

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 20, 1936, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Broderick
 Mr. Szymczak
 Mr. McKee
 Mr. Davis

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. 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. Wingfield, Assistant General Counsel

Reference was made to the application of the organizers of the American Bank and Trust Company, Miami, Florida, for membership in the Federal Reserve System which had been filed with the intention that the bank would open for business as a member of the Federal Reserve System. Attention was called to the memorandum prepared under date of October 2, 1936, by the Board's Division of Examinations in connection with the application which stated that while the executive committee of the Atlanta bank had recommended that the application be approved subject to such conditions of membership as the Board might deem neces-

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sary, Mr. H. Warner Martin, Federal Reserve Agent, had voted in the negative, feeling that the proposed executive staff had not had sufficient banking experience to operate a bank in Miami successfully. The memorandum also pointed out that, while it was agreed that there was room for another bank in Miami, particularly one which would serve the needs of smaller borrowers as was proposed by the organizers of the American Bank and Trust Company, and that the bank would be in good financial condition upon opening, there was a difference of opinion in the Board's Division of Examinations as to whether the bank should be admitted to membership with a condition that the management be strengthened or whether admission of the bank should be deferred until the bank had had an opportunity to demonstrate its fitness for membership. It was stated further that the bank's application for insurance of deposits had been approved by the Federal Deposit Insurance Corporation, but definite information was not given as to whether the organizers of the bank had been advised of the Corporation's action.

Chairman Eccles inquired whether the Federal Deposit Insurance Corporation had ascertained the Board's attitude with respect to membership of the new bank in the Federal Reserve System prior to taking action on the bank's application for insurance of deposits, and upon being advised that such procedure had not been followed, he referred to the understanding which he had had with Chairman Crowley of the

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Federal Deposit Insurance Corporation last fall that the Corporation would not approve an application for insurance of deposits without first taking the matter up with the Board, and expressed the opinion that the matter should be taken up again with Mr. Crowley so that this procedure will be followed in all future cases. Mr. McKee expressed the view that the question was one of procedure with respect to information as to action by the Federal Deposit Insurance Corporation before action by the Board.

Mr. Broderick suggested that, inasmuch as Mr. Paulger will be in Tampa, Florida, early in November action be deferred on the application of the American Bank and Trust Company and that Mr. Paulger be requested to look into the matter when he is in Florida.

After a discussion, it was agreed unanimously that Mr. McKee should discuss with Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, the matter of an arrangement under which the Corporation will ascertain the Board's attitude regarding membership in the Federal Reserve System of any eligible State bank making application to the Corporation for insurance of deposits before action is taken by the Corporation approving such application and the Board will continue to ascertain from the Corporation whether it is willing to insure the deposits of a State bank making application for membership in the Federal Reserve System before such application is approved by the Board.

It was also agreed unanimously that action on the application of the American Bank

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and Trust Company should be deferred and that Mr. Paulger should look into the matter further when he is in Florida in November and submit a recommendation to the Board as to the action that should be taken.

There were presented two memoranda dated October 3, 1936, from Mr. Smead with respect to frequency of meetings of boards of directors and committees of the Federal reserve banks and branches and with respect to compensation and traveling expenses of directors of Federal reserve banks and branches. Each of the memoranda contained recommendations as to the action to be taken by the Board on the matters referred to.

Mr. Broderick suggested that, instead of writing certain of the Federal reserve banks as suggested in the recommendations, the matters be taken up at the next Presidents' Conference or, in lieu thereof, that the factual portions of the memoranda be sent to the Federal reserve banks for their information, it being Mr. Broderick's thought that when the banks are in possession of such information they will take voluntarily the necessary action to achieve the results contemplated in Mr. Smead's recommendations.

Mr. McKee moved that Mr. Smead be requested to revise the memoranda to include only the facts set forth therein and that the revised memoranda be sent to the presidents of the Federal reserve banks with the suggestion that the subject be placed on the docket for discussion at the next Presidents' Conference.

Carried unanimously.

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Chairman Eccles outlined certain suggested changes which he felt should be made in the regulations approved by the Board at the meeting on March 14, 1936, covering reimbursement for expenses of persons traveling on official business of the Board.

The suggestions were discussed and the Secretary was requested to prepare a draft of the regulations incorporating the suggested changes, for consideration by the Board at a subsequent meeting.

Mr. Wingfield left the meeting at this point.

There was also presented a memorandum dated October 19, 1936, prepared by Messrs. Morrill, Goldenweiser and Wyatt pursuant to the action taken at the meeting of the Board on October 13, 1936, on the subject of a procedure under section 14(g) of the Federal Reserve Act with respect to the establishment and maintenance by Federal reserve banks of relations with foreign banks or bankers.

It was understood that copies of the memorandum would be furnished to all members of the Board and that it would be considered at the meeting of the Board on October 23, 1936.

Mr. Morrill stated that a letter, dated October 19, 1936, had just been received from Mr. H. S. Johnson, President of the Point Pleasant National Bank, Point Pleasant, West Virginia, written in reply to the Board's letter of October 15, 1936, and stating that he will appear before the Board on November 5, 1936. There followed a discussion of

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the procedure to be followed in conducting the hearing at which Mr. Johnson will be afforded an opportunity to show cause why he should not be removed as President of the Point Pleasant National Bank and it was stated by Mr. Wyatt that the matter was being given very careful consideration and that a suggested procedure would be submitted to the Board for consideration prior to November 5, 1936.

At the request of Mr. Ransom, Mr. Wyatt stated that following the meeting of the Board on October 9, 1936, at which the suit filed by Mr. John D. Montgomery to enjoin the members of the Board, the Secretary of the Treasury and the Comptroller of the Currency from the "further exercise of the power to coin money", etc., was discussed, he had called Mr. Bernard Bernstein, of the office of counsel to the Secretary of the Treasury, on the telephone and had advised him of the opinion of the Board that it would be desirable to seek the disposition of the case through motion to dismiss on technical grounds, and that Mr. Bernstein had discussed the matter with the Comptroller of the Currency and his counsel, following which a letter was addressed by the Secretary of the Treasury to the Attorney General referring the case to him and requesting that he refer it to the United States attorney and have him appear on behalf of the Comptroller of the Currency and the Secretary. Mr. Wyatt also said that the Comptroller of the Currency had not called upon the Attorney General as he had originally planned so that it had

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not been necessary for him (Mr. Wyatt) to acquaint the Attorney General with the Board's position. Mr. Wyatt added that he had discussed the case with the United States attorney to whom it had been assigned who was also of the opinion that the dismissal of the suit should be obtained upon technical grounds and had submitted for consideration a draft of motion to dismiss on the grounds (1) that the plaintiff has not shown sufficient personal interest in the suit to justify the action, (2) that the Federal reserve banks are necessary parties to the suit, and (3) that the bill does not state a cause of action. In view of the fact that the suggestion had been made, Mr. Wyatt said, that the answer contain an argument that the Federal Reserve Act is constitutional, he had discussed with the United States attorney the desirability of incorporating such an argument in his answer and that the attorney had expressed the opinion that the inclusion of such an argument would attract publicity which is not warranted under the circumstances and that, if necessary, the argument of constitutionality could be presented under the third point contained in his proposed answer. Mr. Wyatt stated further that he desired to be advised whether the Board wished to have the argument of constitutionality included in the motion, that in his opinion it was not necessary from a legal standpoint, and that he would recommend its omission.

Mr. McKee moved that the Board approve Mr. Wyatt's recommendation.

Carried unanimously.

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Chairman Eccles stated that in view of developments subsequent to the meeting of the Board on October 9, 1936, it had not appeared necessary for him to call Mr. Oliphant, General Counsel to the Secretary of the Treasury, regarding the above matter.

Consideration was then given to a draft of a letter to the presidents of all Federal reserve banks referring to the Federal Credit Union organized by the employees of the Board of Governors and stating that it had occurred to the Board that, if the employees of the respective Federal reserve banks had not already done so, they might wish to give consideration to the desirability of forming such a union, in which event it was quite possible that the banks would find it practicable to discontinue their employees' loan funds. The draft of letter had been circulated among the members of the Board and Mr. Broderick had raised the question of the advisability of sending the proposed letter and Mr. McKee had suggested that the matter might be placed before the next Presidents' Conference.

After a discussion, it was decided that the letter should not be sent but that the matter should be brought to the attention of the Presidents at the time of their next conference and, in the event they desired to have further information regarding the union organized by the employees of the Board of Governors, an officer of the Union would be asked to present such information to the conference.

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Reference was made to a letter dated October 14, 1936, from Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, stating that the next meeting of the Council would be held in Washington on November 16 and 17, 1936, and requesting a list of the topics which the Board of Governors desired the Council to discuss. It was pointed out that no topics had been suggested by the Board for consideration at the more recent meetings of the Federal Advisory Council and the suggestion was made by some of the members that the Board should seek recommendations from the Council on certain matters which are now before the Board and which present questions of more or less difficulty.

At the conclusion of the ensuing discussion, Mr. Ransom moved that the Secretary be requested to prepare a letter to the Secretary of the Federal Advisory Council stating that the Board would appreciate recommendations from the Council with respect to the definitions of "savings deposits" and "interest" contained in Regulation Q and with respect to the manner in which the problem of withdrawal by banks from the par list might be met.

Carried unanimously.

Mr. Broderick reported briefly on the items of interest in connection with his recent visit at the Federal Reserve Bank of Atlanta, the Birmingham, Nashville, New Orleans, Memphis and Louisville branches, and, with Mr. Davis, at the Federal Reserve Bank of Cleveland.

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Thereupon the meeting adjourned.

Chester M. Moore
Secretary.

Approved:

W. S. Lewis
Chairman.