

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 7, 1937, at 11:30 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

Consideration was 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 April 5, 1937, were approved unanimously.

Telegrams to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the San Francisco bank on April 6, 1937, and by the Philadelphia, St. Louis and Dallas banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, stating that the Board approves a change in the personnel classification plan of the Chicago bank to provide for an increase in

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the maximum salary for the position of "Bookkeeper" from \$1,800 to \$2,160 per annum.

Approved unanimously.

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

"Receipt is acknowledged of your letter of March 25, 1937, requesting advice as to whether the arrangement under which the Wayne County Savings Bank, Honesdale, Pennsylvania, furnishes certain banking facilities to the community at Waymart, Pennsylvania, should be construed as the maintenance of a branch office within the meaning of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes of the United States.

"It appears from the information which you have submitted and the report of examination of the Wayne County Savings Bank, made as of January 11, 1936, that, as a result of the assumption in 1931 of the deposit liabilities of the Waymart State Bank, Waymart, Pennsylvania, by the Wayne County Savings Bank, the town of Waymart was deprived of banking facilities; that, in order to alleviate the situation thus created, the Wayne County Savings Bank has authorized Mr. H. M. Williams, who resides in Waymart and who is employed by the bank, to receive deposits at his home each day and has instructed him personally to deliver such deposits to the bank; that Mr. Williams is also authorized to utilize the supply of cash which the bank maintains at his home and for which it has obtained insurance coverage, for the purpose of making change for such depositors, and to cash checks for change occasionally for accommodation, although no other banking business is done at his home; that this arrangement has been entered into, apparently at the suggestion of the State banking authorities, to forestall any demand for the establishment of a new bank or branch office as such in Waymart; that the directors of the Wayne County Savings Bank at no time have considered that it has a branch office at Waymart; and that no signs or other forms of advertising mention that the bank performs this service or maintains an office at that place.

"As you know, section 5155 of the Revised Statutes of the United States, which is applicable to branches of national banks, defines the term 'branch' as including any branch bank, branch office, branch agency, additional office, or any

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"branch place of business at which deposits are received, checks paid, or money lent. The Board has taken the position that this definition should also apply in the case of State member banks, in view of the provisions of section 9 of the Federal Reserve Act authorizing State member banks, with the Board's approval, to establish and operate out-of-town branches under the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks.

"On the basis of the facts presented, the Board is of the opinion that the Wayne County Savings Bank is operating a branch at Waymart, Pennsylvania, within the meaning of the provisions of law referred to above. In this connection, your attention is invited to a ruling of the Board, published on page 499 of the Federal Reserve Bulletin for August, 1933."

Approved unanimously.

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

"Receipt is acknowledged of your letter of March 23, 1937, with reference to the proposed retirement of capital debentures issued by 'The Lorain Street Bank', Cleveland, Ohio, and held by the Reconstruction Finance Corporation. It appears that this bank, which is subject to a condition of membership requiring the Board's permission for reductions in its capital, desires to retire its debentures from time to time out of earnings in accordance with the agreement it made with the Reconstruction Finance Corporation at the time it issued the debentures. Involved in the question whether the bank may retire its debentures are the facts that the bank has a branch office located outside of the city of Cleveland and that the aggregate capital of the bank, including such debentures, amounts to \$500,000, the amount required for the establishment of such a branch.

"The Board has considered the arguments advanced by the attorneys for The Lorain Street Bank that there is no requirement in the Federal law that a State member bank having a branch located outside of the city of the head office shall maintain a capital stock of \$500,000. Consideration has also been given to the suggestion that the bank would be willing, in connection with each retirement of debentures, to set aside in an appropriate account an amount equal to the amount of debentures retired to be used for the purpose of distributing a stock dividend when the amounts so set aside equal 10 per cent of its capital stock. In view of all the

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"circumstances involved and without attempting to rule at this time on the technical question whether the bank is required by the provisions of the Federal Reserve Act to maintain a capital of at least \$500,000 while operating a branch outside of the city of Cleveland, the Board will raise no question with reference to retirements from time to time of the bank's capital debentures out of earnings in accordance with its agreement with the Reconstruction Finance Corporation, provided that at the time of each retirement an equal amount is set aside in a reserve fund for the sole purpose of declaring stock dividends and that such stock dividends are declared when the reserve fund equals 10 per cent of the bank's present capital amounting to \$500,000. The setting aside of such reserves should, of course, be authorized by appropriate action of the bank's board of directors. Since it is understood that, under the laws of the State of Ohio, surplus cannot be utilized for dividends other than stock dividends, the Board has no objection to such reserves being carried as a part of the surplus of the bank pending the declaration of such stock dividend, provided the State banking authorities have no objection and your counsel is satisfied that the carrying of the reserves in this manner would not conflict with the State law.

"It is understood that you feel that the proposed retirements will not result in the bank's having inadequate capital funds in relation to its present deposit liabilities. Each retirement of debentures should, of course, be brought to your attention by the bank, and, if at any time you should feel that a proposed retirement would result in the bank's having inadequate capital funds, consideration should then be given to the practical question as to whether the retirement should be effected under any conditions."

Approved unanimously.

Letter dated April 6, 1937, to Mr. Herman B. Wells, Chairman, Permanent Committee on Standardization of Bank Report Forms, Indiana University, Bloomington, Indiana, reading as follows:

"Chairman Eccles has referred to me for reply your letter of March 20, in which you refer to his letter of November 24, 1936, and ask whether the Board has taken any action with reference to the resolution adopted at the last meeting of the Permanent Committee on Standardization of Bank Report Forms, transmitted with your letter of November 21, 1936.

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"Since Chairman Eccles wrote to you on November 24 the Board and its staff have given considerable thought and study to the call report form. The Board is sympathetic to the adoption of a uniform call report form by both Federal and State authorities and hopes that such uniformity may be achieved in the near future.

"It is expected that the studies now being made of the call report form will be completed in the near future, at which time I shall be glad to advise you with respect to the Board's attitude on changes in such form."

Approved unanimously.

Letter to Mr. R. P. Purse, Jr., President, The Purse Company, Chattanooga, Tennessee, reading as follows:

"In a letter dated March 26, 1937, Mr. Ransom, Vice Chairman of the Board, advised you that the inquiry contained in your letter of March 24 regarding a trust department advertising campaign based on reports of examination of trust departments of member banks would be considered by the Board of Governors.

"The Board has given careful consideration to the plan as outlined in your letter, and particularly to your question as to whether the Board 'would object to publication in such a campaign of any of a Trust Examiner's report on any member bank.' Elsewhere in your letter reference is made to national bank examiners. As you know, member banks include national banks and State banks. National bank examiners are under the direction of the Comptroller of the Currency, their reports of examinations of national banks are rendered to him, and the use of such reports in an advertising campaign is a matter for the determination of his office.

"Reports of examination of State member banks made by examiners for the various Federal reserve banks contain the following statement:

'A copy of the report of examination is furnished the Directors for their confidential information with the understanding that it is not to be published either in whole or in part. The information contained herein is based upon the records and books of the bank, upon statements made to the examiner by officers and employees of the bank, and on data secured from other sources believed to be reliable and presumed by the examiner to be correct.'

"The various questions and answers, schedules, and comments of an examiner appearing in a report of examination must

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"be considered collectively and in proper relation to each other. The publication of a complete report of examination is manifestly not contemplated, nor would it be appropriate, and the Board believes that an advertising campaign based upon extracts from a report of examination, whether questions contained in a report of examination, replies thereto given by the bank or the examiner, or selected comments by an examiner, could easily be misleading, both as to the condition of the bank or trust department as found by the examiner and in the impression given of the extent and nature of the supervision exercised by the respective agencies. Such an advertising campaign might also readily lead to situations which would react upon the bank promoting the campaign or upon other banks in an unfavorable and unwarranted manner.

"In the circumstances, therefore, the Board is of the opinion that no exception should be made to the general rule that reports of examination are for confidential use, and it would object to an advertising campaign based upon examinations of member banks made under the direction of the Board of Governors or the various Federal reserve banks, or upon the form of report used in connection with such examinations. As stated previously, the question, as it affects national bank examiners and their reports, is a matter for determination of the Comptroller of the Currency."

Approved unanimously.

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

"Receipt is acknowledged of your letter of April 5th, inclosing a copy of a proposed letter to Governor Rooth of the Sveriges Riksbank. With the understanding stated in your letter of April 5th, the Board approves the proposed letter in the form submitted.

"In response to the last paragraph of your letter, you are advised that the Board intended that subsection d of section 3 of the existing Procedure with Respect to Foreign Relationships of Federal Reserve Banks (X-9774), should apply to transactions of this type."

Approved unanimously.

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Thereupon the meeting adjourned.

Orestes M. M. M. M.  
Secretary.

Approved:

W. S. S.  
Chairman.