

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 1, 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. Wyatt, General Counsel  
 Mr. Goldenweiser, Director of the Division  
 of Research and Statistics  
 Mr. Koppang, Federal Reserve Examiner

Mr. Davis referred to a memorandum submitted to the Board through the Personnel Committee by Mr. Morrill under date of May 26, 1937, recommending the appointment of Mr. F. E. Spurney as Manager of the Board's new building, with salary at the rate of \$4,500 per annum, effective as soon as he reports for duty after having passed satisfactorily the usual physical examination. The qualifications of Mr. Spurney were discussed briefly and it was stated that after reviewing eighteen or twenty applications for the position it was felt that because of Mr. Spurney's technical education, together with his experience and training in the construction field, including the supervision of employees, he was the best qualified applicant available for the position.

Mr. Davis moved that Mr. Morrill's recommendation be approved.

Carried unanimously.

At this point Messrs. Thurston, Wyatt, Goldenweiser and Koppang

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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 May 26, 1937, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on May 27 and 28, 1937, were approved and the actions recorded therein were ratified unanimously.

Telegram to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, 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.

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

"Reference is made to the report of credit investigation of 'The Ohio Savings and Trust Company, of New Philadelphia', New Philadelphia, Ohio, as of April 12, 1937, which was made as a follow-up of the regular examination of the bank as of December 7, 1936, the report of which reflected unfavorably upon the management.

"In the report of examination as of December 7, 1936, the examiner expressed the opinion that, although the unsatisfactory condition of the bank was largely attributable to the management of the former president, there was urgent need for someone capable of aggressively taking charge of the situation, that the accomplishments under the management of Vice President McKee, who came with the institution in 1933, had been disappointing and that ineffective management and internal dissension had retarded the rehabilitation of the bank to a considerable degree. In the report of the credit investigation, however, the examiner states that while the

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"accomplishments of Mr. McKee, who was employed in the hope that he would be able to work out the unsatisfactory condition, have not been particularly impressive, some progress is being made. The examiner also states that Mr. Frazier, who was employed in the early part of 1936 for the specific purpose of working out the unsatisfactory real estate situation, and who was made vice president and director in January of this year, has had considerable banking and real estate experience and that the two officers appear to be working in complete harmony and are receiving the necessary cooperation of the entire board of directors. It has been noted, also, that since the examination Mr. Judkins, former vice president, has been elected president, and that while he is not active in his capacity as president, it is reported that he has considerable financial worth and that his advice and prestige are considered valuable. In transmitting the report of credit investigation you advise that you concur in the examiner's suggestion that it might be well to leave the management as it is for the time being as it seems that Vice President McKee is doing all that is possible to meet the requirements of the State Department and of the Federal Reserve Bank.

"It is gratifying to note that there appears to be more harmony within the bank and that the officers are receiving the cooperation of the directors. It is hoped that the steps already taken may prove effective, but matters should not be permitted to rest unless satisfactory improvement in the condition of the bank can be shown.

"In both the report of the December examination and the report of the credit investigation under discussion an estimated loss of \$50,000 in banking premises was classified, and, according to the comments in the reports, the amount estimated as a loss is based upon a valuation placed on the property by the management of the bank. It is said that the officers are desirous of writing the property down to its fair value, but that the earnings of the bank are such that it will be years before the reduction can be accomplished. The Board's letter to you of February 11, 1935, regarding the question of this institution making provisions for the elimination of undesirable assets, contained a reference to the possibility of effecting a reduction in common capital if a proposed amendment to the State laws under consideration at that time was enacted to permit capital debentures sold to the Reconstruction Finance Corporation to be considered as the equivalent of capital stock for the purpose of meeting minimum capital requirements. It will be appreciated if you will advise whether a reduction in common stock is now permissible under the State laws, and, if so, whether such reduction is feasible

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"in this case in order to permit a reduction of the carrying value of the bank premises to an admittedly reasonable figure. In case a reduction in capital is not feasible, please advise what other plans are under consideration to adjust the carrying value of the banking premises.

"In connection with the credit investigation your regular trust examiner made a survey of the operations of the trust department of the bank. The volume of business is small and examiner states that from the standpoint of investments, reviews, and general management, the officer in charge of the department and the trust committee appear to be very conscientious; but that the records and accounting methods are such that a thorough and complete examination cannot be made and that despite repeated efforts on the part of examining authorities, no improvements have been made in the accounting methods. The examiner states further that if no consideration is to be given the recommendations and requests of the examiners in these matters, then the department should not be permitted to operate. The Board feels strongly that the acceptance of any trust business creates a responsibility which can only be satisfied if the transactions are carried out efficiently and with the best interests of the beneficiary constantly in mind, and that if a bank is not equipped to handle trust business properly, it should not accept it. As soon as practicable, the trust company should either take the necessary steps to provide adequate care and attention for the trust business, or discontinue the business entirely. It is requested that you keep the Board advised as to the developments in the situation."

Approved unanimously.

Letter to Honorable D. W. Bell, Acting Director of the Budget, prepared for the signature of Chairman Eccles, and reading as follows:

"Reference is made to the letter of May 21st from your office requesting the views of the Board of Governors of the Federal Reserve System with regard to the amendment proposed by the Farm Credit Administration to the 3d paragraph of section 13a of the Federal Reserve Act as amended. This proposal as drawn appears to call for new banking legislation and would seem, therefore, to be contrary to the understanding of the interdepartmental loan committee that no such new legislation would be sought at this session of Congress.

"In the meantime, however, this subject has been discussed between representatives of the Board and of the Farm

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"Credit Administration and further discussions are contemplated with a view to determining whether the general purposes sought by the proposed amendment can be accomplished without the necessity for new legislation by Congress."

Approved unanimously.

Thereupon the meeting adjourned.

Orestes Howell  
Secretary.

Approved: [Signature]  
Chairman.