

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 14, 1937, at 2:15 p. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Broderick  
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 July 13, 1937, were approved unanimously.

Telegrams to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. McKinney, President of the Federal Reserve Bank of Dallas, 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 July 12, 1937, from Mr. Morrill recommending the temporary appointment for a period not to exceed three months of Mrs. Margaret Lee Higdon as a stenographer in the Secretary's Office, with salary at the rate of \$120 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

Memorandum dated July 13, 1937, from Mr. Smead, Chief of the

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Division of Bank Operations, submitting a telegram dated July 12 from Mr. McKinney, President of the Federal Reserve Bank of Dallas, advising that the officers of the bank had made a careful survey of the salaries of the bank's employees and were submitting a report to the board of directors of the bank recommending:

- (1) A flat increase of \$60 per annum in the salaries of
  - (a) all clerical employees of the bank receiving less than \$960 per annum
  - (b) all porters and elevator operators receiving less than \$1,200 per annum
  - (c) all employees of the Cuisine Division, except the dietitian and cook
- (2) A flat increase of \$120 per annum in the salaries of
  - (a) all clerical employees receiving between \$960 and \$1,380 per annum, inclusive
  - (b) all engineers, mechanics, printers and guards receiving salaries of not more than \$1,380 per annum
- (3) Salaries of all employees receiving in excess of \$1,380 per annum but less than \$2,100 were considered individually and adjusted upward on their merits, there being a total of 73 in this group.

The memorandum stated that the total number of employees affected by the proposed increases was 243, or approximately 58 percent of the total number of employees of the bank; that the increases aggregate \$24,970 per annum, or 3.80 percent of the total employees' payroll; and that for special and satisfactory reasons four employees included in the automatic increase groups were not given increases. The memorandum also stated that in order to put the above increases into effect it would be necessary to increase the maximum salaries provided in the personnel classification plans for eight positions at the head office and one

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position each at the Houston and San Antonio branches. The memorandum recommended that the proposed changes be approved, subject to the approval of the board of directors of the Federal Reserve Bank of Dallas.

Approved unanimously.

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

"Re your letter June 22. Board will interpose no objection to your plan of not making or participating in an examination during 1937 of American Trust Company of San Francisco but of accepting in lieu thereof report of examination to be made by State Banking Department. Board's position is taken, however, with distinct understanding that it relates only to the 1937 program of examination and is not to be considered a precedent."

Approved unanimously.

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

"This refers to your letter of May 27 with respect to the proper treatment of so-called 'Commodity drafts' in condition reports (Form 105) of the City State Bank & Trust Company, McAllen, Texas.

"It is noted from the copy of the member bank's letter dated May 26, inclosed with your letter, that in most cases the drawer is permitted to draw one-half of the draft presented, the other half being held in a deferred account until actual payment of the draft; that in a few instances the drawer is credited with the entire amount of the draft provided he at all times maintains a balance greater than the total amount of his drafts in transit; that in every case the full amount of the draft is charged to the asset account 'Collections in transit' when the draft is presented to the member bank; and that the member bank charges 1/4 of 1 percent exchange at the time the draft is presented, which charge covers 8 days, and if the draft is not paid within 8 days the member bank charges interest after the eighth day until payment is actually received or the draft is returned and charged back to the drawer.

"On the basis of the above information and of that heretofore furnished with respect to the handling of such commodity

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"drafts by the member bank, there appears to be no reason for changing the position taken in the Board's letter of April 3, 1936, that such commodity drafts should be included in 'Loans and discounts' in the bank's condition reports on form 105. There is, however, no objection to the bank's showing such commodity drafts separately on its books, rather than including them in loans.

"The eighth paragraph of the member bank's letter dated May 26, 1937 states that 'the "Collection in Transit" does not only represent drafts in process of collection, but quite often represents checks which we send direct to the paying bank for collection in order to get quicker returns for the depositor'. To the extent that the account represents checks in process of collection, the amount should, of course, be reported as 'Cash items in process of collection', Item 2 of Schedule I in condition reports, and deducted from gross demand deposits in determining the amount of net demand deposits subject to reserve."

Approved unanimously.

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

"There is inclosed herewith a copy of a letter dated June 22, 1937 addressed to the Comptroller of the Currency by Mr. L. Shirl Hatfield, Cashier, The First National Bank, Pandora, Ohio. This letter has been referred to the Board of Governors by the Comptroller of the Currency.

"As you will observe from the letter, on or about December 1, 1934 the member bank entered into a three year contract to act as depository of the funds of the county in which the bank is located and agreed to pay interest on demand deposits of such funds. On that date, the twelfth paragraph of section 19 of the Federal Reserve Act permitted the payment by member banks of interest on demand deposits of public funds where required by State law and contained no limitation as to the period during which interest could be paid on such funds. On August 23, 1935, section 19 was amended so as to permit the payment by member banks of interest on such funds only until August 23, 1937.

"While it appears from Mr. Fletcher's telegram of March 12, 1937, that the laws of Ohio at that time required the payment of interest on demand deposits of public funds of every kind, we have no specific information as to whether interest was required by State law to be paid on demand deposits of public funds of Ohio counties on or about December 1,

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"1934, when the contract in question was made.

"It will be appreciated if you will consider this matter with your counsel and reply to the inquiry from the member bank. If you determine that the law of Ohio required the payment of interest on demand deposits of funds of Ohio counties when the contract was made and if the contract was lawfully entered into and is a bona fide and binding obligation which the member bank may not terminate or modify at its option or without liability, please advise the member bank that the Board will offer no objection to the payment of interest under the terms of such contract until the date of its expiration."

Approved unanimously.

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

"Your letter of April 20 in response to mine of April 5 in regard to the amendments to the by-laws of the Federal Reserve Bank of Kansas City, which were adopted by the board of directors on February 4 and March 18, was brought to the attention of the members of the Board of Governors and has been receiving their consideration. Recently the matter was discussed informally with President Hamilton and it was agreed that the composition and functions of the executive committee and the administrative committee of your bank should be restudied.

"It is understood that the executive committee holds very few meetings but that the administrative committee, which includes two of the three members of the executive committee, meets daily and undertakes to perform to a certain extent the functions of both an executive committee and a discount committee. The practice of the bank in this respect results in the payment of larger aggregate fees and expenses of directors than are incurred at any other Federal reserve bank. In 1936 they amounted to \$20,462.00, which is very much more than the corresponding expense of any other Federal reserve bank.

"The reasons given for the establishment of an administrative committee, including at least two members of the board of directors, together with daily meetings of that committee, have raised a question in the minds of the members of the Board of Governors as to whether due recognition has been given to the distinction which should be made between the functions and responsibilities of the board of directors and its executive committee on the one hand and

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"of the executive officers of the bank on the other hand. It has suggested also a question whether the members of the board of directors are aware that it may imply a lack of confidence in the operating officers. The boards of directors of other Federal reserve banks apparently have not found it necessary to keep in daily touch with the operations of their institutions and it appears that they are able to keep themselves adequately informed through meetings which at most of the banks are not more than twice a month and at only one bank--the largest Federal reserve bank--once a week. If important matters requiring determinations of questions of policy arise between regular meetings of the board of directors or the executive committee at any other bank, it is generally possible for the bank's officers to get in touch with the directors and arrange for a special meeting for the purpose.

"It would appear that the executive officers of a Federal reserve bank, who have been selected for the purpose, should be able to carry out the policies of the board of directors and administer the affairs of their bank satisfactorily between meetings of the board and the executive committee without the necessity of daily meetings with individual directors to pass upon operating matters.

"The Board feels after carefully considering the entire matter that the provisions of the by-laws of the Federal Reserve Bank of Kansas City and its practice thereunder are not consonant with the principles which should be observed in distinguishing between the responsibilities of directors and officers respectively. It also feels in particular that the creation of an administrative committee to exercise between meetings of the executive committee powers conferred upon the latter is not consistent with the purposes for which an executive committee is provided. In this connection it is the opinion of the Board that in the interest of sound procedure the chairman of the board of directors of a Federal reserve bank and in his absence or disability the deputy chairman, and, in the absence or disability of both, the third class C director should serve as chairman of the executive committee of the bank. This is for the reason that it is believed that at least one of these directors, in the order stated, should be in position to participate in all actions which require the exercise of powers of the board of directors when it is not in session.

"In your letter you mentioned the public relations of the bank and, as you know, the Board is in agreement that every reasonable effort should be made on the part of the Federal reserve bank to improve its relations with both member and nonmember banks in its district. Such activities

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"are usually entrusted to officers who, as a result of their customary duties, are familiar with the problems of routine operation and the methods of meeting them so that they are in position to advise with banks in their district on the matters about which they may raise questions and which are of most immediate concern to them. It is the thought of the Board that the manner in which the officers of your bank can best develop these relations should receive the careful consideration of your directors.

"It will be appreciated if you will bring to the attention of the other directors of the bank the views of the Board of Governors as expressed in this letter and the Board wishes to be advised as to the action taken."

Approved unanimously.

Letter to Honorable Henry Ellenbogen, House of Representatives,  
reading as follows:

"Upon receipt of your letter of June 23, 1937, regarding the application of the Palace Credit Clothing Company of Pittsburgh to the Federal Reserve Bank of Cleveland for a loan under the terms of Section 13b of the Federal Reserve Act, we wrote to the Federal Reserve Bank of Cleveland, as I informed you in my letter of July 1, for a statement of the considerations upon which the application was rejected.

"As you are aware, final authority to make loans under the terms of Section 13b is conferred by Congress upon the Federal Reserve banks, and it is a requirement of the law that the loans shall be made on a reasonable and sound basis.

"The application, as required by law, was first examined by the Industrial Advisory Committee, which consists of industrialists and business men qualified by practical experience to assist the Federal Reserve bank in acting upon applications and not connected with the Federal Reserve bank in any other capacity. Mr. Davis J. Bonwit, the president of the applicant company, was informed by the Committee that a preliminary examination of the application did not indicate a proper credit basis for the loan, and was asked to advise the Committee whether he desired further investigation to be made. Mr. Bonwit, we are informed, requested a further examination, and one of the Committee's accountants spent three days at the Company's office, and in Pittsburgh, investigating the merits of the application. The Committee, after careful consideration of the facts

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"disclosed, recommended to the Reserve bank that the application be rejected. The Executive Committee of the bank, which consists of members of the bank's board of directors, then made a careful study of the application on its own account and concurred in the unfavorable recommendation of the Industrial Advisory Committee.

"The reasons given by the Federal Reserve bank for the rejection of the application were quoted in Mr. Bonwit's letter to you of June 4, a copy of which accompanied your letter of June 23, and therefore need not be repeated.

"With respect to the \$35,000 loan which the president of the applicant company claims in his letter to you was made with the permission of the Federal Reserve bank and with the assurance that it would not affect the application, the Federal Reserve bank states that the loan was not discussed with the officers of the bank and came to their attention only during the investigation conducted by an accountant of the Industrial Advisory Committee. Furthermore, it is stated that the financial statement presented to the bank, and reflecting the applicant's condition as of February 28, 1937, did not show bank loans, although at that time the loan of \$35,000 was in existence as well as a balance of \$11,525 on another loan. There was included in that statement, however, a liability 'Trade acceptances payable' in the amount of \$46,525, which is the combined amount of the two bank loans.

"The need for financial assistance in the case of the applicant seems to be due to an apparent desire to expand its business and to maintain its very liberal credit policy of allowing consumer purchasers to settle in forty weekly payments. It is understood that even on these liberal terms \$200,000 of its accounts receivable are overdue.

"The Board regrets that the application could not have received favorable action but from study of the report received from the Federal Reserve bank it appears that the application was given careful consideration both by the lending officers of the bank and by the Industrial Advisory Committee and consequently there appears to be no basis for further action by the Board in the matter."

Approved unanimously.

Mr. Morrill submitted a recommendation, which had been approved by the Personnel Committee, that the Board authorize the purchase of plate glass for desks, stick stripping on glass desk tops, chart frames,



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bronze castings, and electric lamps for use in the Board's new building, as listed in purchase orders Nos. 1760, 1762, 1763, 1764, and 1767, at a total cost of \$995.08.

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie  
Secretary.

Approved:

W. A. Stiles  
Chairman.