

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 16, 1937, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
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 15, 1937, were approved unanimously.

Telegrams to Messrs. Kimball and Clark, Secretaries of the Federal Reserve Banks of New York and Atlanta, respectively, stating that the Board approves the establishment without change by the New York bank on July 15, 1937, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated July 13, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss M. Elizabeth Barnett 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 July 19, 1937, provided that she passes satisfactorily the usual physical examination.

Approved unanimously.

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Memorandum dated July 15, 1937, from Mr. Morrill recommending the appointment of Miss Lois W. Jones as nurse in charge of the first aid room in the Board's new building, with salary at the rate of \$1,800 per annum, effective as soon as she may be released from her present position, after having passed satisfactorily the usual physical examination. The memorandum stated that under an arrangement effective as of July 1, 1935, the Board has been reimbursing the office of the Comptroller of the Currency \$600 per year toward the payment of the salary of Miss Florence Coombs, a nurse at the Treasury Department, whose services during that period have been available to the Board's employees, and recommended that, inasmuch as that service will no longer be required after the move to the Board's new building, the arrangement with the Comptroller's office be terminated effective as of August 1, 1937. The memorandum also stated that the matter had been discussed with Mr. Birgfeld, Chief Clerk at the Treasury Department, who advised that the termination of the arrangement as of August 1, 1937, would be satisfactory to his office.

Approved unanimously.

Memorandum dated July 15, 1937, from Mr. Morrill, recommending the appointment of Mr. Louis N. Bertol as Captain of the Guard to have charge of the protection force in the Board's new building, with salary at the rate of \$1,800 per annum, effective as soon as his services may be available after having passed satisfactorily the usual physical examination.

Approved unanimously.

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Letter to the board of directors of the "Ecorse Savings Bank", Ecorse, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special condition, 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:

- "4. Such bank shall make adequate provisions for depreciation in its banking house and furniture and fixtures."

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 'Ecorse Savings Bank', Ecorse, Michigan, 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 Commissioner of the Banking Department of the State of Michigan for his information.

"It will be noted that the Board has not prescribed the special condition recommended by your committee prohibiting the bank from increasing above \$55,000 its aggregate investment in banking house and furniture and fixtures. Since the revision of the standard conditions of membership, it has not been the practice of the Board to prescribe conditions relating to the investments in bank premises and furniture and fixtures except in special cases where the circumstances indicated the desirability of so doing. It is understood from Mr. Young that such circumstances do not exist in this case and that the elimination of the condition is satisfactory to your bank.

"With reference to the four accounts listed in the confidential section of the report as being improperly carried as savings deposits, it is assumed that, if the bank completes its membership, you will call the management's attention to the fact that such accounts should be carried in some other manner."

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Letter to Honorable Clyde L. Herring, United States Senate, reading as follows:

"This refers to your letter of June 22, 1937, addressed to Governor Davis and inclosing a letter you have received from the First Bank and Trust Company, Ottumwa, Iowa, with reference to its difficulties in obtaining admission to membership in the Federal Reserve System while retaining certain out-of-town branch offices. It is understood that the First Bank and Trust Company has capital stock amounting to \$300,000. In view of this fact, it appears that the difficulties to which the bank refers grow out of the fact that it does not have the capital stock required by Federal law for the admission to membership in the Federal Reserve System of State banks having out-of-town branches.

"The Federal Reserve Act requires a State bank applying for membership in the Federal Reserve System and having one or more out-of-town branches established subsequent to February 25, 1927, to have the capital stock which a national bank is required by law to have in order to establish one or more out-of-town branches. With certain exceptions, depending on the population of the State in which located, section 5155 of the Revised Statutes of the United States requires a national bank to have capital stock of at least \$500,000 in order to establish a branch outside of the city of its head office. There are also aggregate capital stock requirements, depending upon the number of branches established by a national bank.

"It is understood that the capital and surplus of the First Bank and Trust Company, of Ottumwa, is \$350,000 and that the bank has deposits of approximately \$1,600,000. Assuming that the assets of the bank are in good condition, it is clear that its present capital and surplus funds are adequate for the protection of its deposits. However, in view of the specific requirements of the Federal law and since the Board is not vested with any discretion to waive the capital requirements contained in the law, it will be necessary for the trust company to increase its capital stock to at least \$500,000 in order to be eligible for admission to membership under the present requirements of law. In the above discussion it has been assumed that one or more of the out-of-town branches referred to in the letter, from the First Bank and Trust Company, of Ottumwa, was established subsequent to February 25, 1927. As you know, February 25, 1927, is the date of the enactment of the so-called McFadden Act which, among other things, authorized the retention by national banks and State member banks of branches in lawful operation on the

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"date of the enactment of such Act without requiring a bank to have any specific amount of capital in order to retain such branches.

"While the letter of the First Bank and Trust Company does not make any reference to whether or not its branches exercise broad banking functions or merely certain limited functions, it has heretofore come to the Board's attention that in some instances offices are established by Iowa banks with only limited functions. However, attention is invited to the fact that Congress, in defining the term 'branch' as used in section 5155 of the Revised Statutes, has provided that such term 'shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent.'

"In accordance with your request, the letter addressed to you by the First Bank and Trust Company, of Ottumwa, is returned herewith."

Approved unanimously.

Letter to Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of July 9, 1937, in which you include an excerpt from a letter received by you raising a question regarding section 5(d) of Regulation T.

"Your letter is not entirely clear as to the question for which an answer is desired. As a result of a subsequent telephone conversation between yourself and a member of the Board's staff, however, it is understood that the question intended to be presented may be stated as follows:

'Section 5(d) states that certain credit maintained without collateral or on collateral other than exempted or registered securities may be so maintained until January 1, 1938. Does section 5(d) require the liquidation on or before this date of credit in a special account established pursuant to section 5(b) of the regulation, i.e., credit that is maintained without collateral or on collateral other than non-exempted registered securities but that is not for the purpose of purchasing or carrying securities or of evading or circumventing the provisions of the regulation?'

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"In reply to this question you are advised that the time limitation in section 5(d) does not apply to credit provided for in section 5(b) and that, therefore, credit provided for in section 5(b) may be maintained without regard to the date specified in section 5(d)."

Approved unanimously.

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

"Receipt is acknowledged of your letter of July 8, 1937, with inclosures, regarding the question whether the endorsement or guarantee by Mr. J. W. Norwood, Vice President of The Wilmington Savings and Trust Company, Wilmington, North Carolina, of commercial paper sold to other banks, must be reported to the Trust Company as an indebtedness of an executive officer of a member bank under the provisions of section 22(g) of the Federal Reserve Act and of Regulation O.

"It appears that Mr. Norwood is engaged in the business of selling commercial paper as a broker. Some of this paper is sold with Mr. Norwood's endorsement or guarantee to banks in North Carolina or elsewhere. Proceeds of the paper are apparently made available directly to the makers and Mr. Norwood receives only his commission or fee for endorsing. It also appears that Mr. Norwood is not active in the administration of the affairs of the Trust Company.

"In view of the provisions of Regulation O to which you referred in your letter of June 30, 1937, to Mr. J. G. Thornton, Vice President of The Wilmington Savings and Trust Company, it is clear that the sale to banks of paper bearing Mr. Norwood's endorsement or guarantee results in an indebtedness to such banks which he is required to report to the Trust Company under the provisions of the statute and section 5 of the regulation.

"It is understood that Mr. Norwood is not only Vice President of The Wilmington Savings and Trust Company, but is also a director. While it is realized that the Trust Company is desirous of retaining Mr. Norwood in his capacity as Vice President as well as that of director, you may wish to call attention to the fact that, in view of the provisions in the last clause of subsection (b) of section 1 of the regulation, if he should find it not to be practicable to arrange his affairs so as to continue as an executive officer of the Trust Company he may never-

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"theless retain his position as director without the necessity of making reports of his indebtedness to other banks."

Approved unanimously.

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

"This refers to your letter of May 29, 1937, and previous correspondence with regard to the question whether the indebtedness of Mr. B. F. Kauffman, President of the Bankers Trust Company, Des Moines, Iowa, to such bank as trustee of the Bankers Employees Trust, is contrary to the provisions of section 22(g) of the Federal Reserve Act.

"It is understood that the Bankers Employees Trust, of which the bank is trustee, was created by a declaration of trust executed by the bank in March 1920; that the trust fund is one accumulated as a savings fund to which the officers and employees of the bank contribute monthly; and that when they contribute up to 5 per cent of their salary the bank contributes a like amount. It is also understood that one of the purposes of the creation of the trust was to provide for loans from the fund to officers and employees of the bank who are members thereof and that the trustee may make a loan to a member in an amount not in excess of 95 per cent of the amount of his contributions standing to his credit in the fund at the time the loan is made. In this connection, it is the Board's understanding that the loan in question to Mr. Kauffman did not exceed 95 per cent of the amount of his contributions standing to his credit in the fund.

"In view of the small amount involved and all the other circumstances of the case, the Board will offer no objection to the transaction in question and you may, if you desire, advise the Bankers Trust Company accordingly."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading as follows:

"There is inclosed herewith a copy of a letter received by the Board from Assistant Attorney General Brien McMahon, in which it is suggested that copies of reports of violations of the criminal provisions of the banking laws of the United

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"States which are commonly made to the Department of Justice be transmitted to the respective local offices of the Federal Bureau of Investigation. In this connection there is also inclosed a copy of a memorandum from the Director of the Federal Bureau of Investigation which contains a list of the field offices of the Bureau.

"In accordance with the request of the Department of Justice, it will be appreciated if your bank will transmit to the appropriate field office of the Federal Bureau of Investigation a copy of each report of apparent violations of the criminal provisions of the banking laws of the United States which is made to the local United States Attorney and copies of which are transmitted to the Board of Governors pursuant to the procedure stated in the Board's letter of July 8, 1937 (S-12)."

Approved unanimously.

Mr. Morrill submitted a recommendation, which had been approved by the Personnel Committee, that the Board approve the payment to S. Groome Eareckson, Washington, D. C., the sum of \$174.00 for spreading rugs, including cutting and binding for stand pipes, in the Board's new building, as set forth in purchase order No. 1778.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

W. S. Scales
Chairman.