

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 31, 1936, at 10:30 a. m.

PRESENT: Mr. Broderick, Chairman pro tem  
Mr. Szymczak  
Mr. McKee  
Mr. Ransom

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Bradley, Assistant Chief of the Division of Security Loans

There was presented a letter dated March 28, 1936, from Mr. Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, advising that at the meeting of the board of directors of the bank on that date, at which Chairman Eccles was in attendance, it was decided to revise the salary of First Vice President Attebery so that effective May 1, 1936, his salary would be at the rate of \$15,000 per annum, and to fix the salary of Mr. Wood as Vice President of the bank at the rate of \$15,000 per annum, effective May 1, 1936. The letter requested approval by the Board of Governors of the action taken.

During a discussion, the suggestion was made that action on the matter might be deferred pending receipt from the Chairman of the Board,

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who was in attendance at the meeting of the board of directors of the St. Louis bank, of more detailed information as to the reasons for the directors' action.

At the conclusion of the discussion, Mr. Ransom moved that the matter be laid on the table pending receipt of additional information from Chairman Eccles.

Carried unanimously.

There was also presented a memorandum dated March 24, 1936, from Mr. Morrill recommending that, for the reasons stated in the memorandum, the seven employees listed below, who were all past 65 years of age, be retired effective May 1, 1936. The memorandum also recommended that, in view of the fact that the regular retirement allowances to which these employees would be entitled under the Retirement System were relatively small, special contributions be made by the Board to the Retirement System to provide retirement allowances as shown below:

| <u>Name</u>              | <u>Age*</u> | <u>Division</u>              | <u>Title</u>     | <u>Recommended retirement allowance (straight life basis)</u> |                                      |
|--------------------------|-------------|------------------------------|------------------|---|--------------------------------------|
|                          |             |                              |                  | <u>Amount (a)</u>   | <u>Required special contribution</u> |
| Copeland, L. G.          | 67          | F.R. Issue and Red. Division | Chief            | \$1,182   | \$2,250                              |
| Burchard, Addie K.       | 73          | "                            | Currency Counter | 600   | 2,084                                |
| Quesenberry, Caroline B. | 69          | "                            | "                | 600   | 2,323                                |
| Snead, Susan U.          | 67          | "                            | "                | 600   | 1,951                                |
| Soule, Mary L.           | 79          | "                            | "                | 600   | 1,134                                |

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Recommended retirement  
allowance (straight life  
basis)

| <u>Name</u>           | <u>Age*</u> | <u>Division</u>                 | <u>Title</u>     | <u>Amount(a)</u> | <u>Required<br/>special<br/>contribution</u> |
|-----------------------|-------------|---------------------------------|------------------|------------------|--|
| Brinker, Henrietta T. | 66          | F.R. Issue and<br>Red. Division | Currency Counter | \$ 369           | \$2,471                                      |
| Simms, R. N.          | 68          | Div. of Exams.                  | Messenger        | 600              | 3,001  |

\*On birthday nearest May 1, 1936.

(a) Exclusive of annuity provided by deductions from employee's salary after age 65.

It was pointed out that six of the employees named are in the Federal Reserve Issue and Redemption Division and that the Comptroller of the Currency had recommended that all of them be retired. It was further pointed out that if they were not to be retired, it would be necessary for the Board formally to request the retirement committee to permit their retention for an additional year.

In connection with the above matter, Mr. Morrill outlined briefly the consideration which had been given to the suggestion that a change be made in the present method of paying the expenses of the Federal Reserve Issue and Redemption Division so that the Comptroller of the Currency would be reimbursed by the Board for the cost of the services rendered by the Division and the Board would be relieved of the necessity of carrying the members of the staff of that Division on its payroll and paying directly the various expenses of a non-personal character incidental to the operation of that Division. Mr. Smead stated that he had discussed the possi-

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bility of such a change with the office of the Comptroller of the Currency recently and that, while the Comptroller's office appeared to be favorable to the change, it might be some time before the details could be worked out. Mr. Smead also stated that the six employees in that Division referred to above were entitled to the benefits of retirement at the present time, and that he concurred in Mr. Morrill's recommendation that they be retired as employees of the Board, regardless of whether the employees of the Issue and Redemption Division were subsequently transferred to the payroll of the Comptroller of the Currency. In this connection it was pointed out that if the remaining employees of the Division were transferred to the payroll of the Comptroller of the Currency, they would cease to be employees of the Board and would no longer be eligible for the benefits of the Retirement System.

After a discussion, during which some of the members of the Board indicated that they desired an opportunity to familiarize themselves more fully with the provisions of the Retirement System of the Federal Reserve Banks, and to give further consideration to the question of special contributions to the Retirement System for the purpose of increasing the annuities to employees being retired, Mr. Ransom moved that action on Mr. Morrill's recommendation be deferred and that the memorandum be circulated to the members of the Board for consideration prior to discussion at a subsequent meeting of the Board.

Carried unanimously.

Reference was made to a letter dated February 17, 1936, from Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, transmitting a



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resolution adopted by the board of directors of the bank which expressed the sense of the board of directors that the Havana Agency should be discontinued as soon as such discontinuance might be effected without unduly affecting the banking and business interests in Cuba, or, in the alternative, that some plan should be formulated with the approval of the Board of Governors of the Federal Reserve System under which the agency might be operated without incurring a substantial operating loss. The resolution requested the secretary of the board of directors to transmit a copy thereof to the Board of Governors with the request that the resolution be taken under advisement and that authority be given to discontinue the agency unless some plan can be formulated and adopted with the approval of the Board under which such operating loss may be eliminated. In connection with the resolution there had been prepared and circulated among the members of the Board under date of March 10, 1936, a memorandum giving a brief chronological record of the establishment, operation and suggested discontinuance of the Havana Agency. Mr. Broderick stated that he had requested that the matter be brought up at this meeting for discussion only, as Mr. Ransom had suggested that no final decision be reached thereon until he had had an opportunity to develop certain additional information on the branches and agencies of the Atlanta bank.

After a brief discussion of the matter, it was agreed that action should be deferred in accordance with Mr. Ransom's suggestion.

Attention was called to a letter received under date of March 24, 1936, from Mr. R. L. Davis, Chairman of Group 1 of the New York State

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Bankers Association, advising that the annual meeting of the group would be held in Buffalo on May 9, 1936, and that the group would like very much to have a representative of the Board speak at the meeting. Mr. Broderick suggested that because of the number of group meetings of State bankers associations and in order not to set a precedent which might be burdensome to the Board, such meetings should be attended by officers of the Federal reserve banks rather than by members of the Board or its staff.

Mr. Broderick's suggestion was discussed briefly, and Mr. McKee moved that Mr. Davis' letter be referred to Mr. Szymczak for determination of the action that should be taken in connection therewith.

Carried unanimously.

Mr. Broderick then requested Mr. Bradley to make a statement to the Board with regard to the reactions of the banks, brokers and others, to Regulation "U", Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, which had been issued by the Board to become effective May 1, 1936.

At this point Mr. J. J. Thomas, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, was invited into the meeting by Mr. Clayton.

Mr. Bradley stated that the initial reaction to the regulation had been distinctly favorable and that newspaper comment had been very favorable. He also stated that the only unfavorable comment that had been received had come indirectly from certain officers of the New York Stock Exchange who had criticized the provision in the supplement to

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the regulation that stocks of customers rehypothecated by a broker or dealer as collateral for a loan from a bank shall have a maximum loan value of only 60% of current market value, and who had felt that the provisions of the regulation were too restrictive when applied to arbitragers and odd-lot dealers. Mr. Bradley added that he felt the first criticism was not justified, and that it was not believed the regulation was unduly restrictive on transactions by odd-lot dealers, but that it had been realized when the regulation was issued that it might be found desirable to make some further exemptions for arbitrage transactions.

Messrs. Thomas, Thurston, Wyatt, Smead, Paulger, and Bradley left the meeting at this point and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Renewal bond in the amount of \$50,000, executed under date of March 16, 1936, by Mr. William Joseph Evans as Assistant Federal Reserve Agent at the Federal Reserve Bank of Dallas.

Approved unanimously.

Memorandum dated March 28, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mr. Frank R. Garfield, a research assistant in the Division, be granted a further leave of absence with pay on account of illness for a period of thirty days beginning April 5, 1936.

Approved unanimously.

Memorandum dated March 30, 1936, from Mr. Morrill, recommending

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that, for the reasons stated in the memorandum, the Board rescind its action of March 26, 1936, accepting the resignation of Mrs. Margaret G. Haworth, a stenographer in the Secretary's office, effective as of the close of business on March 31, and approve her transfer from the position of stenographer in the Board's organization to that of senior clerk with the United States Public Health Service, effective as of the date upon which she enters upon the performance of her new duties.

Approved unanimously.

Letter to Mr. Stevens, Chairman and Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with your request the Board of Governors has accepted your resignation as Class C director of the Federal Reserve Bank of Chicago and as Chairman and Federal Reserve Agent at that bank, to become effective at the close of March 31, 1936.

"In taking this action the Board requested me to express to you its appreciation of the valuable service which you and the Federal Reserve Agent's Department under your direction have rendered in the many matters affecting the Federal Reserve Bank of Chicago and the banks in its district, and especially in meeting the conditions connected with and growing out of the banking crisis of 1933.

"The Board wishes for you much success in your new undertaking and hopes that the Federal reserve system may have the benefit of your continued interest and support."

Approved unanimously, together with a second letter to Mr. Stevens reading as follows:

"In connection with the acceptance of your resignation effective at the close of March 31, 1936, of which you are being advised in a separate letter, and confirming my previous informal advice, the action of the Board was taken with the understanding that your salary as Chairman and Federal Reserve Agent would terminate at the close of March 31 when the acceptance of your resignation becomes effective



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"but that this action would not affect or modify the payment of the sum of \$6,000 to be made in accordance with the authorization in the Board's letter of February 29, 1936, except that such payment may be made as of April 1 instead of May 1, 1936."

Memorandum dated March 27, 1936, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated March 19 from Mr. Preston, First Vice President of the Federal Reserve Bank of Chicago, which requested approval of changes in the personnel classification plan of the bank to provide for the discontinuance of the positions of "Chief-Agricultural Section" and "Chief-Bank Section", both in the Credit Department, and for the creation of the new position of "Chief" of the Credit Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Letter to the board of directors of the "First State Bank of Purcell", Purcell, Oklahoma, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation "H", and the following special conditions, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City:

- "4. Such bank shall made adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$356.16 as shown in the report of examination of such bank as of January 11,

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"1936, made by an examiner for the Federal Reserve Bank of Kansas City."

Approved unanimously, together with a letter to Mr. Thomas, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'First State Bank of Purcell', Purcell, Oklahoma, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Bank Commissioner for the State of Oklahoma for his information.

"It has been noted from the report of examination of the First State Bank of Purcell, made as of January 11, 1936, that its by-laws provide for a directorate of from 3 to 7 members and that the laws of the State of Oklahoma require a State bank to be managed by not less than 3 nor more than 21 directors. As you know, under the provisions of section 31 of the Banking Act of 1933, as amended, a State member bank must have not less than 5 nor more than 25 directors. While it appears that, at the present time, the First State Bank of Purcell has 5 directors, it is suggested that you call its attention to the provisions of section 31 and to the desirability of taking appropriate action to amend its by-laws to provide for a minimum of at least 5 directors, in order to avoid the possibility of any violation of law in the future. Please furnish the Board with a copy of the amended by-laws."

Letter to the board of directors of the "First State Bank", Maypearl, Texas, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation "H", and the following special condition, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas:

"4. Such bank shall make adequate provision for de-

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"preciation in its banking house and furniture and fixtures."

Approved unanimously, together with a letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'First State Bank', Maypearl, Texas, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Banking Commissioner for the State of Texas for his information.

"The papers submitted with the bank's application for membership did not include Form 83E, which is the Certificate of the Directors and Cashier and the Certificate of Counsel for the Federal Reserve Bank. In order that the Board's files may be complete, it is requested that such certificates be executed on Form 83E and forwarded to the Board as soon as possible.

"It has been noted that the examiner for your bank in his report of examination of the applying bank, made as of February 6, 1936, has stated that the by-laws of the bank provide for a directorate of five, that the charter of the bank definitely fixes the number of its directors at seven, and that the bank actually has five directors at the present time. In this connection, Article 387 of the Board's copy of the 1932 compilation of the banking laws of the State of Texas provides that a bank having a capital stock in the same amount as the applying bank must have 'not less than five nor more than twenty-five' directors, but that it is not necessary to amend the charter of such a bank in order to increase or decrease the number of directors. However, Article 387 requires a bank, in the event that the number of its directors is changed, to file 'a certified copy of the resolution changing the number' with the Banking Commissioner of Texas. In the circumstances, it is assumed that the reduction in the number of the directors of the applying bank from seven to five has been effected in pursuance of the authority granted by Article 387, but it will be appreciated if you will furnish the Board with advice to this effect, together with a copy of the resolution filed with the Banking Commissioner in this connection.

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"It has been noted further that the bank has sold \$10,000 of capital debentures to the Reconstruction Finance Corporation. However, the papers submitted with the bank's application did not include a copy of the form of such capital debentures, and, since it is understood that the debentures contain a full statement of the agreement between the bank and the Reconstruction Finance Corporation, it will be appreciated if you will obtain and forward such a copy to the Board in the light of its letter of December 26, 1934 (X-9060). It will be appreciated also if you will forward a copy of the certificate issued by the State authorities to the bank to commence business, if such a certificate was required at the time of its organization, in order that the Board's records may be complete."

Telegram to Mr. Geery, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Relet March 27. Board extends to May 5, 1936, time within which 'Security Bank and Trust Company of Owatonna', Minnesota, may accomplish membership in the System."

Approved unanimously.

Memorandum dated March 26, 1936, from the Division of Examinations, submitting a report of examination of "The Del Rio Bank and Trust Company", Del Rio, Texas, as of November 16, 1935, which disclosed an impairment in the capital structure of the institution by reason of the large amount of criticized assets. The memorandum stated that the condition of the capital structure had been subject to criticism for several years, and that a question had arisen as to what action, if any, should be taken to require corrections and recommended that, in view of the circumstances set forth in the memorandum, action be deferred until another examination had been made in order to determine whether any improvement had been made in the criti-



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cized assets of the bank.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

J. B. Broadbent  
Chairman pro tem.