

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 30, 1937, at 2:30 p. m.

PRESENT: Mr. Szymczak, Chairman pro tem  
Mr. Broderick  
Mr. McKee  
Mr. Davis

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Cagle, Assistant Chief of the Division  
of Examinations  
Mr. Chase, Assistant Counsel

Mr. Szymczak was elected Chairman pro tem of this meeting.

There was then presented a draft of a letter to the Presidents of all Federal reserve banks, reading as follows:

"In the letter X-9799 dated January 22, 1937, the Federal reserve banks, in lieu of the Federal reserve agents, were authorized, through their presidents, to approve on behalf of the Board reductions of preferred stock or capital notes or debentures by State member banks in cases where the Board's approval of such reduction is required under a condition of membership. Such authorization was granted within the limitations and subject to the conditions outlined in the Board's letter X-9048 dated December 15, 1934.

"The Board has had occasion to consider whether such authority should be extended, and in furtherance of the policy of decentralization of administration under general policies, has decided to, and hereby does, extend the authority to approve reductions of preferred stock or capital notes or debentures heretofore conferred in letters X-9048 and X-9799 to cover all cases where the Board's approval is required under a condition of membership, subject only to the condition that the Federal reserve bank is of the opinion that the proposed reduction is justified as a matter of sound banking policy and that it may be legally accomplished.

"Adequacy of capital, of course, is essential to a sound banking system, and it is expected that the maintenance of an adequate capital structure will be the primary consideration in passing upon applications for permission to retire preferred stock or capital notes or debentures. In this connection the Board wishes to call attention to, and

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"to emphasize, the views set forth in its letter dated December 13, 1935, X-9393, regarding the general policies which it feels should govern the retirement of preferred stock and capital notes and debentures, whether held by the Reconstruction Finance Corporation or by local investors. However, since the letter in question was written, the Reconstruction Finance Corporation has announced conditions under which banks may obtain a reduction of 1/2 per cent in the rate on the preferred stock or capital notes or debentures held by the Reconstruction Finance Corporation. It is recognized that in some cases you may feel justified in permitting retirements in the minimum amount necessary to allow banks to obtain the benefit of the reduced rate, whereas in the absence of this consideration you might not be so disposed.

"As stated in letter X-9048 to the Federal reserve agents, if for any reason a Federal reserve bank is in doubt as to the wisdom of the proposed reduction or is unwilling to approve or disapprove an application under the authority granted herein, the bank's application may be submitted to the Board for determination, together with current information as to the condition of the applying bank, its reason for desiring to effect the reduction and any other information, including the comments and recommendations of the Federal reserve bank, which may be of assistance to the Board in passing upon the application.

"It is requested that the Board be furnished with copies of all letters approving on behalf of the Board retirements of preferred stock or capital notes or debentures.

"It has been noted that, in a few instances, approval has been given by a Federal reserve bank or Federal reserve agent on behalf of the Board to a reduction in preferred stock or capital notes or debentures when the bank's unimpaired capital and surplus was not equal to 10 per cent of its deposits. In order that there may be no question in the future as to compliance with the condition of membership regarding the Board's approval for such reductions, the Board hereby ratifies such approvals previously given on its behalf."

Upon motion by Mr. McKee the letter was approved unanimously.

Prior to this meeting there had been furnished to each member of the Board a copy of a memorandum dated April 28, 1937, from Mr. Dreibelbis calling attention to a certificate transmitted to the Board

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by the Comptroller of the Currency under date of April 27, 1937, pursuant to the provisions of Section 30 of the Banking Act of 1933 and relating to continued violations of law and continued unsafe and unsound practices by T. O. Morton, President and Director of The Taylor National Bank of Campbellsville, Kentucky. Mr. Dreibelbis stated that he was of the opinion that, on the basis of the facts stated in the Comptroller's certificate, the Board should serve notice on Mr. Morton to appear and show cause why he should not be removed from office as President and Director of the national bank. Mr. Dreibelbis submitted with his memorandum a draft of an order for adoption by the Board and pointed out certain legal questions requiring consideration in connection with a decision whether the procedure set forth in the order should be followed. After a discussion of the suggested procedure, during which the members of the Board indicated that it met with their approval, Mr. Dreibelbis suggested that in adopting an order the Board designate Mr. John C. Baumann, Assistant Counsel, to act as trial examiner for the purposes to be set forth in the order.

Upon motion by Mr. McKee, the following order was adopted unanimously, with the understanding that as promptly as possible a copy thereof would be served upon Mr. Morton and the directors of the national bank:

"J. F. T. O'Connor, Comptroller of the Currency of the United States, being of the opinion that T. O. Morton, as a director and officer of The Taylor National Bank of Campbellsville, Kentucky, has continued to violate laws relating to such banking association and has continued unsafe or unsound practices in conducting the business of such banking association after having been warned by the Comptroller of

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"the Currency to discontinue such violations and such unsafe or unsound practices; and the said J. F. T. O'Connor, Comptroller of the Currency of the United States, pursuant to the provisions of section 30 of the Banking Act of 1933, having duly certified the facts to the Board of Governors of the Federal Reserve System;

"It is ordered that the said T. O. Morton be notified to appear before the Board to show cause why he should not be removed from office as a director and officer of said bank and that a hearing on such matter as provided by section 30 of the Banking Act of 1933 aforesaid, be held beginning on the 7th day of June, 1937, at 10 o'clock, in the forenoon, at the offices of the Board on the premises of the Federal Reserve Bank of St. Louis, at St. Louis, Missouri.

"It is further ordered that, in accordance with section 30 of the Banking Act of 1933, notice of such hearing be given to the said T. O. Morton and to the several directors of the said The Taylor National Bank of Campbellville, Kentucky, by delivering to each of them, as provided in said section, a true copy of this order and a true copy of the aforesaid certificate of J. F. T. O'Connor, Comptroller of the Currency, annexed to the same and made a part of such notice.

"It is further ordered that John C. Baumann, be and he is hereby commissioned as an officer of the Board to receive all of the testimony taken in such hearing and to report the same completely to the Board, including therewith any statement, argument or brief which may be made or filed in accordance with this order. In such capacity the said John C. Baumann shall preside at such hearing and he shall, with all convenient speed, take the testimony in this matter and report the same, together with such statements, arguments and briefs as may be made or filed in connection with the matter, to the Board for its consideration and shall have the powers and duties hereinafter specified.

"1. He shall preside at the taking of testimony and is authorized to adjourn the hearing during the course thereof from time to time as may be necessary for the orderly and convenient taking of the testimony.

"2. He shall fix the times and places where he will take testimony at any adjournments of the hearing, which places shall be within the United States, but not necessarily at the place originally designated in this order.

"3. He shall receive all testimony admissible in evidence under the rules of law applicable to an administrative hearing of this kind and unless he deems testimony very clearly inadmissible and injurious or confusing to the regular progress

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"of the hearing he shall take the same and return it with his report so it may receive due consideration. If any question of evidence should arise not sufficiently covered by the foregoing instructions he shall, upon application in writing by any party at interest adversely affected, immediately submit the question to the Board for instructions.

"4. He shall at the expense of the Board employ stenographers to take the testimony and transcribe the same and otherwise to assist in taking proof and reporting the same. Three copies shall be made of all testimony and proceedings, of which the original and one copy shall be for the use of the Board, and one copy shall be delivered to the said T. O. Morton.

"5. In transmitting the testimony which he has received to the Board he shall also transmit for its consideration any argument, brief or statement, made or filed in connection with the matter which it is hereby provided may be made or filed at any time within 20 calendar days following the completion of the taking of testimony; provided further, that upon written request made at the completion of the taking of testimony the said T. O. Morton may, at a time to be fixed by the Board present oral argument to the Board at its offices in Washington, District of Columbia.

"6. Upon the completion of the taking of testimony, the hearing, for that purpose, shall be closed and except as may be otherwise expressly directed by the Board no further proceedings shall be had other than the making or filing of arguments, briefs, or statements as permitted by this order and the consideration and determination of the matter by the Board.

"By order of the Board of Governors of the Federal Reserve System this 30th day of April, A. D. 1937."

Mr. Morrill reviewed for the information of the members of the Board the bids received on furniture and furnishings for the Board members' section, the monumental staircase, the Constitution Avenue lobby, and the private dining rooms in the Board's new building and the discussions which had been had with the two lowest bidders regarding the material which they proposed to furnish. He said that it was felt that as a result of a reconsideration being made by the bidders of the material which they will offer, the cost of acceptable furniture and

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furnishings would not exceed \$65,000 and he recommended that the Personnel Committee be authorized to approve the execution of a contract or contracts therefor at not to exceed that figure.

Upon motion by Mr. Broderick, Mr. Morrill's recommendation was approved unanimously.

There was also a discussion of the bids received on steel equipment for the file rooms and steel file cases for various offices in the new building. It was stated that equipment meeting the requirements of the specifications on which the bids were based would cost in the neighborhood of \$26,000, depending on the number of units purchased; but that an alternate bid submitted by the General Fireproofing Company based on furnishing filing equipment from the General Supply Schedule amounted to \$16,700.

After a discussion the Personnel Committee was authorized to determine which equipment should be purchased.

Mr. Davis submitted the recommendation of the Personnel Committee that Mr. R. E. Sherman of El Paso, Texas, be appointed a director of the El Paso branch of the Federal Reserve Bank of Dallas for the unexpired portion of the three-year term ending December 31, 1939, and moved that the recommendation be approved.

Carried unanimously.

At this point Messrs. Dreibelbis, Cagle and Chase 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:

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 28, 1937, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 29, 1937, were approved and the actions recorded therein were ratified unanimously.

Telegrams to Messrs. Kimball and Strater, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, stating that the Board approves the establishment without change by the New York bank on April 29, 1937, and by the Cleveland bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"This refers to your letter of April 21, advising the Board that your directors voted to appoint Mr. D. W. Woolley of your examination department as an Assistant Cashier of your bank, effective May 1, 1937, without change in salary. The Board approves a salary for Mr. Woolley as Assistant Cashier at his present rate of \$4,596 per annum for the period May 1 to December 31, 1937. Before assuming his new position, Mr. Woolley should, of course, submit his resignation as Alternate Assistant Federal Reserve Agent."

Approved unanimously.

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

"Reference is made to your letter of April 23 requesting the Board's approval of the continuation of the temporary assignment of the following employees to the positions indicated without reduction in their salaries, which are in

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"excess of the maximums provided for the positions occupied:

<u>Name</u>	<u>Position occupied</u>	<u>Form A Maximum</u>	<u>Present salary</u>
John Snyder	Sorting and Listing Clerk, Gov't. Check Section	\$1,600	\$1,620
Franklin Knezek	Page and Office Boy, Foreign Information Div.	1,200	1,260

"It is understood that, due to the approval of the revised personnel classification plan of your bank by the Board on April 21, the position occupied by Mr. Snyder is now classified as 'Junior Clerk - B', maximum salary - \$1,600, and that the position occupied by Mr. Knezek is now classified as 'Messenger - A', maximum salary - \$1,200. Accordingly, the Board approves the continuation of the temporary assignment of Mr. John Snyder to the position of Junior Clerk - B, Government Check Section, at his present salary of \$1,620 per annum, which is \$20 in excess of the maximum provided for this position, for a further period of six months from April 16, 1937, and also approves the continuation of the temporary assignment of Mr. Franklin Knezek to the position of Messenger - A, Foreign Information Division, at his present salary of \$1,260 per annum, which is \$60 in excess of the maximum provided for this position, for a further period of six months from April 28, 1937."

Approved unanimously.

Memorandum dated April 28, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated April 17 from Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, which requested approval by the Board of changes in the personnel classification plans of the bank and its Baltimore and Charlotte branches to provide for the creation of the new position of "Assistant to Counsel" in the Legal Department at the head office with a maximum salary of \$3,600, and for a change in the title of the position "Telegraph Operator" to "Teletype Operator" at the head office and branches



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and a decrease in the maximum salary for the position to \$1,500 per annum. The memorandum stated that Mr. Wyatt, General Counsel, had advised that there appeared to be no objection to the creation at the Richmond bank of the position of "Assistant to Counsel" and recommended that the proposed changes be approved.

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 March 30, 1937, requesting advice as to whether the Board has any objections, legal or otherwise, to Mr. L. B. Armstrong, an examiner for your bank, obtaining a loan from the Occidental Life Insurance Company to refinance a real estate loan now held by private individuals. In raising the question as to whether there is any objection to obtaining the loan, Mr. Armstrong states that, according to his understanding, the Occidental Life Insurance Company is a wholly owned affiliate of Transamerica Corporation, and through that corporation is affiliated with the Bank of America National Trust & Savings Association, and the Central Bank of Oakland, a state member bank. According to the information in the Board's records, however, the life insurance company is a wholly owned subsidiary of Transamerica General Corporation, which in turn is a wholly owned subsidiary of Transamerica Corporation, and in this respect occupies the same status in the group as Capital Company and California Lands, Inc., which the Board has previously held were not affiliates of Bank of America National Trust & Savings Association by reason of stock ownership.

"The only legal provisions of the Federal Reserve Act restricting loans to examiners, as such, are contained in section 22(a), and in view of the explicit provisions of the section, it would appear that a loan obtained from the Occidental Life Insurance Company would not be a violation of such section, even though the insurance company were actually an affiliate of a member bank. On the other hand, the Board stated in a letter dated April 29, 1933, X-7425, that it felt that members of the staffs of the Federal reserve agents engaged in audits and examinations should refrain from incurring any indebtedness, directly

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"or indirectly, to member banks, their subsidiaries, or affiliates, or otherwise placing themselves in any position which might result in questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their responsibilities with respect to such banks under the Federal Reserve Act.

"It seems clear that while there is no legal objection to the loan, there is a question as to whether the obtaining of such a loan would be consonant with the views expressed in the Board's letter of April 29, 1933 (X-7425). However, the Board suggests that your bank consider the question in the light of all the facts and circumstances involved and dispose of the matter in its discretion. Your disposition of the matter will be satisfactory to the Board."

Approved unanimously.

Letter to Remington Rand, Inc., Washington, D. C., reading as follows:

"You are hereby notified that the Board of Governors of the Federal Reserve System accepts your bid dated April 26, 1937, in the amount of five thousand six hundred seventy-five dollars (\$5,675.00), submitted pursuant to the Board's invitation for bids dated April 20, 1937, for the construction, delivery and placing of steel shelving and furniture in the building now being constructed for the Board in Washington, D. C.

"Please deliver to the Board a performance bond in accordance with the requirements set forth in the invitation for bids.

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

Approved unanimously.

Letter to Harry Alexander, Inc., Washington, D. C., reading as follows:

"You are hereby notified that the Board of Governors of the Federal Reserve System accepts your bid dated April 27, 1937 in the sum of Seventeen thousand three hundred ninety-five dollars (\$17,395.00) submitted pursuant to the Board's invitation for bids dated April 21, 1937, including Amendment No. 1 thereto, for furnishing and installing push button, buzzer and annunciator system and telephone system outlets in the building being constructed for the Board in Washington, D. C.

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"The Board does not require either of the alternates covered by your bid, and the Board does not increase or decrease the quantity of any article pursuant to Sec. 9 of the invitation for bids.

"Please deliver to the Board a performance bond and a payment bond in accordance with the requirements contained in Sec. 5 of the invitation for bids.

"Please acknowledge receipt of this letter on the inclosed copy hereof."

Approved unanimously.

Letter to the DeLuxe Metal Furniture Co., Warren, Pennsylvania, reading as follows:

"For your information there is inclosed a copy of a letter dated April 30, 1937, accepting your bid for delivering, moving and installing steel shelving in the building being constructed for the Board in Washington, D. C. The letter was delivered to your Washington Office and was receipted for on April 30, 1937, as is indicated on the bottom of the inclosed copy."

Approved unanimously.

Thereupon the meeting adjourned.

Whitaker Moriel  
Secretary.

Approved:

W. A. Springer  
Chairman pro tem.