

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 2, 1937, at 11:00 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. Dreibelbis, Assistant General Counsel

There was a discussion of the actions taken by the Board on January 30, 1937, with respect to subsection 1 (f) entitled "Interest", of Regulation Q, Payment of Interest on Deposits, and the increase in reserve requirements of member banks, and in this connection there was a general review of the problems which would arise in Congress in connection with the consideration of legislation amendatory to the paragraphs of section 19 of the Federal Reserve Act regarding the payment of interest on deposits.

A discussion was also had of the possible forms that legislation looking to the improvement of the existing banking structure might take.

There was presented a letter dated January 15, 1937, from Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, stating that the next meeting of the Council will be held in Washington on February 15-16, 1937, and requesting a list of the topics which the Board of Governors desires the Council to discuss at that time. The letter had been brought to the attention of the members of the Board and of the heads of the various

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divisions for suggestions as to the topics that might be submitted for consideration.

Suggested topics offered by Mr. Ransom and Mr. Goldenweiser, Director of the Division of Research and Statistics, were discussed and it was understood that Mr. Morrill would prepare in consultation with Mr. Ransom a draft of a letter to Mr. Lichtenstein submitting the two topics for consideration.

Mr. Davis stated that the Personnel Committee had made an investigation of Mr. Jay Taylor, President, Panhandle Livestock Association, Amarillo, Texas, and member of the executive committee of the American National Livestock Association, as a possible appointee as a Class C director of the Federal Reserve Bank of Dallas and that the Committee was prepared to recommend his appointment but before doing so desired to know whether the members of the Board wished to have an interview with Mr. Taylor.

The members of the Board indicated that they were willing to approve such a recommendation if made by the Personnel Committee and Mr. Davis was authorized to ascertain whether Mr. Taylor would be available for the position and if it would be possible for him to come to Washington to meet the members of the Board.

At this point Messrs. Thurston and Dreibelbis 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 January 30, 1937, were approved unanimously.

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Telegrams to Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, stating that the Board approves the establishment without change by the Minneapolis bank on February 1, 1937, and by the St. Louis bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Rounds, Chairman of the Retirement System of the Federal Reserve Banks, reading as follows:

"Reference is made to your letter of January 22 in regard to the retirement of the four employees of the Federal Reserve Issue and Redemption Division whose retirement under the special service provisions of the Rules and Regulations of the Retirement System was approved by the Board with the understanding that retirement allowance payments will not begin in any case until after the member's employment with the Government has terminated.

"The suggested arrangement whereby payments to these retired members will be withheld for any period that may elapse between age 65 and the actual cessation of employment with the Government, such deferred payments to be accumulated for the benefit of the member and paid to the member at the time retirement allowance payments begin or, in the event of the prior death of the member, paid to the member's beneficiary as a death benefit, will accomplish the purpose the Board had in mind and meets with its approval."

Approved unanimously.

Memorandum dated January 27, 1937, from Mr. Smead, Chief of the Division of Bank Operations, stating that the revised personnel classification plan of the Federal Reserve Bank of Boston had been received and carefully reviewed and recommending that the plan be approved. The memorandum also stated that in analyzing the various positions in the bank and fixing the maximum salaries therefor, it was found that the maximums

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fixed for the following positions were somewhat less than salaries paid to present incumbents; that the Boston bank did not wish to take steps at this time to bring all salaries within the proposed maximums and requested that the salaries of the ten employees which were in excess of the maximums be approved; and that since the salaries, with one or two exceptions, were relatively small, it was recommended that the payment of salaries to these employees at the present rates be approved.

<u>Name</u>	<u>Position</u>	<u>Annual Salary</u>	<u>Form A Maximum</u>
Mary E. Hering	Stenographer - A	\$1,620	\$1,560
Frank E. Johnson	Clerk, Auditing Dept.	2,460	2,400
H. Frank Carroll	Cleaner	1,620	1,500
Charles E. Hunter	Cleaner	1,560	1,500
George P. O'Brien	Cleaner	1,680	1,500
David Bryant	Counter (Coin)	1,800	1,500
Lewis E. Stoyale	Div. Head, Collection Dept.	2,760	2,400
Frank S. Hughes	Mgr., Credit Dept	6,250	6,000
George A. Stearns	File Clerk - A	1,680	1,500
Francis L. Ewing	Head Paying Teller	3,360	3,000

The memorandum also recommended that the Federal Reserve Bank of Boston be requested to substitute in its plan the standard description of work for the position of Assistant Federal Reserve Agent which was approved by the Board on December 24, 1936, in connection with the approval of the personnel classification plans of nine other Federal reserve banks.

Approved unanimously.

Letter to Mr. Young, Deputy Chairman of the Federal Reserve Bank of New York, prepared pursuant to the action taken at the meetings of the Board on January 19 and 22, 1937, and reading as follows:

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"Your letter of January 11, 1937, in regard to proposed payments to the retirement system to supplement the retirement allowances of Messrs. Dodge and Sailer was brought to the attention of the Board and was discussed at a recent meeting.

"The Board feels that as a general rule special contributions authorized in its letter of January 27, 1935, X-9405, are adequate, particularly in the case of the officers and the higher salaried employees. With respect to the case of Mr. Dodge, the Board is of the opinion that the circumstances are not such as to justify it in approving a payment in excess of that authorized by the above mentioned letter for the purpose of supplementing his retirement allowance.

"In connection with Mr. Sailer, you referred particularly to letters addressed to the Board by your bank under date of September 17 and October 9, 1936. As you will recall, the Board's position in respect to Mr. Sailer was reviewed in detail in its letter to you of September 30, 1936, in which reference was made to the statement contained in the Board's earlier letter of August 20, that the Board's action approving the payment of salary to Mr. Sailer until December 31, 1936, was taken 'with the definite understanding that he will retire on or before the latter date, that there will be no further request for approval of any compensation for him, and that this action is final'. The Board has asked me to advise you that it sees no reason for changing that position and that it does not approve the additional proposed contribution of \$9,000 to the retirement system on behalf of Mr. Sailer."

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to your letter of January 22, the Board approves the reappointment of Messrs. Max Epstein, Howard Greene, R. R. Monroe, G. Barret Moxley and George W. Young as members of the Industrial Advisory Committee for the seventh Federal Reserve District to serve for terms of one year each beginning on March 1, 1937."

Approved unanimously.

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

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"Referring to your letter of January 18, the Board approves the reappointment of Messrs. S. V. Wood, John M. Bush, C. O. Follett, A. L. Miller and H. C. Jewett as members of the Industrial Advisory Committee for the ninth Federal Reserve District to serve for terms of one year each beginning on March 1, 1937."

Approved unanimously.

Letter to Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to your letter of January 21, the Board approves the reappointment of Messrs. R. L. Gray, Walter J. Berkowitz, D. Bruce Forrester, Ed S. Miller, and L. F. Rooney as members of the Industrial Advisory Committee for the tenth Federal Reserve District to serve for terms of one year each beginning on March 1, 1937."

Approved unanimously.

Letter to the Board of directors of "The Grosse Pointe Bank", Grosse Pointe, Michigan, 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 of 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 Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Grosse Pointe Bank', Grosse Pointe, Michigan, 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

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"also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of the Banking Department of the State of Michigan for his information.

"It has been noted from the report of examination as of December 19, 1936, that the bank was in the process of adjusting its capital structure through an increase in common stock and surplus to \$100,000 and \$115,000, respectively, and the retirement of the \$100,000 of preferred stock held by the R.F.C., and the application for membership has been approved with the understanding that such adjustments have been or will be completed prior to the bank's admission.

"It has been noted, also, that the banking premises are carried at a figure which is considered to be substantially below the actual value and that your examiner has recommended, therefore, that the usual condition regarding depreciation be not prescribed. In accordance with the usual procedure, however, such a condition has been prescribed, even though it may not be applicable at the present time, in order that its provisions may be made applicable in the future if circumstances warrant."

Letter to the board of directors of the "American State Bank", Great Bend, Kansas, 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 of the Federal Reserve Bank of Kansas City:

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

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

"The Board of Governors of the Federal Reserve System approves the application of the 'American State Bank', Great Bend, Kansas, 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

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"which is for your files and the other of which you are requested to forward to the Bank Commissioner for the State of Kansas for his information.

"It has been noted that the Reserve Bank Committee feels that, in view of the small amount involved, it is unnecessary to prescribe a special condition of membership requiring the elimination of the \$346 in estimated losses shown in the report of examination of the bank as of December 12, 1936, and that the Committee is confident such assets will be charged off in accordance with the agreement made with your examiners. In view of the circumstances, a special condition to eliminate such losses has not been prescribed.

"It is assumed that you will discuss with the management of the bank the desirability of effecting the changes and corrections suggested by the examiner in connection with certain detail operations of the bank, particularly with respect to the provision of adequate surety bonds and adequate insurance coverage on cash and securities, and the proper carrying of all earnings accounts in the general ledger."

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the 'State Bank of Albany', Albany, New York, became a member of the Federal Reserve System on February 1, 1937, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter to "The Canajoharie National Bank", Canajoharie, New York, reading as follows:



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"This refers to the resolution adopted on October 3, 1935, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise trust powers which have been granted to it by the Federal Reserve Board.

"The Board of Governors of the Federal Reserve System understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers covered by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to "The First National Bank of Findlay", Findlay, Ohio, reading as follows:

"This refers to the resolution adopted on December 12, 1936, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise trust powers which have been granted to it by the Federal Reserve Board.

"The Board of Governors of the Federal Reserve System understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a

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"national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers covered by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"Reference is made to your letter of January 19 reporting certain resolutions adopted by the board of directors of your bank.

"The proposed transfer of the bank's 'Reserve for Losses on Discounted Bills' amounting to \$199,008.88, to the 'Reserve for Other Losses and Contingencies' and the release from earmark as a reserve for depreciation on United States Government securities of \$203,196.03 included in the 'Reserve for Other Losses and Contingencies' meets with the Board's approval.

"The Board's telegram of March 11, 1936, authorized your bank until further notice to pay a per diem and traveling expenses to the member for your district of the Federal Advisory Council as proposed in the resolution of your board of directors and, accordingly, no action by the Board on this matter appears to be necessary at this time."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of November 20 and to Mr. McRae's letter of the same date with regard to reports of the five affiliates of the B. M. C. Durfee Trust Company, Fall River, Massachusetts.

"It appears that under the existing waiver provisions as printed on the Board's Form 220b none of the affiliates was required to submit a report on June 30, 1936, but that it is anticipated that one or more of them may at some time borrow more than \$5,000 from the B. M. C. Durfee Trust Company, whereupon it will no longer be exempt from submitting reports.

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"It is noted that the suggestions contained in the Board's letter of October 22 were passed on to the bank; that Mr. Brayton, President of the bank, still objects to furnishing any additional information in regard to the corporations affiliated with his bank under the provisions of Section 2(b)(3) of the Banking Act of 1933, on the ground that such organizations are not affiliated with the bank in any real sense of the word; that he feels that the statutes give the Board the right to waive the submission and publication of the reports of affiliates and believes that the Board could properly waive the requirements in the present cases; and that he stated orally that if the bank is required to publish a statement of any of the affiliated corporations it will withdraw from membership in the Federal Reserve System. It is further noted that you suggested to the bank that, if the affiliated corporations in question would increase their respective boards of directors by the addition of one to three directors who are not directors of the B. M. C. Durfee Trust Company, the corporations would no longer be classifiable as affiliates under the terms of Section 2(b)(3) of the Banking Act of 1933, but that Mr. Brayton said that such action in a place the size of Fall River would cause a lot of comment and he would not care to do it.

"The Board appreciates the position of the member bank and has carefully considered whether the terms of the law would justify the extension of the existing waiver provisions, also whether the Board would be justified in waiving individual reports not covered by the general waiver provisions. The existing waiver provisions might, of course, be changed so as to provide, as you suggest, that reports be waived if the indebtedness of the affiliate to the member bank represents loans based upon production and distribution or perhaps so as to provide that extensions of credit well secured by collateral could be disregarded in determining whether or not reports were required. If an exemption were to be made on the basis of the purpose or security of a loan, however, it would probably result sooner or later in a dispute between a bank and examiners as to whether a report of an affiliate was or was not required. Apart from this consideration, however, the Board is of the opinion that it would not be consistent with the provisions of the law and the intent of Congress if reports were waived in circumstances where an affiliate was substantially indebted to a bank. It is doubtful whether there would be justification for requiring any reports of affiliates, if they were waived in such circumstances. It appears to be the clear intent of Congress that reports should be waived only where no relationship exists which is apt to have any material bearing upon the affairs of the bank. So long, therefore, as the

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"law defines the term 'affiliates' so as to include organizations associated with member banks in the manner in which the affiliates of the subject bank are associated, the Board does not feel justified in waiving reports of such affiliates except under the general conditions applicable to affiliates of all State member banks as printed on Form 220b.

"The Board, of course, would regret to have the bank withdraw from the Federal Reserve System, and it is hoped that the bank will not feel it necessary to take such a step. In view of the statutory provisions, however, the only further suggestion that occurs to the Board is that, in any publication of a report of the affiliate Form 220 required by law, the bank make as full an explanation as it desires under the head of 'Manner in which the above-named organization is affiliated with member bank, and degree of control'.

"The previous correspondence has been concerned only with the question of the necessity of obtaining reports of the affiliates. However, it is noted that your letter refers to the possibility of the affiliates borrowing from the bank on an unsecured basis. In this connection it is assumed that consideration has been given to the fact that the provisions of Section 23A of the Federal Reserve Act with respect to security for loans to affiliates would be applicable to the borrowings of the affiliates which have been the subject of correspondence."

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of January 23 with respect to that part of the agreement between the Secretary of the Treasury and the respective Federal Reserve banks which relates to the investment of funds received from the Secretary of the Treasury under Section 13b of the Federal Reserve Act and not employed in making industrial advances.

"The Presidents of the Federal Reserve banks at their conference held in Washington on November 18, 1936, voted 'that the Chairman appoint a committee of three representatives of the Federal Reserve banks to confer with the Board of Governors with a view to reconsidering the existing agreement in an effort to develop, with the Treasury, a more practical and workable plan.'

"The question as to what action should be taken by the Federal Reserve banks with respect to the investment of funds

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"received from the Secretary of the Treasury under Section 13b of the Federal Reserve Act which are not currently employed in making industrial advances will be taken up with the committee appointed by the Chairman of the Presidents' Conference when that committee confers with the Board with respect to the existing agreement between the Treasury and the respective Federal Reserve banks."

Approved unanimously.

Thereupon the meeting adjourned.

Ochester Morrie  
Secretary.

Approved:

W. Steeles  
Chairman.