

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 29, 1936, at 12:00 o'clock noon.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Gardner, Research Assistant in the Division of Research and Statistics

Mr. Ransom reported that Secretary Morgenthau had telephoned him this morning and indicated that he would like to meet with the Board at 12:00 o'clock noon today, and that he (Mr. Ransom) had therefore called the meeting primarily for the purpose of receiving the Secretary of the Treasury.

There was some discussion relative to the foreign situation and at 12:10 p.m. Secretary Morgenthau, together with Messrs. Cyril B. Upham, Assistant to the Secretary and Archie Lochhead, Technical Assistant, entered the meeting. Secretary Morgenthau advised the Board relative to developments leading up to the monetary understanding between the United States, Great Britain and France which had been made public on September 25, 1936, and at the conclusion of the discussion he and his assistants withdrew from the meeting at 12:45 p.m.

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There was brought to the attention of the members of the Board a letter dated September 28, 1936, from Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, advising that Mr. E. H. D. Skinner, Assistant to the Governors of the Bank of England, had called at the New York bank on that date, but that his visit to the bank had been purely a courtesy call upon certain officers of the bank whom he had previously met in London.

Mr. Sproul's letter was noted without comment.

Mr. Szymczak inquired whether the members of the Board had reviewed the files concerning individuals suggested for consideration in filling existing vacancies in branch directorates of Federal reserve banks, which had been circulated following the action taken by the Board at a meeting on September 18, 1936.

There followed a discussion of the difficulties involved in finding men suitable for appointment as branch directors and it was unanimously agreed that the Personnel Committee, consisting of Vice Chairman Ransom, in the absence of the Chairman, Mr. Szymczak and Mr. Broderick, would meet at 11:00 a.m. on Friday, October 2, 1936, for the purpose of considering the problem.

Mr. Ransom presented a draft of letter to the Presidents of all Federal reserve banks, together with a memorandum from Mr. Vest, Assistant General Counsel, dated September 17, 1936, relative to the question whether Federal reserve banks should receive on deposit from member banks deposits of trust funds of such member banks awaiting investment or distribution. Mr. Ransom stated that he had requested that

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the matter be placed on the docket, after having been circulated to the members of the Board, for consideration at a meeting as he thought it would be helpful to have the benefit of a discussion on the subject before reaching a final decision.

Mr. Vest stated in his memorandum that the matter was considered by the Governors' Conference in October 1935, and the Governors voted eight to four in favor of receiving such deposits, but that a letter was sent to the Federal reserve banks in April of this year requesting copies of opinions or memoranda prepared in the respective banks with regard to the subject and that it appears from the replies which have now been received that at least nine of the banks are unfavorable to accepting deposits of uninvested trust funds of member banks. The memorandum pointed out numerous advantages and disadvantages from the standpoint of the reserve banks and stated that, in all the circumstances, it was recommended that the Board write a letter to the Federal reserve banks indicating that the Board will offer no objection to the receipt of deposits of uninvested trust funds subject to proper safeguards when in special circumstances a Federal reserve bank may feel that it is desirable to render the service for a temporary period to particular member banks.

At the conclusion of a discussion the Board, by unanimous vote, approved the following letter to the Presidents of all Federal reserve banks:

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"As will be recalled, the conference of Governors of Federal Reserve banks on October 23, 1935, discussed the matter of the acceptance of deposits of uninvested trust funds from member banks by Federal Reserve banks, and the conference expressed itself as favoring such a practice, with four of the Governors voting in the negative. Replies which have been received to the Board's letter of April 15, 1936, on this subject, however, show that the large majority of the Federal Reserve banks are unfavorably disposed toward the acceptance of uninvested trust funds on deposit from member banks.

"While some member banks would derive benefit from the privilege of depositing uninvested trust funds with Federal Reserve banks in that they would have a safe depository and would not be required to pledge securities for funds so deposited, it does not appear that any large number of member banks have expressed a desire for this service. It is doubtful whether the receipt of such deposits can be said to fall within the scope of the purposes for which the Federal Reserve banks were established and it is believed that the acceptance of such deposits would, in addition to the extra work which would be entailed, subject the Federal Reserve banks to annoying complications and possible legal liabilities, against some of which, at least, adequate precautions could not be taken.

"The Board of Governors has given consideration to the matter in the light of the views expressed by the Federal Reserve banks and feels that it is not desirable that Federal Reserve banks engage as a general practice in receiving uninvested trust funds on deposit from member banks. However, in view of the fact that in the Board's judgment it cannot be said that Federal Reserve banks are without the legal authority to accept such deposits, and since two or three of the Federal Reserve banks are desirous of performing the service in some circumstances, the Board for the present will offer no objection to the receipt of deposits of uninvested trust funds in a special account when in the judgment of the Federal Reserve bank special circumstances render such service to a particular member bank desirable for a temporary period. Any such account which is established, however, should have constant attention and should be discontinued as soon as the special circumstances justifying the account are eliminated. In opening any such account an agreement between the Federal Reserve bank and the member bank should be carefully prepared with the assistance of counsel for the Federal Reserve bank, and such other precautions as may seem necessary should be taken to minimize

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"the possibility of litigation or loss to the Federal Reserve bank. It would seem that the opening of a separate account for each trust estate whose funds are deposited with the Reserve bank, in lieu of one account for the receipt of all uninvested trust funds deposited by a particular member bank, would be so burdensome to a Federal Reserve bank as to be impracticable.

"While the action of the Governors' conference in October 1935 contemplated that transactions in an account in which trust funds are received would be confined to transfers to and from the reserve account of the member bank, it is believed that this practice would involve a commingling of the funds of the fiduciary with trust funds, which would be objectionable both from the standpoint of the fiduciary and the Federal Reserve bank, with possible ensuing liabilities. For this reason, it is suggested that, in any case in which a Federal Reserve bank feels it necessary to establish an account of this kind, transactions between the trust account and the reserve account be not permitted but that some other method of effecting deposits in and withdrawals from the account be followed.

"It should be understood, of course, that deposits of funds received by a member bank in a fiduciary capacity and deposited with a Federal Reserve bank in such an account may not be counted as a part of the member bank's reserve balance with the Federal Reserve bank.

"The action of the Governors' conference in October 1935 appears to contemplate the possibility of a Federal Reserve bank's receiving trust funds awaiting investment or distribution not only from a member bank but also from a trust company engaged exclusively in conducting a trust business and owned by a member bank. It is the view of the Board that the receipt by a Federal Reserve bank of uninvested trust funds from a nonmember institution would not be legally authorized.

"There is inclosed herewith for your information a copy of a memorandum prepared in the office of the Board's counsel regarding this matter, together with a summary of views expressed by the Federal Reserve banks in their letters replying to the Board's letter of April 15, 1936, on this subject."

Consideration was then given to a memorandum dated September 3, 1936, from Mr. Owens, Assistant Counsel, which stated that in connection with the consideration of the proposal of Mr. Thomas, Assistant

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Director of the Division of Research and Statistics, to change the form of the table in the Federal Reserve Bulletin showing the maturity distribution of the bills and securities held by the Federal reserve banks, counsel had been requested to furnish an opinion upon the question whether the table showing the maturity distribution of bills and securities in the weekly statement of condition of the Federal reserve banks complies with the requirements of section 11(a) of the Federal Reserve Act. Mr. Owens stated in the memorandum that in his opinion it was very questionable whether the table showing the maturity distribution of bills and securities in the weekly statement complies with the requirements of section 11(a) that "full information" be furnished regarding "the amount, nature and maturities" of the paper and other investments of the Federal reserve banks, and that, accordingly, it is suggested that tables similar to those proposed by Mr. Thomas for inclusion in the Federal Reserve Bulletin be included in the weekly statement of condition of the Federal reserve banks in order to remove the question whether the present statement of condition meets the requirements of the law. It was stated further in the memorandum that, in Mr. Owens' opinion, such tables would, under existing circumstances, comply with the requirements of section 11(a), but that, since there is no provision of law relating to the Federal Reserve Bulletin, it appears that no legal question is presented by Mr. Thomas' proposal to change the form of the table in the Bulletin.

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It was pointed out that Mr. Thomas' proposal to include two new tables in the Federal Reserve Bulletin had been considered by the Board on August 27, 1936, and that it was agreed unanimously to defer action thereon until a meeting of the Board at which Mr. McKee was in attendance.

After a discussion the Board, by unanimous vote, approved the proposal contained in Mr. Thomas' memorandum of August 18, 1936, that a change be made in the table shown in the Federal Reserve Bulletin on maturity distribution of bills and securities held by Federal reserve banks, on which action had been deferred at a meeting on August 27, 1936, and also approved the opinion contained in Mr. Owens' memorandum of September 3, 1936, with the understanding, however, that both of these memoranda would be submitted to Mr. McKee upon his return to Washington and that his approval would be obtained before the Board's action in these matters would become effective.

Mr. Morrill stated that recently Mr. Otis T. Wingo, Executive Secretary of the National Institute of Public Affairs, had called upon him and explained the work of the Institute in selecting college graduates and placing them in departments and establishments of the Government on a non-salaried basis. He said that the board of trustees of the Institute consisted of Messrs. Louis Brownlow, President, John Dickinson, Eugene Meyer, Edward R. Murrow, Henry L. Stimson and William E. Sweet, and that the entire purpose of the Institute's Federal Government internship training program is to attract to the field of public

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service in America a limited number of outstanding young college graduates. Mr. Morrill then read substantially all of the printed announcement issued by the National Institute of Public Affairs in January 1936, regarding graduate scholarships, a copy of which has been placed in the Board's files.

Mr. Morrill stated that Mr. Wingo had advised him that eighty-three interns had been trained since 1934; that from one thousand young people who wished to apply, and the three hundred of that number whom the colleges approved, the National Institute had selected thirty interns for this coming year's training; that the internships were arranged where the interest of the individual interns lie; that interns become unsalaried assistants to the governmental officials to whom they are attached -- subject to all employee discipline, rules, and regulations; that all of their work and activities with the official agency concerned can, if requested, be kept by them strictly confidential; and that the only reports the Institute would require in such confidential cases is word from time to time from the official concerned as to whether the intern's work is satisfactory. Mr. Morrill stated further that he had been advised that a number of other government departments and agencies had cooperated with the National Institute and had young men attached to their staffs. He referred to the fact that Mr. Wm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury, had a young

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man selected by the National Institute in his office, that Mr. W. W. Stockberger, Director of Personnel of the Department of Agriculture, had an intern assisting him, that two or three such students were attached to the Civil Service Commission, and that others had been placed in the Department of Commerce, the Social Security Board and other branches of the Government. Mr. Morrill indicated that he was personally acquainted with Messrs. McReynolds and Stockberger and had therefore discussed the activities of the National Institute with them. They had both advised him, he said, that the young men assigned to their offices were making excellent progress and it was likely that they would wish later on to give them a permanent salaried status in their respective organizations. He added that he had not checked with other Government organizations because he felt that both of these men would be entirely frank in their discussions with him and that their experience was probably sufficiently indicative of the success of the National Institute's undertaking to make further investigation unnecessary.

Mr. Morrill stated that Mr. Wingo had called on him a week ago and brought with him a young man, Mr. Robert D. Fenn, whom the Institute proposed would serve as intern in the Board's organization. He said that, Mr. Fenn was 22 years of age, that his home was in Meriden, Connecticut, that he received a B.A. degree from Amherst College in 1936, was awarded Phi Beta Kappa in his junior year, was president of his class and captain of the football team in his senior year, and that

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he was considered by the professors to whom the Institute addressed inquiries as coming within the top one per cent of all students they had known. Mr. Wingo, he said, had advised him that Mr. Fenn's studies background emphasized economics, particularly money, banking, and public finance; and that in connection with his political science work he also made an independent study one semester of all the government acts since the advent of the depression for the relief and reform of banking and of credit. Mr. Morrill stated that he was very favorably impressed by Mr. Fenn's appearance and personality.

In response to an inquiry by Mr. Ransom, Mr. Morrill stated that the National Institute of Public Affairs was privately financed but received substantial support from the Rockefeller Foundation. He said that he had been informed that interns are expected to finance themselves and pay their own living expenses just as though they were attending college.

Mr. Goldenweiser stated, in response to an inquiry from Mr. Broderick as to whether he might utilize the services of Mr. Fenn in the Division of Research and Statistics, that he felt it would not be advisable. He added that his office had made some inquiries since the matter had been brought to his attention by Mr. Morrill and that he had been advised that the experience of other departments in some instances had been that dissatisfaction was created among the regular employees of the organization and in other instances the intern himself

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had been dissatisfied because he was either not making as rapid progress as he had anticipated or felt that he was performing work as satisfactorily as salaried employees although he was receiving no compensation. Mr. Goldenweiser also said that he questioned the advisability of placing an intern in the Board's organization because the person involved would feel that he had a responsibility to the National Institute as well as to the Board. He stated that he would be much more inclined, in view of the fact that the Division was under-staffed, to recommend that the Board employ the young man if, upon further investigation, he found that his services could be utilized to advantage.

In response to a similar inquiry by Mr. Broderick, Mr. Morrill said that he was fully in accord with the objectives of the National Institute and that he regarded the matter of actually taking a young man into the organization as involving purely practical consideration. Mr. Goldenweiser concurred in this statement. Mr. Morrill added that Mr. Fenn had also expressed a desire to be connected with the Secretary's office, but that there was no work in the Secretary's office to which Mr. Fenn could be assigned where he thought an intern would feel that he had sufficient latitude for development.

There was further discussion from which it appeared that the Board agreed in principle with the program of the National Institute of Public Affairs but that it was not prepared to place an unsalaried intern in its organization. In this connection,

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however, the Board expressed a willingness to consider the employment at a nominal salary of a student selected by the National Institute, upon the recommendation of a division head, and it was understood that Mr. Goldenweiser would interview Mr. Fenn.

At this point Messrs. Thurston, Wyatt, Goldenweiser and Gardner 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:

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"This refers to your letter of September 16, recommending the appointment of Mr. Jere V. D. Stryker to serve as assistant Federal Reserve agent, at his present salary of \$5,500 per annum, and Mr. Robert H. Phinney and Mr. Norman C. Cooper to serve as alternate assistant Federal Reserve agents, at their present salaries of \$3,100 each, to be effective at the time of the transfer of the non-statutory functions of the Federal Reserve agent to the bank.

"The Board approves your recommendations, with the understanding that Messrs. Stryker, Phinney and Cooper, now employed in the Federal Reserve agent's department, will remain on the agent's payroll and be solely responsible to him, or during a vacancy in the office of agent to the Board of Governors, for the proper performance of their duties.

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"As indicated in the Board's letter of September 14, 1936, in discussing the duties of the assistant Federal Reserve agent and alternates, there will be no objection on the part of the Board to Mr. Stryker's continuing to perform functions for the bank during such time as he is not engaged with his duties as assistant Federal Reserve agent, if satisfactory to the President of the bank.

"In approving persons to serve as assistant Federal Reserve agents after the non-statutory duties of the Federal Reserve agent are transferred to the bank, the Board has done so with the understanding that the work connected with the issuance and retirement of Federal Reserve notes would actually be handled by the assistant Federal Reserve agent, and that alternate assistant Federal Reserve agents would perform such duties only in the absence of the assistant Federal Reserve agent. In the case of your bank, however, the Board will, for the present, make an exception to this requirement in view of the fact that there is at present no Federal Reserve agent at your bank, and that the responsibilities of an assistant Federal Reserve agent at your bank are somewhat greater than at any other Federal Reserve bank as he holds in custody as agent for the Federal Reserve agents at the other Federal Reserve banks all of the United States Government securities pledged with them as collateral for Federal Reserve notes."

Approved unanimously.

Telegram to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Retel September 24. Board has been informally advised by a representative of the Department of Justice that such Department has not ruled upon question whether a loan by a bank under the provisions of Title II of the Federal Housing Act to an FDIC examiner or to other examiners referred to in section 22(a) of the Federal Reserve Act would be lawful. Board also understands that it is not the usual practice of Department of Justice to render opinions upon questions of this kind. If you have information regarding an actual case where loan under Title II of the Federal Housing Act has been made to an FDIC examiner by a State member bank which may possibly involve a violation of section 22(a), it is suggested that you report facts to the local United States Attorney and to the Board in the usual manner. If you have information regarding an actual case in which national bank

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"or nonmember insured bank has made such a loan which may possibly involve a violation of such section, suggest you report facts to chief national bank examiner in your district or FDIC as case may be."

Approved unanimously.

Thereupon the meeting adjourned.

Orestes Mouill
Secretary.

Approved:

Donald J. Mason
Vice Chairman.