

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 14, 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 13, 1937, were approved unanimously.

Telegram to Mr. Young, President of the Federal Reserve Bank of Boston, 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.

Memorandum dated April 9, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mr. Robert D. Fenn, one of a group of graduate students selected by

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the National Institute of Public Affairs to receive special training by working temporarily in different Government agencies who has been working in the Division since October 3, 1936, at a nominal salary of \$50.00 per month, be appointed on a permanent basis as an economic assistant in the Division, with salary at the rate of \$2,000 per annum, effective at the close of his present temporary appointment on June 2, 1937, provided that before that date he passes satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated April 10, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Alice Swindlehurst be appointed on a permanent basis as a clerk in the Division, with no change in her present salary at the rate of \$1,440 per annum, effective at the close of her temporary appointment on April 26, 1937, provided that before that date she passes satisfactorily the usual physical examination.

Approved unanimously.

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

"In accordance with the request contained in your letter of April 8, 1937, the Board approves the designations of the three employees listed as assistant examiners for the Federal Reserve Bank of Chicago in order that their services may be available to lend clerical assistance to your regular examiners in the examinations of State member banks."

Approved unanimously.

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

"Re application of 'Seattle Trust and Savings Bank', Seattle, Washington, for approval of proposed plan to purchase assets and assume liabilities of the Tower Savings Bank, Seattle, Washington. According to the information submitted, assets of Tower Savings Bank include a large amount of other real estate and other undesirable assets, but it is noted that the management of the bank and the State supervisory authorities are of the opinion that such assets can be promptly liquidated without material loss and that you are of the opinion that the management of the Seattle Trust and Savings Bank is well fitted to handle the type of assets to be acquired. Accordingly, in view of your recommendation and the position taken by the State banking department, the Board will interpose no objection to the transaction with the understanding that your counsel is satisfied as to the legality of the proceedings. It is assumed, of course, that the assets to be acquired in the transaction will be carried on the books of the Seattle Trust and Savings Bank at conservative values and that the management of the bank will devote unremitting efforts to the disposal of the other real estate and the conversion of any other undesirable assets acquired in the transaction into proper bank assets. In this connection it is understood that negotiations have begun for an outside pool to take over all of the real estate.

"It is noted that among the assets of the Tower Savings Bank are certain securities which member banks are prohibited from purchasing under the provisions of the Comptroller's regulation governing the purchase of investment securities. It is suggested that you advise the member bank that such securities should be disposed of prior to the conclusion of the transaction or as soon thereafter as practicable. In view of all of the circumstances, Board does not deem it necessary to prescribe requirements suggested in your letter of April 2, 1937."

Approved unanimously.

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

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"Reference is made to the report of examination of 'The Peoples Trust Company', Martinsburg, West Virginia, as of January 4, 1937, and your letter of March 8, 1937, to which is attached a copy of a memorandum prepared by Chief Examiner Gordon with reference to correspondence with the management of the bank regarding criticized matters.

"It has been noted that the bank, which was admitted to membership on April 20, 1922, has not complied with condition of membership numbered 7 and reading as follows:

'7. That you shall, within a reasonable time, establish a reserve for unearned interest.'

"Your letter of February 25, 1936, described a review of the situation with officers of the bank who called on December 18, 1935, and, in this connection, it was said:

'The criticism as to the violation of condition of membership numbered 7 which provides that "It shall, within a reasonable time, establish a reserve for unearned interest", appeared to the committee as a technicality and that there was nothing to be gained in conforming to its provisions. Since the bank is not operating on an accrual basis, we really see no advantage in requiring it to maintain an unearned interest account. We did insist, as stated above, that reserves be established for accrued interest due depositors and accrued taxes.'

"Your examiner recommends that the condition of membership be cancelled if it is not to be enforced and it appears that you do not consider enforcement necessary or desirable. The condition was prescribed on the recommendation of the Federal Reserve Bank and, in the circumstances, the Board would be glad to receive your definite recommendations with regard to cancellation of condition of membership numbered 7 together with a full statement of the reasons for your conclusion.

"The remarks of the examiner with reference to the operation of the 'Stockholders' Recovery Account' maintained by the bank have been noted also, and it appears that the bank's accounting with respect to recoveries has not been correct since the account became active. In this connection, it has been noted that the figures given in the reports of earnings and dividends submitted to the Board from 1933 to date do not agree with the recapitulation appearing on page 19 of the report of examination. According to the information submitted with your letter, the Bank Commissioner has raised the question of whether the assessment levied against the stockholders to enable the bank to charge off the assets now being liquidated and which are the source of the funds being placed in the 'Stockholders' Recovery Account' was levied in conformity with the law, and has requested the bank to submit information regarding the

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"levying of the assessment. Please keep the Board advised as to developments in this connection, and as to what steps are taken with respect to proper accounting in connection with recoveries.

"In the statement of assets and liabilities appearing on page 1 of the report of examination the item 'Valuation Reserve \$20,000' appears under liabilities. This item does not appear in the report of condition submitted by the bank as of December 31, 1936, and it is assumed that the amount was properly applied to reduce the carrying value of the asset items to which it applies. It appears that the amount should have been applied in like manner in the statement appearing in the report of examination.

"The Board has been advised that representatives of the bank recently visited the Washington offices of the Federal Deposit Insurance Corporation and discussed the matter of reducing the amount of its capital which they considered too large in proportion to the volume of deposits. The representatives were advised by the F. D. I. C. that they should seek the consent of the Bank Commissioner and the Federal Reserve Bank.

"While the bank's capital is comparatively large in proportion to deposit volume, for a long time reports of examination of the bank have contained criticisms correction of which has been promised from time to time without substantial results. The lack of financial statements is described as deplorable and the total of other real estate, banking house, real estate represented in investments and potential other real estate in loans is said to exceed the amount of common capital and surplus. The management is described as having substantial outside interests which may prevent their giving proper attention to the affairs of the bank. It is assumed, of course, that you would give full consideration to such matters before approving a reduction in the bank's capital and it is felt that, in such circumstances, a substantial capital ratio should be maintained to protect the interests of depositors."

Approved unanimously.

Memorandum dated April 13, 1937, from Mr. Smead, Chief of the Division of Bank Operations, stating that the Federal Reserve Bank of Dallas had requested approval by the Board of the following changes in the interdistrict time schedule for cash items, which

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have been agreed to by the Federal Reserve Bank of San Francisco.

The memorandum recommended that the proposed changes be approved:

	<u>From</u>	<u>To</u>
Houston to San Francisco	4 days	3 days
San Antonio to San Francisco	4 days	3 days

Approved unanimously.

Letter to the Western Venetian Blind Company, New York, New York, reading as follows:

"You are hereby notified that the Board of Governors of the Federal Reserve System accepts your bid dated April 3, 1937 in the amount of nine thousand sixty-three dollars (\$9,063) less a deduction, pursuant to your letter of April 12, 1937, of two dollars (\$2) for each blind installed, for furnishing and installing Venetian blinds in the building now being constructed for the Board in Washington, D. C. It is understood that all Venetian blinds furnished and installed by you under this contract will be in all respects at least equal to the sample blind submitted by you to representatives of the Board for inspection on April 12, 1937.

"It will be appreciated if you will have executed in duplicate the form of bid attached to the documents which are inclosed herewith, and also have the attached performance and payment bonds completed and executed, in accordance with the requirements of the invitation for bids. As soon as these things have been done please return all the inclosed papers to the Board.

"Please also acknowledge receipt of this letter of notification on the attached carbon copy hereof."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. ...
Chairman.