

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 25, 1936, at 11:00 a. m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

Vice Chairman Ransom reported that in a telephone conversation this morning President Harrison had advised Mr. Ransom that he had no further thoughts to add to what he had said on the preceding day about the French balance. Mr. Ransom stated that he had advised Mr. Harrison of Mr. Goldenweiser's views, with which the other members of the staff and Mr. Szymczak had concurred; that he had asked Mr. Harrison if there were any further developments, to which Mr. Harrison replied in the negative; and that in response to a question by Mr. Ransom Mr. Harrison had said that he had no further information which would affect the situation. Mr. Ransom stated that he advised Mr. Harrison that he would keep the latter informed as to any matters which might come to his attention that would be helpful in this connection and asked Mr. Harrison to do likewise, specifically requesting that Mr. Harrison keep him informed in regard to any developments in the French situation which the Board of Governors should know.

Consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

9/25/36

-2-

Telegrams to Messrs. Kimball and Clark, Secretaries of the Federal Reserve Banks of New York and Atlanta, respectively, stating that the Board approves the establishment without change by the New York bank on September 24, 1936, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Bond, in the amount of \$50,000, executed under date of September 5, 1936, by Mr. Daniel William Woolley as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City.

Approved unanimously.

Letter to Mr. R. E. Wood, President, Sears, Roebuck and Co., New York, New York, prepared for the signature of Mr. Ransom, and reading as follows:

"In the absence of Chairman Eccles, I wish to acknowledge receipt of your letter of September 19, 1936, in which you inquire whether your acceptance of a directorship with the Atlas Corporation would be consistent with your position as a class C director of the Federal Reserve Bank of Chicago.

"The law prohibits a class C director of a Federal Reserve bank from being an officer, director, employee or stockholder of any bank, but it is clear that the Atlas Corporation is not a bank and while the Board understands that the corporation owns or controls, directly or indirectly, shares of stock of several banks, it also understands that the corporation's holdings of such bank stock represent only a small percentage of its total assets. In the circumstances, it is the view of the Board that your acceptance of a directorship with the Atlas Corporation while serving as a class C director of the Federal Reserve Bank of Chicago would not be inconsistent with the law, and the Board would offer no objection thereto."

Approved unanimously.

Letter to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

9/25/36

-3-

"Reference is made to the report of examination of 'The Bank of Romney', Romney, West Virginia, as of March 28, 1936, and subsequent correspondence in relation thereto.

"The comments of your examiner in regard to the bank's unauthorized exercise of trust powers have been noted. It is understood from your office letter of May 22, 1936, that the bank has petitioned the Circuit Court to appoint a trustee for the Flora estate, and that the funds will be turned over to the trustee when appointed. In accepting this trust the bank exceeded its authority under its State charter, and, in investing the funds of the trust, violated the provisions of Section 22(g) of the Federal Reserve Act by loaning a part of such funds to an executive officer of the bank, thereby increasing his indebtedness to the bank to an amount in excess of the statutory limitation. In this connection, see the Board's letter of March 20, 1936 (X-9528). Such a loan also appears to be an especially flagrant violation of fundamental fiduciary principles relating to self-dealing, as, notwithstanding the fact that according to the information submitted the will authorized and empowered the bank only 'to invest the said money in Government or other safe securities', \$1,500 of the \$8,500 received under the will was loaned to Eugene R. Arnold and G. W. Arnold, on their unsecured note, the latter party being vice president and cashier of the bank. Elimination of the trust account in question, and of any other trusts which the bank may have acquired, should be effected as promptly as possible, and the bank properly relieved of all liability in connection therewith, and in so doing full consideration should be given to the rights of the beneficiaries of the trusts.

"It has been noted, page 6-5 of the report of examination, that Mr. J. S. Zimmerman, an attorney, failed to hand over to the bank the proceeds of the Alice A. Roy note which he had collected, and it is understood that counsel for your bank is giving consideration to the question of whether, by reason of such failure, the collecting attorney violated the provisions of Section 5209 of the Revised Statutes.

"Please keep the Board advised of any corrections effected by the bank of the foregoing and of other criticisms listed in the report of examination."

Approved unanimously.

Letter to Mr. Evans, Assistant Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to the report of examination of 'The Del Rio Bank and Trust Company', Del Rio, Texas, as of August

9/25/36

-4-

"4, 1936, and the supplemental information submitted in connection therewith.

"The report reflects a continuing unsatisfactory condition, with estimated losses and doubtful assets in an aggregate amount sufficient to create a capital impairment of approximately \$48,500, and indicating that the bank is making little progress in correcting or eliminating assets which have been subject to criticism for several years.

"Information submitted in connection with previous reports of examination indicates that the State Banking Department has not requested the elimination of the losses from the bank because of its commitment to the bank in 1934 that upon the sale of \$50,000 debentures to the Reconstruction Finance Corporation no further action need be taken regarding the losses. It is also understood that your bank has heretofore attempted to persuade The Del Rio Bank and Trust Company to eliminate its estimated losses. However, it is now apparent that the State Department feels that Vice President C. B. Freeman, the managing officer, is responsible for the unsatisfactory condition of the bank's assets, and has advised the bank that unless marked improvement is shown at the time of the next examination, a demand will be made for the resignation of Mr. Freeman. In this connection, it is noted that another examination is contemplated during the month of December, at which time it will be possible to determine whether the management of the bank has effected the desired correction of the various criticized matters.

"It is assumed that you will continue to follow this situation closely, and it will be appreciated if you will keep the Board advised of developments in connection therewith."

Approved unanimously.

Letter to Mr. Bert C. Fuller, Attorney and Counsellor at Law,  
New York, New York, reading as follows:

"This refers to your letter of August 20, 1936, with inclosures, relating to the desire of The First National Bank of Spring Valley, New York, to surrender its right to exercise trust powers. You inquire whether the Board would be willing to permit the bank to surrender its right to act as a fiduciary if and when the bank shall have been duly relieved by the appropriate Court from its obligations in connection with the matters in which it is now acting as fiduciary.

"Under the provisions of section 11(k) of the Federal Reserve Act, the Board may issue a formal certificate to the effect that a national bank is no longer authorized to exercise

9/25/36

-5-

"the trust powers previously granted to it, and the procedure which the Board has prescribed in cases of this kind is set forth in section 16 of its Regulation F, revised effective June 1, 1936, a copy of which is inclosed. Before issuing such a certificate, the Board is required by the terms of section 11(k) to satisfy itself that the bank involved has been properly relieved of all of its duties as fiduciary; and it will be noted that the Board has provided in section 16(c) of such regulation that information sufficient to satisfy the Board on this point must be developed by a national bank examiner on the occasion of the next regular examination of the particular bank. While it is the Board's usual practice to issue its certificate certifying that a bank is no longer authorized to exercise fiduciary powers when it is satisfied that such bank has been properly relieved of all of its duties as fiduciary and when all of the requirements of the law and the Board's regulation have been met, the Board is unable at this time to give you any definite assurances as to what future action it may take in a particular case.

"Since it appears that The First National Bank of Spring Valley is actively engaged in the exercise of fiduciary powers, it would serve no useful purpose at this time to request the Comptroller of the Currency to develop information that the bank has been relieved of all of its duties as fiduciary. Accordingly, if the bank desires to surrender its right to exercise trust powers, it is suggested that it advise the Federal Reserve Bank of New York when it has been relieved of all of its duties as fiduciary and that it surrender to the Federal Reserve Bank of New York the formal permit or permits previously issued by the Board to such bank granting it the right to act in a fiduciary capacity. Upon receipt of such permits and advice that the bank has been relieved of its duties as fiduciary, the Board will then request the Comptroller of the Currency to have one of his examiners make an examination of the trust department of the bank in order to determine whether the bank has been properly relieved of all of its duties as fiduciary.

"A copy of the resolution of the board of directors of The First National Bank of Spring Valley and a copy of the affidavit executed by the cashier thereof, inclosed with your letter, are being forwarded to the Federal Reserve Bank of New York and it is suggested that you communicate with that bank if you have any further questions with regard to this matter."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of

9/25/36

-6-

Boston, reading as follows:

"Receipt is acknowledged of your letter of September 8, 1936, inclosing for the Board's information a copy of a letter received by you under date of September 4, 1936, from Mr. C. B. Eilenberger, Third Assistant Postmaster General, with respect to the maximum rate of interest payable on Postal Savings deposits by a national bank in Vermont, together with a copy of your reply. The Board finds no reason to differ from the views expressed by you in your letter to Mr. Eilenberger."

Approved unanimously.

Letters to the Presidents of all Federal reserve banks, except those at Boston and New York, where the letters were addressed to Federal Reserve Agent Curtiss and Assistant Federal Reserve Agent Gidney, respectively, reading as follows:

"The replies received to the Board's letter of August 27, 1936 regarding the fall conference of representatives of the bank examination departments of the Federal reserve banks, indicate that October 26, 1936 would be the most convenient date for the opening of the conference. Accordingly, the conference is called to meet at 9:30 A. M., October 26, 1936, in the offices of the Board's Division of Examinations in the Shoreham Building, Washington, D. C.

"A tentative draft of the program for the conference will be forwarded for consideration of the Federal reserve banks as soon as the suggestions of the various Federal reserve banks regarding the program have been coordinated."

Approved unanimously.

Memorandum dated September 23, 1936, from Mr. Vest, Assistant General Counsel, submitting a letter dated September 16 from the Comptroller of the Currency with reference to the compilation of the office of the Comptroller entitled "Federal Laws Affecting National Banks", and suggesting that a brief statement on this subject, in the form

9/25/36

-7-

attached to the memorandum, be included in the October issue of the Federal Reserve Bulletin, and that a letter be sent to the Presidents of all Federal reserve banks reading as follows:

"The Comptroller of the Currency has advised that the supply of the recent publication of his office entitled 'Federal Laws Affecting National Banks as of January 1, 1936' is being rapidly depleted. The price of this volume is \$1 a copy and, in the event your bank should desire to purchase any copies, it is suggested that you communicate with the office of the Comptroller of the Currency."

Approved unanimously.

Memorandum dated September 22, 1936, from Mr. Morrill submitting for approval of the Board the proposed letter set out below addressed to the George A. Fuller Company accepting a proposal to install cast bronze and marble seals in the floors of the Constitution Avenue entrance hall and the lobby to the Board room in the new building, for the sum of \$1,636. The memorandum stated that the changes brought about by the installation of these seals had been authorized by Mr. Miller in conference with the Architect prior to Mr. Miller's departure on his present trip, and that Mr. Morrill had consulted both the Board's Building Superintendent and Architect as to the cost and that they both advised that in their opinion it was quite reasonable.

"Reference is made to your letter of July 29 addressed to me for the attention of Mr. Kramer, which was submitted to me by Mr. White under date of September 16, containing your proposal to make the necessary changes and additions to contract requirements to furnish and set, complete, the cast bronze and marble seals in the floors of the Constitution Avenue Entrance Hall C-2 and Board Lobby D-3, as called for by Architect's Change Sheet No. 7 and Architect's Drawings

9/25/36

-8-

"Nos. 180, 248 and 249, dated July 7, 1936, for the sum of \$1,636.00, on the basis of the details set forth in your letter.

"I am authorized by the Board to advise you that it accepts the foregoing proposal with the understanding that the performance of this work is to be in accordance with the terms of the specifications and other documents constituting the contract with the George A. Fuller Company for the construction of the new Federal Reserve Building."

Approved unanimously.

Letter to Mr. Dillistin, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of September 14, 1936, requesting an opinion as to the applicability of section 32 of the Banking Act of 1933 to the services of Mr. J. N. Thorne as a director of Grace National Bank of New York and as an employee of Goldman, Sachs & Co., both of New York, New York.

"The Board sees no reason to differ with the conclusion reached by you and counsel for your bank that Goldman, Sachs & Co. should be deemed to be primarily engaged in the business referred to in section 32, and that the above relationships are, therefore, prohibited by that section."

Approved unanimously.

Thereupon the meeting adjourned.

Walter M. Mowbray  
Secretary.

Approved:

Donald T. Mason  
Vice Chairman.