A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 31, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. McKee
Mr. Ransom
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Paulger, Chief of the Division of Examinations
Mr. Vest, Assistant General Counsel

Mr. McKee called attention to a draft of a letter which had been placed in circulation among the members of the Board and which contained a reply to a letter dated July 29, 1936, from Mr. George E. Scott, Chief of the Appointment and Payroll Section of the Social Security Board stating that Mr. Gerald M. Conkling, an examiner in the Board's Division of Examinations, had been certified by the Civil Service Commission to the Social Security Board for a position as Constructive Accountant with salary at the rate of $4,600 per annum and inquiring whether there was any objection on the part of the Board of Governors to the Social Security Board contacting Mr. Conkling relative to the above position. The proposed reply stated that the Board of Governors offers no objection to the Social Security Board contacting Mr. Conkling for the purpose stated.

After a brief discussion, during which it was agreed that, while it appeared that Mr. Conkling was a valuable employee and it would be undesirable to lose his services, the Board should not offer him an increase in salary at this time in an endeavor to retain his services, the matter was referred to Mr. Paulger to be disposed of as he saw fit, but with the understanding that any letter prepared by him to the Social Security Board would be sent over the signature of the Secretary.

There was then presented a memorandum dated July 30, 1936, from Mr. McKee recommending, for the reasons stated therein, that, subject to his qualifying for office, Mr. George C. Brainard, President of the General Fireproofing Company, Youngstown, Ohio, be appointed a Class C Director of the Federal Reserve Bank of Cleveland for the unexpired portion of the term ending December 31, 1937.

By unanimous vote, Mr. Brainard was appointed a Class C Director of the Federal Reserve Bank of Cleveland in accordance with Mr. McKee's recommendation.

Chairman Eccles called attention to the action taken at the meeting of the Board on February 4, 1936, in establishing a personnel committee consisting of the Chairman and two other members of the Board to be designated by the Board for periods of three months, the members of the Board other than the Chairman to serve in an established order of rotation. He pointed out that the duties of the personnel committee, consisting of recommendations to the Board with respect to the appointment of Presidents and Vice Presidents, Class C Directors, and Deputy

Chairmen of Federal reserve banks, the appointment of directors of branches of Federal reserve banks, and the designation of Chairmen and Federal reserve agents at Federal reserve banks, as well as recommendations to the Board with respect to its budget and expenditures, involved duties which he felt made it desirable that the term of the two designated members of the committee be for a period of a calendar year rather than only for three months, and he recommended that the selection of designated members of the committee be for the longer period.

In accordance with Chairman Eccles' suggestion and by unanimous vote, Messrs. Broderick and Szymczak were designated to serve with Chairman Eccles as members of the personnel committee for the remainder of the current year.

Attention was called to a letter dated July 28, 1936, from President Schaller of the Federal Reserve Bank of Chicago, transmitting a copy of the resignation submitted by Mr. C. R. McKay as Vice President of the Federal Reserve Bank of Chicago with the understanding that he was to receive a retirement allowance beginning as of September 1, 1936, the date of his retirement, equal to the amount he would receive if he had remained in the service of the bank until he reached the age of 65. In this connection it was pointed out that in the Board's telegram of July 29, 1936, the bank's attention was called to the fact that the action of the Board, as set forth in its letters of March 9 and July 20, 1936, authorized payment to the retirement committee, upon the termination of Mr. McKay's services, of such amount as may be necessary to

provide for him the annual retirement allowance he would receive if he were 65 years of age on the date of such termination rather than the amount to which he would be entitled if he had remained with the bank until he reached the age of 65 years.

There was also presented a telegram just received from President Schaller stating that the executive committee of the bank, then in session, was of the opinion that the action taken by the board of directors of the bank on July 24, 1936, was with the thought that Mr. McKay would receive a retirement allowance in an amount equal to that which he would receive had he remained with the bank until he reached the age of 65 years and that the committee had voted, subject to the approval of the Board of Governors, to authorize the payment to the retirement system of $11,464.90 to provide for Mr. McKay an annual retirement allowance of $4,220.76. The telegram stated that the committee was still in session and requested wire advice of the Board's action.

The members present agreed unanimously that, as the payment to the retirement committee on behalf of Mr. McKay, previously authorized by the Board, was in accordance with the action taken in other similar cases, the Board should not enlarge upon its authorization or approve the continuation of Mr. McKay's salary beyond the close of August 31, 1936.

It was understood that Mr. Smead would call President Schaller over the telephone and advise him of the Board's decision. Following the return of Mr. Smead to the room the following telegram to President Schaller was approved unanimously:

"Your letter July 28 and wire this date regarding McKay. This telegram will confirm advice given you over telephone by Mr. Smead that Board's action, effect of which was stated in my wire July 29, is in accordance with action taken in other similar cases and Board is unwilling to enlarge this authorization or to approve the continuation of Mr. McKay's salary beyond the close of August 31, 1936."

Mr. Ransom stated that, in accordance with the action taken at the meeting on July 28, 1936, the legal division had been working on revised drafts of the definition of savings deposits contained in the Board's Regulation Q; that the drafts were not ready for consideration at this meeting, but would be in final form for submission to the Board early next week, and that it might be well to consider the matter before the departure on August 6 of Chairman Eccles for the West. Chairman Eccles stated that he felt there was no particular urgency about the matter and that, if the Board did not have an opportunity to consider the matter fully before his departure, he should be considered as concurring in the decision reached by the other members of the Board as to the form of the definition.

In connection with the consideration of the revision of Regulation A, Advances to and Rediscounts for Member Banks by Federal Reserve Banks, Mr. Ransom read alternative drafts of a statement with respect to the minimum standards which should be observed by member banks in making loans on real estate and suggested that the statement in the form agreed upon be included as a footnote or as a part of the appendix in the revised regulation. He pointed out that the proposed statement

did not deal comprehensively with the problem of revision of Regulation A but was designed as a basis for discussion as to the procedure which should be followed.

The drafts of statement were discussed and Chairman Eccles stated that, in addition to a reference in the regulations as to the standards that should be observed with respect to loans on real estate, the regulation should contain similar statements with respect to the standards to be observed in making the other principal kinds of loans the paper representing which may be offered to the Federal reserve banks as collateral for section 10(b) advances, and that the regulation should also provide that, except possibly in certain cases, the Federal reserve banks should not require more than 50% marginal collateral on discounts and advances made by them. He pointed out that if this procedure were followed, the regulation would be an indication to member banks of the requirements which would have to be met by paper offered to the Federal reserve banks and would enable the member banks to determine to a considerable extent what proportion of their portfolios would be acceptable to the Federal reserve banks for discount or as collateral for advances.

In connection with a discussion of the amount of marginal collateral that should be required by Federal reserve banks of their member banks, Mr. Ransom read a draft of a statement with respect to this question which had been suggested for inclusion in the regulation, and cer-

tain changes in the statement were proposed. Mr. Smead suggested that instead of including in the regulation a reference to the amount of marginal collateral that may be required by a Federal reserve bank, the Board address a separate letter to the banks at the time Regulation A is issued instructing that in ordinary cases the banks should not require a member bank to pledge marginal collateral in excess of 50% and that, whenever the banks felt the attendant circumstances justified a larger amount of excess collateral, a full report of the basis on which the advance was made to the member bank should be forwarded to the Board with a statement of the reserve bank's reasons for requiring marginal collateral in excess of 50%.

At the conclusion of the discussion it was agreed that a revised draft of Regulation A should be prepared in accordance with the suggestions made at this meeting for the consideration of the Board.

Reference was made to a draft of a letter, prepared by counsel, to the Commissioner of Internal Revenue requesting his opinion on the question whether member State banks and trust companies and their employees are exempt from the taxes imposed by the Social Security Act. This question had been raised with the Board by the Federal Reserve Banks of Cleveland and St. Louis, and also by some State member banks, following announcement of the ruling of the Commissioner that national banks are exempt from the provisions of that Act. The draft of letter had been circulated among the members of the Board with a memorandum

prepared under date of July 27, 1936, by Mr. Vest, Assistant General Counsel, and Mr. Ransom had attached a note to the file suggesting that the Board consider the many questions involved before the proposed request is made.

By unanimous vote, it was agreed that the sending of the letter should be deferred for the time being.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead, Paulger and Vest left the meeting 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 30, 1936, were approved unanimously.

Telegrams to Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, and Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the New York bank on July 30, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to Mr. Ziemer's letter of July 22, submitting to the Board, for its consideration, proposed increases in the salaries of three employees of your bank

"which involve the payment of salaries in excess of the maximums provided for in the existing personnel classification plan, but not in excess of the maximums provided in the revised personnel classification plan recently submitted to the Board.

"Pending action on the revised personnel classification plan, the Board approves the salaries recommended in Mr. Ziemer's letter of July 22, as follows:

Name	Position	Salary
R. E. Driscoll	Supervisor, Country Check Remittances, Govt. Check Section, Check Col. Dept.	$2,500
A. E. Gilbertson	Supervisor, Country Checks, Check Col. Dept.	2,200
E. B. Larson	Senior Supervisor, Fiscal Agency - Securities Dept.	3,800"

Approved unanimously.

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

"Referring Board's wire of July 11, in reply to your wire of July 6 in which you state you have resignations of Swanson and Powell as Assistant Federal Reserve Agents to take effect July 13, it is understood that Swanson and Powell have been elected as Vice Presidents and, accordingly, Board accepts their resignations as Assistant Federal Reserve Agents. Please advise Board effective date of resignations. It is understood that it is the intention of your Board to pay Swanson and Powell same salaries as Vice Presidents as they were receiving as Assistant Federal Reserve Agents, and, if so, Board approves such salaries for them as Vice Presidents for remainder of present year. Board notes with approval designation of Swanson as Vice President in charge of examinations and Powell as Vice President in charge of research and statistics."

Approved unanimously.

Letter to the board of directors of the "Joy State Bank", Joy, Illinois, 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 approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

"4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

Approved unanimously, together with a letter to the Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Joy State Bank', Joy, Illinois, 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 Auditor of Public Accounts for the State of Illinois for his information.

"In view of the fact that the examiner has reported that the estimated losses shown in the report of examination were charged off during the examination, the usual condition of membership regarding the elimination of estimated losses has not been prescribed."

Letter to Mr. Newton, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to Mr. Clark's letter of July 9, 1936, transmitting a letter from 'The Birmingham Trust and Savings Company', Birmingham, Alabama, requesting that a determination of the fair value of its assets be made in accordance with and pursuant to the provisions of section 18 of Article THIRD of the institution's charter, as amended, which, according to the Board's files, reads as follows:

'The determination of the fair value of the

"'assets of the Corporation for the purposes of this article Third shall, unless and except as otherwise expressly provided, be made by such person or persons as may be designated to make the same by the Board of Governors of the Federal Reserve System or by such body or agency created under the laws of the United States as may succeed to its authority to make examinations of banking institutions and at that time be vested with such authority with respect to the Corporation and be based upon the last available report of examination of the Corporation made under the direction of or approved by such Board of Governors or such other body or agency. Each such determination shall be in writing and filed with the Corporation and be effective until another such determination is so filed. In the event the Board of Governors of the Federal Reserve System or such successor body or agency shall cease to have authority to examine the Corporation or shall decline to have such determination made, then such determination shall from time to time be made by a person or persons and in a manner satisfactory to the holders of a majority of the shares of Preferred Stock "A" outstanding, (or after all of such Preferred Stock "A" shall have been retired, to the holders of a majority of the shares of Preferred Stock "B" outstanding) as expressed in an instrument in writing signed by the holder or holders of such majority from time to time filed with the Corporation.'

"On December 19, 1935, the Board advised Assistant Federal Reserve Agent Clark that it had advised the Reconstruction Finance Corporation that it was willing to designate a person or persons to act in the capacity as stated above, the details of which were discussed in a letter of even date to the Reconstruction Finance Corporation, a copy of which was inclosed to Mr. Clark.

"The Board feels that, because of your intimate knowledge of the history, management, and asset condition of the institution and of the close contact you have with the Alabama State Banking Department, you are the proper person to make the determination of the fair value of the assets of the bank provided for in the above quoted section of Article THIRD of its amended charter. Accordingly, the Board hereby designates you to make such a determination, and it will be appreciated if you will undertake this func-

"tion as promptly as possible.

"It is contemplated that your determination is to be based upon the report of examination of the bank made by an examiner for the Federal Reserve Bank of Atlanta as of June 2, 1936. The Board, however, suggests that you give due consideration to the information disclosed by the report of the examiner for the Alabama State Banking Department who participated in the examination of June 2, 1936, and to any other pertinent information which you may have with respect to the condition of the bank in considering the valuation placed upon the bank's assets by the examiner for the Federal Reserve Bank of Atlanta and his conclusions as to the aggregate of the bank's liabilities to depositors and other creditors.

"When you have determined the fair value of the assets of the bank, you are requested to file a written report of your findings with the Reconstruction Finance Corporation and The Birmingham Trust and Savings Company and it will be appreciated if you will furnish the Board with a copy of such report for its information."

Approved unanimously.

Letter to Mr. McReynolds, Administrative Assistant to the Secretary of the Treasury, prepared for the signature of Chairman Eccles, and reading as follows:

"I have your letter of July 29 in regard to reimbursement for certain Treasury telegrams sent over the leased wires of the Federal reserve banks.

"As you may know, the Federal reserve banks are confronted with the likelihood of continuing deficits, and the Board and the banks for some time past have been endeavoring to reduce expenses as well as increase the efficiency of their organizations. Naturally, therefore, we are disappointed to learn that the Treasury feels that it does not have the funds available for beginning the payment of the expense of these telegrams promptly.

"However, in view of the assurances contained in your letter, the Board and the Federal reserve banks will continue to absorb this expense until the end of December, 1936, with the definite understanding as stated in your letter that the Treasury will make reimbursement for such costs beginning January 1, 1937."

Approved unanimously, together with
a letter to the Presidents of all Federal

reserve banks, reading as follows:

"There is inclosed a confirmation of the telegram sent you today in which it was stated that the Treasury Department was being advised that the Board and the Federal Reserve banks will continue until December 31, 1936, to absorb the cost of sending over the main lines of the leased wire system telegrams chargeable to the Treasury appropriation for miscellaneous and contingent expenses.

"For your further information in connection with this matter, there are inclosed a copy of the Board's letter of July 16, 1936, to the Secretary of the Treasury, a copy of the letter received by Chairman Eccles under date of July 29, 1936, from the Administrative Assistant to the Secretary, and a copy of the Board's reply of this date."

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.