

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 17, 1937, at 11:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

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

Telegrams to Mr. Paddock, First Vice President of the Federal Reserve Bank of Boston, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 6, 1937, from Mr. Van Fossen, Assistant Chief of the Division of Bank Operations, submitting a summary of the information contained in statements received from the Federal reserve banks in compliance with the Board's request of November 23, 1936, giving the name and annual salary of each employee as of January 1, 1937, together with the salary of each such employee on January 1, 1936, or the annual salary if hired during 1936. The memorandum stated that the salary lists as submitted by each Federal reserve bank had been examined and such differences as had been found between these lists and the personnel classification plans

-2-

3/17/37

on file with the Board had been brought to the attention of the Federal reserve banks. The memorandum recommended approval of letters attached thereto advising the Federal reserve banks that the salaries of employees on January 1, 1937, as shown in the salary lists furnished the Board, had been noted with approval, and that the letters to the Federal Reserve Banks of St. Louis, Kansas City and Dallas also authorize the payment of salaries in excess of those provided in the recently approved personnel classification plans to employees at the banks whose salaries have heretofore been in excess of such maximums as shown below:

Federal Reserve Bank of St. Louis

<u>Name</u>	<u>Position</u>	<u>Annual salary</u>	<u>Maximum for position in personnel classification plan</u>
<u>St. Louis</u>			
E. J. Bruckner	General Bookkeeper	\$2,700	\$2,400
Eleanor Kourek	Stenographer "A" (Accounting Dept.)	1,560	1,500
Della Doerner	Junior Clerk "A" (Accounting Dept.)	1,560	1,500
R. B. Johnston	Night Janitor Foreman	1,860	1,800
Anna Goddard	Pastry Cook	1,440	1,200
A. W. Baseler	Head of Collateral & Custody Dept.	3,120	3,000
Ruth Brauroth	Secretary	2,040	1,800
Mabel Burkhart	Secretary	2,040	1,800
Lily Silberman	File Clerk "A"	1,560	1,500
F. W. Rengstorff	Head of Money Department	4,260	3,600
E. W. Smith	Paying and Receiving Teller	3,000	2,700
Drew Luten	Doctor	3,300	2,700
Elizabeth Mudd	Welfare Worker	2,200	1,800
George Bode, Jr.	Head of Purchasing Dept.	3,300	2,700
C. J. Duesing	Purchasing Clerk	1,860	1,800
F. J. Pfyl	General Clerk (Collateral and Collection - R. F. C. Dept.)	2,160	2,100
P. H. Hoke	Head of Stock, Duplicating & Telephone Dept.	2,500	2,400
E. P. Harvey	Head of Transfer - Telegraph Dept.	3,060	3,000
G. H. Bagot	Teletype Operator	1,860	1,500

-3-

Federal Reserve Bank of St. Louis (Cont'd)

<u>Name</u>	<u>Position</u>	<u>Annual salary</u>	<u>Maximum for position in personnel classification plan</u>
<u>Louisville</u>			
A. K. Summers	Recorder (Collateral & Custody Dept.)	\$2,500	\$1,800
<u>Memphis</u>			
J. N. Perkins	Head of Credit-Discount Dept.	\$3,075	\$3,000
B. R. Freeman	Sorting & Shipping Teller	2,400	2,100
G. K. Strickland	General Utility Clerk	3,075	2,700
Gertrude Bartholomew	Telephone Operator	1,320	1,200

Federal Reserve Bank of Kansas City

<u>Name</u>	<u>Position</u>	<u>Annual salary</u>	<u>Maximum for position in personnel classification plan</u>
W. I. Early	Supervisor of Supplies	\$2,496	\$2,100
Mabel Harrison	Stenographer - A	1,896	1,800

Federal Reserve Bank of Dallas

<u>Name</u>	<u>Position</u>	<u>Annual salary</u>	<u>Maximum for position in personnel classification plan</u>
C. L. Childers	Assistant Examiner	\$3,000	\$2,400
John Digings	Junior Clerk - A	1,800	1,680
L. R. Wilson	Teletype Operator	1,800	1,500

In connection with the above matter, consideration was also given to a memorandum dated March 6, 1937, from Mr. Smead, Chief of the Division of Bank Operations, stating that in reviewing the revised personnel classification plans recently submitted to the Board it appeared that a number of the Federal reserve banks were placing maximum salaries on certain positions

-4-

3/17/37

in order to cover salaries actually being paid; that it had been suggested to the banks that the maximum salary fixed for a given position should represent the maximum salary which the position was considered to be worth and if any employees were receiving salaries in excess of such maximums which, for certain reasons, they wished to continue paying, the permission of the Board should be obtained therefor; and that in a number of cases the Board had already authorized the banks to pay to specified employees a salary in excess of the maximum provided in the personnel classification plans. The memorandum also stated that, in the case of the employees covered by the requests from the St. Louis, Kansas City and Dallas banks, it appeared that the banks had given careful consideration to the salaries paid the employees in question and felt that under all the circumstances it would be inadvisable to reduce them at the present time for the purpose of bringing them within the maximums now provided in the personnel classification plans, and recommended in the circumstances that the requests of these banks be approved.

The recommendations were approved unanimously.

Letter to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of February 10, 1937, advising of the change on February 4, 1937, of the address of the West Berkeley office, Berkeley, California, of the American Trust Company, San Francisco, from 1095 University Avenue to 1990 San Pablo Avenue. It is noted that this change merely necessitated moving the banking quarters to the rear portion of the building occupied by such office. It is noted also that, in your opinion, such change of address did not constitute the establishment of

3/17/37

-5-

"a new branch requiring the Board's approval under the provisions of section 9 of the Federal Reserve Act. The Board concurs in your conclusion."

Approved unanimously.

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

"This refers to your letter of February 9, 1937, stating that in connection with a recent examination of Merchants Bank of Kansas City, Kansas City, Missouri, a question had arisen concerning the propriety of the bank's selling to itself as trustee certain mortgage loans insured under Title II of the National Housing Act and inquiring whether such transactions should be criticized. This matter was again mentioned in your letter of February 17, 1937, and the report of examination of the bank as of December 28, 1936, inclosed therewith.

"It appears that in connection with the two transactions in question the bank executed declarations of trust in the so-called 'short form' prepared by the Federal Housing Administration. Such form and a so-called 'long form' of trust agreement were prepared in 1935 and distributed for the guidance of trust institutions. Subsequently it was suggested that certain provisions of such forms and the accompanying memoranda appeared to contemplate practices which might not be in accordance with sound principles of trust administration and might result in abuses. The matter was discussed by representatives of the Board, the Comptroller of the Currency, and the Federal Housing Administration and, in order to clarify the situation, the Federal Housing Administration advised those to whom the forms had been sent that such forms should be disregarded and, in lieu thereof, it suggested certain clauses which, in view of certain requirements applicable to insured mortgage loans, should be included in trust agreements under which insured mortgage loans are to be held. It was pointed out that it is essential that all trust instruments be prepared in accordance with sound trust practices and that this principle is in no wise affected by the inclusion of insured mortgage loans in the corpus of the trust. In this connection, your attention is called to the Board's letter of December 18, 1935, (X-9396), and its inclosures.

"The transactions to which you refer must be judged in the light of the same principles of trust administration which would be applicable if assets other than insured mortgage loans were involved. It is needless to point out the evils and dangers

3/17/37

-6-

"inherent in self-dealing by trustees. However, in some instances, a trustee may be required by the terms of the trust to invest trust funds in assets purchased from itself and in the light of such a requirement or other facts and circumstances, particular transactions may not be improper in the absence of applicable statutes or regulations prohibiting such transactions, although self-dealing as a general practice is subject to severe criticism. In the absence of complete information as to what took place prior to the execution of the declarations of trust in the two cases to which you refer, it is impossible to express a definite opinion concerning the question whether the transactions were improper. However, it should be noted that since any transaction involving self-dealing by a trustee is subject to question and a trustee should not enter into such a transaction unless it is fully prepared to defend its action, it would appear desirable that the propriety of such action be clearly shown by the terms of the instrument evidencing or creating the trust. If, after consideration of the particular transactions in the light of the foregoing discussion, you or your examiner should have any question, the Board, of course, will be glad to advise you.

"You also inquire generally whether transactions similar to those to which you refer would be in violation of the provisions of section 11(a) of Regulation F if they were entered into by national banks. However, the Board prefers, as a matter of policy, not to undertake to pass upon questions of a hypothetical nature, where it does not have before it the specific facts and circumstances of actual cases which must be acted upon."

Approved unanimously.

Letter to Mr. E. W. North, Assistant Cashier, The Central National Bank, Columbus, Nebraska, reading as follows:

"This refers to your letter of March 10, 1937, regarding a question arising under the provisions of Regulation Q. It is understood that in the case presented, one of your customers, who has a number of unmatured time certificates of deposit each issued on different dates and maturing one year from date of issue, desires to have them all combined into one certificate. You ask whether you would violate Regulation Q if you computed interest on each certificate for the time it had run, paid the accrued interest in cash, and issued to the depositor one certificate for the combined amount of the original certificates, said new certificate to run for a period of one year from date of issue. It is also understood that the accrued interest on the certificates

-7-

3/17/37

"has not been added to the deposits so as to become a part of the principal thereof.

"With the understandings stated above, the payment of accrued interest under the circumstances stated in your letter would not violate Regulation Q or section 19 of the Federal Reserve Act, provided the rate of interest paid does not exceed the applicable maximum rate stated in the Supplement to Regulation Q.

"If you should have any further questions regarding this matter or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of Kansas City."

Approved unanimously.

Letter to Mr. Gibbs Lyons, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of March 4, 1937, regarding the question whether the payment by member banks of assessments under the provisions of Senate Bill No. 1 of the Indiana Legislature would constitute a payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act and the Board's Regulation Q.

"Some time ago the Board reviewed a proposed bill for a new depository act for presentation to the Eightieth General Assembly of the State of Indiana and advised one of the officers of the State that, in the Board's opinion, if the proposed bill should be enacted into law, the payment by member bank depositories of the assessments provided for in the bill would not constitute the payment of interest on deposits within the meaning of section 19 of the Federal Reserve Act and Regulation Q.

"Although Senate Bill No. 1 is somewhat different from the proposed bill which was submitted to the Board, it appears that the provisions of the bill relating to the insurance of deposits are substantially similar to those contained in the proposed bill which the Board reviewed. Accordingly, it is our view that, if Senate Bill No. 1 should be enacted into law in the same form as that contained in your letter, the payment by member bank depositories of the assessments provided for in the bill would not constitute a payment of interest on deposits within the meaning of section 19 of the Federal Reserve Act and Regulation Q. You will understand, of course, that changes in certain portions of the proposed bill might have the effect of converting these assessments into interest payments which would be in violation of the law.

"In accordance with your request the copy of Senate Bill

3/17/37

-8-

"No. 1 which was inclosed with your letter is returned herewith."

Approved unanimously.

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

"This refers to your letter of January 11, 1937, containing additional information with regard to the question whether the indebtedness of assistant examiner Charles A. Robinson to the First National Bank, Media, Pennsylvania, is in violation of section 22(a) of the Federal Reserve Act.

"Since it appears that Mr. Robinson has never examined the national bank in question and that he has no authority under the law to examine a national bank outside of the second Federal Reserve District, the Board has reached the conclusion that the transaction in question does not constitute a violation of section 22(a) either on the part of Mr. Robinson or the national bank. Accordingly, the Board is not reporting the matter to the Department of Justice and it will not be necessary for you to make a report to the local United States Attorney."

Approved unanimously.

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

"This refers to your letter of December 24, 1936, containing additional information with regard to the question whether the indebtedness of examiner E. M. Joseph to the First National Bank, Danville, Illinois, is in violation of section 22(a) of the Federal Reserve Act. It is understood that Mr. Joseph borrowed \$132.25 from the national bank on September 25, 1935. It is also understood that Mr. Joseph has never examined the bank in question.

"The second paragraph of section 22(a) relating to the acceptance of loans by examiners, prohibits any examiner from accepting a loan from a bank examined by him, and since it appears that Mr. Joseph has never examined the national bank to which he is indebted, there would seem to be no reasonable basis for considering that he has violated the law. Accordingly, the Board is not reporting the matter to the Attorney General and it will not be necessary for you to make a report to the local United States Attorney.

"The first paragraph of section 22(a) of the Federal Reserve Act, as amended by the Banking Act of 1935, approved August 23,

3/17/37

-9-

"1935, prohibits any member bank from making any loan to any examiner or assistant examiner who examines or has authority to examine such bank'. Under the provisions of section 21 of the Federal Reserve Act, it is provided that a Federal Reserve bank may, with the approval of the Federal Reserve Agent or the Board of Governors, provide for special examinations of national banks within its district and a question of law arises as to whether this provision grants authority to an examiner for a Federal Reserve bank to examine national banks. Although this question may be doubtful, it has been the Board's practice not to undertake to make a determination of doubtful legal questions in cases of this kind. It is also the Board's practice not to refer to the Attorney General possible violations of the criminal statutes by national banks, but to submit the facts of such possible violations to the Comptroller of the Currency in order that he may report them to the Attorney General or take such other action as he may deem advisable. In the circumstances, the Board is referring to the Comptroller of the Currency the facts of this case."

Approved unanimously.

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

"This refers to your letter of December 19, 1936, containing additional information with regard to the question whether the indebtedness of assistant examiners George C. Robinson and C. W. Snyder to national banks in your district is in violation of section 22(a) of the Federal Reserve Act. It is understood that Mr. Robinson borrowed \$3500 from the Tradesmens National Bank and Trust Company, Philadelphia, Pennsylvania, in its capacity as trustee for Harry Morris, under the will of Samuel Morris, deceased, on November 22, 1935, and that Mr. Snyder became indebted to the First National Bank, Sunbury, Pennsylvania, in 1934 by virtue of his signing a collateral note to secure an indebtedness formerly incurred by members of his family. It is also understood that the assistant examiners involved have never examined the national banks to which they are indebted.

"The second paragraph of section 22(a), relating to the acceptance of loans by examiners, prohibits any examiner or assistant examiner from accepting a loan or gratuity from a bank examined by him, and since it appears that the assistant examiners involved have never examined the banks to which they are indebted, there would seem to be no reasonable basis for considering that

3/17/37

-10-

"such assistant examiners have violated the law. Accordingly, the Board is not reporting the matter to the Attorney General and it will not be necessary for you to make a report to the local United States Attorney.

"The first paragraph of section 22(a) of the Federal Reserve Act, as amended by the Banking Act of 1935, approved August 23, 1935, prohibits any member bank from making any loan to any 'assistant examiner who examines or has authority to examine such bank'. Prior to that time and at the time the indebtedness of Mr. Snyder was incurred, the first paragraph of section 22(a) prohibited any member bank from making any loan to 'any bank examiner'. Under the provisions of section 21 of the Federal Reserve Act, it is provided that a Federal Reserve bank may, with the approval of the Federal Reserve Agent or the Board of Governors, provide for special examinations of national banks within its district and a question of law arises as to whether this provision grants authority to an examiner or assistant examiner for a Federal Reserve bank to examine national banks. Although this question may be doubtful, it has been the Board's practice not to undertake to make a determination of doubtful legal questions in cases of this kind. It is also the Board's practice not to refer to the Attorney General possible violations of the criminal statutes by national banks, but to submit the facts of such possible violations to the Comptroller of the Currency in order that he may report them to the Attorney General or take such other action as he may deem advisable. In the circumstances, the Board is referring to the Comptroller of the Currency the facts of the cases above mentioned.

"In reviewing the statement of personal indebtedness of officers and employees of your bank as of July 1, 1936, submitted on Form B-208, it appears that the Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, a State member bank, and assistant examiner G. W. Shadle have become involved in an apparent violation of the provisions of section 22(a) of the Federal Reserve Act by virtue of a loan made by the Fidelity-Philadelphia Trust Company and Margaret J. Freeman, trustees under the will of Frank A. Freeman, deceased, to Mr. Shadle on October 1, 1925. While it is noted that Mr. Shadle became indebted to the bank in its capacity as fiduciary and, therefore, it may be doubtful whether a violation of the provisions of section 22(a) is involved, nevertheless, it is felt that this is a question of law which should have the consideration of the Department of Justice and the United States Attorney, and that the Board should not undertake to make a determination of this question. As you know, this is in accordance with the usual policy of the Board in cases of this kind. Accordingly, it is requested that you

3/17/37

-11-

"report the matter to the local United States Attorney and forward three copies of such report to the Board for transmission to the Attorney General."

Approved unanimously.

Letter to Mr. J. F. T. O'Connor, Comptroller of the Currency,

reading as follows:

"It has come to the attention of the Board that Messrs. George C. Robinson and C. W. Snyder, assistant examiners for the Federal Reserve Bank of Philadelphia, have become indebted to the Trademans National Bank and Trust Company, Philadelphia, Pennsylvania, and the First National Bank, Sunbury, Pennsylvania, respectively; and that Mr. E. M. Joseph, an examiner for the Federal Reserve Bank of Chicago, has become indebted to the First National Bank, Danville, Illinois. The question arises as to whether these transactions involve a violation of section 22(a) of the Federal Reserve Act. The facts in each of these cases are inclosed herewith.

"As you know, the first paragraph of section 22(a) of the Federal Reserve Act, as amended by the Banking Act of 1935, prohibits any member bank from making any loan to any 'examiner or assistant examiner who examines or has authority to examine such bank' and the second paragraph of such section prohibits an examiner or assistant examiner from accepting a loan from a bank 'examined by him'. Since it appears that in each of the cases referred to above the examiner and assistant examiners in question have never examined the national banks to which they are indebted, the Board has reached the conclusion that in so far as such examiners are concerned there is no reasonable basis for considering that they have violated the law. Accordingly, the Board is not reporting the matter to the Department of Justice.

"However, since there is involved a possible violation of the law by the national banks, the Board, in accordance with its usual practice where national banks are involved, is not referring these cases to the Attorney General, but is submitting the facts in each of them herewith for your consideration as to whether they should be reported to the Attorney General or for such other attention as you may deem advisable."

Approved unanimously.

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

Dallas, reading as follows:

3/17/37

-12-

"This refers to your letter of January 9, 1937, containing additional information regarding the question as to whether the indebtedness of Mr. W. J. Evans, Vice President and Chief Examiner, to the United Savings Bank, Detroit, Michigan, is in violation of section 22(a) of the Federal Reserve Act.

"Since it appears that at the time the loan in question was made Mr. Evans was not an examiner for a Federal Reserve bank, the Board has reached the conclusion that the transaction does not involve a violation of such section either on the part of Mr. Evans or the bank. Accordingly, the Board is not reporting the matter to the Attorney General and it will not be necessary for you to make a report to the local United States Attorney."

Approved unanimously.

Thereupon the meeting adjourned.

Walter H. Hoover
Secretary.

Approved:

Frank J. Hanson
Vice Chairman.