaged in similar business' within meaning of section 9 of Federal Reserve Act and are therefore eligible for membership. Of course, the question whether any such institution would be authorized under the laws of California to subscribe for stock in a Federal Reserve bank and become a member of the Federal Reserve System depends upon the applicable provisions of the State law, and it is understood that your counsel is of the opinion that such institutions are not authorized under the laws of California to become members of the System."

Approved unanimously.

Thereupon the meeting adjourned.

Charles H. Morris  
Secretary.

Approved:

W. H. Stead  
Chairman.