

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 30, 1937, at 10:45 a.m.

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

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. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel

Mr. Dreibelbis related the circumstances surrounding discussions which he had had with Messrs. Prentiss and Lyons, Deputy Comptrollers of the Currency, and Mr. Nichols, Chief of the Division of Examination of the Federal Deposit Insurance Corporation, in relation to the citation of Mr. T. O. Morton under section 30 of the Banking Act of 1933 to show cause why he should not be removed as President and director of the Taylor National Bank of Campbellsville, Kentucky, and to the institution of proceedings by the Federal Deposit Insurance Corporation under section 12B(i) of the Federal Reserve Act to terminate insurance of the bank's deposits. Mr. Dreibelbis said that double liability on the stock of the bank will be terminated on July 1, 1937, that the office of the Comptroller of the Currency

6/30/37

-2-

had considered the advisability of appointing a conservator of the bank before that date in order to preserve the double liability of shareholders, and that Deputy Comptroller Lyons had inquired over the telephone this morning whether it would be possible for the Board to determine today whether Mr. Morton should be removed as president and director of the bank.

In this connection, reference was made to telegrams received by the Board under date of June 26, 1937, from Mr. Morton and under date of June 27, 1937, from his attorney, requesting that, because of the fact that as a result of an operation the attorney was confined to a hospital, the Board grant a thirty-day extension of the time within which the attorney might file a brief and present an argument in behalf of Mr. Morton. Mr. Dreibelbis said that he had advised Mr. Lyons that he believed that inasmuch as Mr. Morton had been given twenty days from June 7 in which to file a brief and therefore the testimony taken at a hearing on June 7 had not been reviewed by the Board, it would not be practicable for the Board to reach a decision on the matter today.

Upon motion by Mr. McKee, it was voted unanimously to advise Mr. Morton by telegram today that, the twenty days which had been granted to him in which to file a brief having expired, the Board had taken the record of the proceedings under consideration but that as consideration of the record would require a certain amount of time the Board would consider any brief received from Mr. Morton or his attorney prior to July 13.

Mr. Ransom stated that Mr. Kelly, an attorney in the office

6/30/37

-3-

of the Comptroller of the Currency had called Mr. Dreibelbis on the telephone with respect to the nature of the report which the Board proposed to make in response to a routine request received from the Chairman of the Senate Banking and Currency Committee under date of June 22, 1937, on bill S.2680 which relates to the payment of interest by member banks on demand deposits and which would extend until August 23, 1942, the time within which interest may be paid by member banks on demand deposits of public funds if the payment of interest with respect to such deposits is required by State law. Mr. Ransom said that it was his understanding that this bill was of a kind which would be considered by a subcommittee of which Senator Glass is chairman and that, as a result of earlier discussions with Senator Glass relating to similar legislation, it had been agreed with Senator Glass that no reports would be submitted by the Board with respect to such legislation unless such reports were specifically requested by Senator Glass. In these circumstances, Mr. Ransom said, he felt that the Board should adhere to the informal decision previously reached that it would make no reply to the request for a report on S.2680.

During the ensuing discussion the other members of the Board present agreed that no action should be taken by the Board at this time but that Mr. Ransom should keep in touch with the matter and, in consultation with the Treasury, the Comptroller of the Currency and the Federal Deposit Insurance Corporation, determine what, if any, future action should be taken, in view of the fact that the members of the Board present were in agreement that a further extension

6/30/37

-4-

of the time within which interest may be paid on deposits of public funds would be undesirable.

In connection with the above matter, Chairman Eccles stated that it had been informally agreed by the Treasury, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation and himself that no report would be made by any one of the four offices on any proposed banking legislation without first taking the matter up with the other three, and that, if one felt that a position should be taken on any legislation relating to banks, the matter would be discussed with the other offices.

At this point Mr. Dreibelbis left the meeting.

Mr. Ransom stated that at the Senate subcommittee hearings on S.2344, Trust Indenture Act of 1937, the suggestion had been made that if the legislation is passed it should be administered by the Board of Governors rather than by the Securities and Exchange Commission; that there appeared to be little support in the Congressional committee for this position; that he had advised Senator Barkley, who introduced the bill, that it was felt that the proposed legislation did not come within the Board's field of responsibility; that at his (Mr. Ransom's) request Mr. Thurston had communicated that position to Senator Wagner, Chairman of the Senate Banking and Currency Committee; and that it was clearly understood by Messrs. Wagner and Barkley and by Chairman Landis and Mr. Douglas of the Securities and Exchange Commission that the Board does not feel that

6/30/37

-5-

the administration of the legislation should be placed in its hands and that in the event serious consideration were given to such a course the Board would desire to be heard on the matter. The members of the Board approved the position taken by Mr. Ransom and agreed that no further action need be taken by the Board on the matter at the present time.

Reference was made to the proposed revision of Regulation T and there was a discussion of the procedure which might be followed in connection with its consideration by the Board.

At the conclusion of the discussion, it was agreed by unanimous vote that the matter should be laid on the table for the time being.

At 1:30 p.m. a recess was taken and the meeting was reconvened at 2:50 p.m. with the same attendance.

There was presented a letter addressed to Chairman Eccles under date of June 24, 1937, from Senator Robinson as Chairman of the Senate Select Committee on Government Reorganization, with which he transmitted a copy of bill S.2700 to provide for reorganizing agencies of the Government, extending the classified civil service, establishing a general auditing office and a department of welfare and for other purposes. The letter stated that the committee would be glad to have, not later than July 3, 1937, the Board's views on such provisions of the bill as affect the Federal Reserve System. Copies of Senator Robinson's letter, as well as of a memorandum dated June 26, 1937, from Mr. Wyatt summarizing briefly the principal provisions of the bill which are of interest to the Federal

6/30/37

-6-

Reserve System, had been sent to the members of the Board.

After discussion, it was agreed unanimously that the following reply should be sent by the Chairman to Senator Robinson and that Counsel's office should prepare as promptly as possible, for consideration by the Board, tentative amendments to applicable sections of the bill to eliminate certain objectionable features referred to in the discussion:

"I have received your letter of June 24, 1937, inviting an expression of my views not later than July 3, 1937 on such provisions of Senate Bill 2700 as affect the Federal Reserve System.

"This bill is of such great importance that I would wish to give it most careful study before expressing any definite views regarding it; and I regret that pressure of other important matters, some of which are quite urgent, makes it impossible for me to give adequate consideration to the bill prior to July 3, 1937.

"However, I hope to have an early opportunity to study the bill with a view to communicating with you personally in regard thereto."

Mr. McKee referred to the fact that on Monday, July 5, the offices of the Board would be closed in celebration of Independence Day and moved that all employees who could be spared on Saturday, July 3, be excused from work on that date with the understanding that the absence will not be charged against annual leave.

Mr. McKee's motion was approved unanimously.

Mr. McKee presented a draft of a letter to Vice President Fry of the Federal Reserve Bank of Richmond and moved that the letter be approved as follows:

"The Board has considered the proposed plan of the 'Union Trust Company of Maryland', Baltimore, Maryland, for liquidation of the City Certificates Corporation and

6/30/37

-7-

"the request of the management of the trust company for the consent of the Board, under the provisions of membership condition numbered 27, to the transfer of the stock of the Union Trust Company in accordance with the plan, should the plan be approved by the holders of the certificates of beneficial interest. In considering the plan, the Board has reviewed not only the information submitted with your letter of June 7, but also information given by representatives of the bank who met subsequently with members of the Board and the Board's staff.

"In view of the inequities of the provisions of the plan, which relate to the distribution of the stock of the trust company to stockholders of the City Certificates Corporation, the Board is unwilling to give its consent to the transfer of the stock of the trust company, as contemplated by the plan. The Board, however, will be glad to consider any plan for the liquidation of the City Certificates Corporation on an equitable basis. Please advise the bank accordingly."

After discussion, Mr. McKee's motion was put by the Chair and carried unanimously.

At this point Messrs. Thurston, Wyatt, and Vest left the meeting and 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 June 29, 1937, were approved unanimously.

Telegrams to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Yaeger, Vice President of the Federal Reserve Bank of Minneapolis, 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 June 26, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the temporary appointment of Mr. Malcolm H. Bryan as a senior

6/30/37

-8-

economist in the Division be extended for a period of one year from September 30, 1937, with salary at the present rate of \$5,600 per annum.

Approved unanimously.

Memorandum dated June 24, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mr. William A. Salant as an economic assistant in the Division, with salary at the rate of \$1,800 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated June 25, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Franc S. Caskey as a secretary in the Division, with salary at the rate of \$1,800 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated June 26, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment on a temporary basis for a period of three months of Mrs. Beulah S. Baum as a stenographer in the Division, with salary at the rate of \$130 per month, effective as of July 1, 1937.

Approved unanimously.



6/30/37

-9-

Memorandum dated June 29, 1937, from Mr. Morrill, recommending the appointment of Mr. J. W. Belt as Chief Engineer at the Board's new building with salary at the rate of \$3,200 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated June 29, 1937, from Mr. Morrill, recommending the appointment of Mrs. Alma Crozier as supervisor of charwomen at the Board's new building, with salary at the rate of \$1,080 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to the board of directors of the "First State Bank", Huntington, Indiana, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$2,577.70, as shown in the report of examination of such bank as of May 29, 1937, made by an examiner for the Federal Reserve Bank of Chicago."

6/30/37

-10-

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'First State Bank', Huntington, Indiana, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Director of the Department of Financial Institutions for the State of Indiana for his information.

"It is understood that the laws of the State of Indiana prohibit the bank from pledging its assets as security for trust funds deposited in its banking department and that trust funds so deposited are preferred claims in event of liquidation of the bank. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization previously granted by the Board with which you are familiar.

"It has been noted that the report of examination made in connection with the application for membership contains several criticisms of the records and operations of the trust department, and it is assumed that appropriate steps will be taken to eliminate the cause for such criticisms."

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

"This refers to your letter of June 22 with regard to proposed plan of dissolution of Inter-America Corporation, as a result of which it is understood Bankamerica Company, a securities company, would become an affiliate, within meaning of definition contained in section 2(b) of Banking Act of 1933, of certain member banks. You submitted request of Transamerica Corporation for advice whether under such circumstances Transamerica Corporation may retain Bankamerica Company without penalty to such member banks until November 29, 1938. Board has heretofore ruled in connection with another holding company affiliate

6/30/37

-11-

"that provisions of section 20 of Banking Act of 1933 prohibiting an affiliation, after one year from June 16, 1933, of a securities company with a member bank are not modified by provisions of section 5144 of Revised Statutes relating to divestment, within five years, by a holding company affiliate of any interest in any securities company it owns or controls or has an interest in at time of filing application for voting permit and that a member bank is not relieved of compliance with section 20 by provisions of section 5144. It is understood that Transamerica Corporation recognizes that a violation of section 20 would be involved under proposed plan, and Board agrees with this conclusion. On basis of such facts and of the information before it, Board does not feel that the circumstances would warrant exercise of discretion in not assessing the penalty under provisions of Section 20 in event of the proposed violation. Please advise Transamerica Corporation accordingly."

Approved unanimously.

Letter to Mr. Young, Deputy Chairman of the Federal Reserve Bank of New York, reading as follows:

"The Board decided some time ago that surveys of the Bank Examination and Auditing Departments of each Federal Reserve Bank would be helpful to it in its consideration of various matters which come up from time to time with respect to the organization and functions of these departments, and requested its Division of Examinations to make such surveys. There is attached a copy of a report of the survey of the Auditing Department at the Federal Reserve Bank of New York recently conducted by the Board's Examiners Jones and Wilkes. An additional copy of the report is inclosed for President Harrison.

"While the inclosed report of survey indicates that the auditing function at the Federal Reserve Bank of New York in general is being performed adequately and in substantial conformity with the standards recommended by the Conference of Auditors of the Federal Reserve Banks held in Washington last fall, it sets forth two matters which it is believed merit your consideration. These relate to certain weaknesses in personnel in the Auditing Department and the proposed revisions in auditing procedure which would, among other changes, eliminate certain non-auditing activities and substitute departmental audits for much of

6/30/37

-12-

"the present detailed checking operations of the Auditing Department. In this connection, it is noted from your letter of June 10, 1937, that your board of directors has already approved a resolution that balance sheet audits be discontinued and in place thereof certain other audits be made as indicated.

"It will be appreciated if you and the Auditing Committee of your board of directors and President Harrison will review the attached report of survey and give the Board the benefit of your reactions to the two matters referred to above and any other statements or conclusions concerning which you would like to express your views.

"The footnote of the letter transmitting the recommendations of the Conference of Auditors to Mr. George L. Harrison, Chairman of the Conference of Presidents of the Federal Reserve Banks, called attention to the confidential nature of the material contained in that report and other information relative to the auditing activities at the Federal Reserve Banks. As the inclosed report refers frequently to the Auditor's recommendations and also contains other information of a confidential nature concerning the activities of the Auditing Department of your bank, it will be appreciated if the report itself is not made available to the bank's employees and the officers directly in charge of the operating departments. Of course, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, your directors and such of the bank's other officers as you and President Harrison deem advisable."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Monroe  
Secretary.

Approved:

W. S. ...  
Chairman.