

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 20, 1937, at 10:30 a. 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  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Vest, Assistant General Counsel  
Mr. Wingfield, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the Division of Examinations  
Mr. Thomas, Assistant Director of the Division of Research and Statistics  
Mr. Currie, Assistant Director of the Division of Research and Statistics  
Mr. Blattner, Assistant Director of the Division of Research and Statistics

There was presented an application of The First National Bank of Kings Mountain, Kings Mountain, North Carolina, for permission to act, when not in contravention of State or local law, as trustee under deeds of trust to secure debts. The file had been circulated among the members of the Board for their consideration for the reason that it was understood that the application had been made by the bank in order that it might obtain authority to act as trustee under a mortgage on a mill property securing an issue of bonds which would not be distributed to the public but would be held by members of the family owning the mill property and it appeared that the officers of the bank had had no experi-

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ence in fiduciary matters and that the bank did not intend to establish a separate trust department or to accept any additional trusts. In a memorandum dated July 12, 1937, Counsel's office stated that it had been the general policy of the Board to grant fiduciary powers only in the terms of section 11(k) of the Federal Reserve Act and not to grant limited powers to act as trustee in particular cases or classes of cases, although some exceptions had been made to this general policy.

Mr. Ransom stated that he had requested that the application be given special consideration by the Board for the reason that he was of the opinion that the general policy of the Board as above referred to should be adhered to; that, inasmuch as it did not appear that the bank expected to comply with the provisions of the Board's Regulation F, Trust Powers of National Banks, which require the establishment of a separate trust department, the appointment of a trust investment committee, and that the trust business accepted by the bank be handled by an officer qualified and competent to administer trusts, the application should be denied; and that the Board should adhere to that position in similar cases coming before it in the future.

During the ensuing discussion consideration was given to the question raised by Mr. McKee whether, inasmuch as the Board had previously authorized the exercise by small member banks of limited trust powers and small nonmember banks might obtain trust powers, it was advisable, from the standpoint of the competitive position of the applicant bank, to deny its application.

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Mr. Ransom moved that the application be not approved and that counsel be requested to prepare a letter to The First National Bank of Kings Mountain advising of the Board's decision and stating the reasons therefor as outlined by him.

Carried, Messrs. McKee and Davis voting "no".

There ensued a discussion of the draft of Regulation A, Advances to and Rediscounts for Member Banks by Federal Reserve Banks, submitted to the Board with Mr. Vest's memorandum of July 10, 1937, together with a proposed letter to the Federal reserve banks transmitting copies of the draft and requesting their comments and suggestions thereon. Several changes were agreed upon during the discussion.

Mr. Ransom moved that the draft of regulation incorporating the changes agreed upon be submitted to the Federal reserve banks for their comments and suggestions and that a letter to the Federal reserve banks transmitting the draft be prepared in the light of the discussion at this meeting and submitted to the Board for consideration.

Carried unanimously.

At 1:15 p.m. the meeting recessed and reconvened at 2:40 p.m. with the same attendance as at the morning session except that Messrs. Paulger, Leonard, Vest and Wingfield were not present.

Mr. Morrill stated that in a recent conversation with Mr. W. G. Distler, Vice President of the George A. Fuller Company, the latter had expressed the hope that the Board would not insist upon retaining until final completion of the Board's new building the full 10% of the

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estimated amount of the work done on the building.

It was agreed unanimously that, in view of the unsatisfactory progress which had been made on the building and the resulting inconvenience and expense to the Board, the full 10% of the amount of the estimates of work done should be retained by the Board as provided for by the contract.

Reference was made to a letter dated July 15, 1937, from Mr. Burgess, Vice President of the Federal Reserve Bank of New York, inclosing a copy of a cable received by the bank on that date from Mr. Richard Quandt, Deputy Manager and head of the banking department of the National Bank of Hungary, who was in London. The cable read in part as follows:

"Referring to Governor Imredy's cable introduction and under authorisation obtained from him may I inform you of our agreement with British Belgian Dutch and Swiss representatives of long term creditors of Hungary's nonstate long term bonded debts reached in respect of three years settlement of interest service on these loans. As a result of exchange of cables between Foreign Bondholders Protective Council New York and myself this council in their cable July 7th have agreed to said settlement. As according to their communication council are not in a position to publish communique in their own name we decided in agreement with council to publish it in the name of Cash Office of Foreign Credits Budapest. Would ask your kind consent to your institution performing technical procedure of publication. All expenses incidental to procedure should be debited to our account with you. Would ask you to publish communique in as many papers and as many places as you would consider necessary. Above mentioned council will simultaneously issue statement containing their recommendation to bondholders. Council of Foreign Bondholders London have mailed the Protective Council full text of communique by Steamship Bremen arriving New York 14th or 15th. We have asked them to forward you copy of communique issued in London and Amsterdam on 7th in Basle and Zurich on 8th in Brussels and Antwerp on 12th. \* \* \* \* \*

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"Would be extremely grateful if you would proceed at once with publication communicating date of publication both to me and to Foreign Bondholders Protective Council to enable latter to issue its statement.

"Practical execution of offer requires clarification of technical details with service bankers. As unfortunately circumstances have not permitted my sailing to New York I would respectfully ask you to instruct an official of your institution to convene a meeting of American bankers being fiscal agents of Hungarian loans and suggest to them to appoint representative in London to discuss matter with me. I venture to suggest Mr. Daniel B. Grant Vice President of the Guaranty Trust Company of New York who subject to his banks approval personally declared his willingness to accept authorization. Would like to suggest that if service bankers desire to appoint him consent of Guaranty Trust Company of New York should be obtained there. \* \* \* \*"

The matter had been discussed with Mr. Burgess over the telephone on July 15, 1937, and there were further telephone conversations with him on that and subsequent days. Under date of July 19, Mr. Burgess transmitted to the Board a copy of the communique referred to in Mr. Quandt's cable and on the same day submitted over the telephone a draft of a letter which the Federal reserve bank proposed to send to the American bankers who are fiscal agents for the Hungarian bonds in question.

After a discussion, Mr. Davis moved that, as it was understood that Mr. Burgess desired to discuss the matter over the telephone with Mr. Quandt today, Mr. Morrill be authorized to advise Mr. Burgess that the Board would interpose no objection to the Federal Reserve Bank of New York sending to the American bankers who are fiscal agents for the Hungarian bonds the letter proposed by the New York bank amended to read substantially as follows:

"We enclose copy of 'communique of the Cash Office of Foreign Credits Budapest, regarding offer for interest payments on Hungarian municipal, ecclesiastical, and private long term bonded debt' which will be published in certain newspapers in (list of cities) at the request of Mr. Richard

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"Quandt, Deputy Manager and head of the Banking Department of the National Bank of Hungary.

"Mr. Quandt, in a cable to us, has stated that the practical execution of the offer requires clarification of technical details with service bankers and that, as unfortunately circumstances have not permitted his sailing to New York, he desires that a meeting be convened of American bankers who are fiscal agents of the Hungarian loans and that they appoint representatives in London to discuss the matter with him.

"We are accordingly delivering this letter and copy of communique to the following institutions, which are listed in Mr. Quandt's cable with the loans served by them, respectively:

(list of bankers would be inserted here)

"We shall be glad to provide a room on the tenth floor of this bank for a meeting of representatives of the above institutions at \_\_\_\_\_ o'clock, \_\_\_\_\_ m., on July \_\_\_\_, 1937, or such other time as may be arranged."

Carried unanimously.

At this point Messrs. Goldenweiser, Thomas and Currie withdrew from the meeting and Mr. Wingfield, Assistant General Counsel, entered the room.

Mr. Ransom stated that on July 17, 1937, Mr. Edgar E. Mountjoy, Deputy Manager of the American Bankers Association, called on him and advised that on Monday afternoon, July 19, 1937, the Review Committee of the Federal Home Loan Bank Board would have a hearing on the application of the Peoples Federal Savings and Loan Association, Peoria, Illinois, for permission to establish a branch at Pekin, Illinois. Mr. Ransom said that Mr. Mountjoy stated that the American Bankers Association had not had an opportunity to take a definite position either for or against the granting of branches to Federal savings and loan associations in States in which national banks are not permitted to

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have branches, but that he considered the question one of importance and felt that the Board would like to have it called to its attention. Mr. Ransom also stated that he had requested that the matter be brought to the attention of the members of the Board and placed on the docket for the purpose of determining whether or not the Board should give it consideration in the interest of member banks.

After a discussion during which Mr. Wingfield reviewed briefly what occurred at the hearing on the application of the Peoples Federal Savings and Loan Association, it was agreed unanimously, upon suggestion by Mr. Ransom, that Mr. Wingfield be requested to keep in touch with the matter and report to the Board any developments in connection therewith which would be of interest to the Board and that Mr. Mountjoy be requested to furnish the Board with a copy of any statement filed by him with the Federal Home Loan Bank Board.

Reference was made to a letter addressed to Mr. Ransom under date of July 13, 1937, by President Hamilton of the Federal Reserve Bank of Kansas City with respect to the organization and duties of the executive committee and administrative committee provided for by the by-laws of the bank.

Mr. Ransom moved that Mr. Morrill be requested to draft a reply to President Hamilton's letter along the lines suggested and that the proposed reply be submitted in draft form to the members of the Board for approval.

Carried unanimously.

At this point Mr. Wingfield left the meeting.

Mr. Davis stated that in accordance with the understanding

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reached at the meeting of the Board on May 25, 1937, Mr. McKee had discussed further with Mr. Harry F. Harper of Lansing, Michigan, his availability for appointment as a director of the Detroit branch of the Federal Reserve Bank of Chicago for the unexpired portion of the term ending December 31, 1939, and that it had been ascertained that Mr. Harper was unwilling to relinquish the Vice Presidency of the American State Savings Bank of Lansing in order to qualify as a director.

Mr. Davis then submitted the recommendation of the Personnel Committee that the Board request the Deputy Chairman of the Federal Reserve Bank of Chicago to indicate to Mr. H. Lynn Pierson, President of the Detroit Harvester Company, Detroit, Michigan, that the Board is considering him for appointment as a director of the Detroit branch for the unexpired portion of the term ending December 31, 1939, and to ascertain and advise the Board by wire whether he would be willing to accept the appointment if tendered.

Mr. Davis also submitted the recommendation of the Personnel Committee that the Chairman of the Federal Reserve Bank of San Francisco be requested to indicate to Mr. Carl Newman, President, Calavo Association, Santa Ana, California, that the Board is considering him for appointment as a director of the Los Angeles branch for the unexpired portion of the term ending December 31, 1937, and at the end of the year for the succeeding two year term, and ascertain and advise the Board by wire whether he would be willing to accept the appointment if tendered.



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Mr. Davis moved that these two recommendations of the Personnel Committee be approved.

Carried unanimously.

Mr. Broderick referred to the schedule of salaries of officers which had been included in the galley proof of the complete annual report of the Board for the year 1936 and suggested that the Board consider the question of the advisability of the inclusion of such salaries in the report in this form rather than in the manner followed in the annual report for 1935. The schedule of salaries of officers as contained in the galley proof of the annual report for 1936 contained lists of the names and salaries of the Presidents and Vice Presidents of the respective Federal reserve banks.

At the conclusion of a discussion, Mr. McKee moved that the salaries of officers of Federal reserve banks be published in the annual report for the year 1936 in the same form as that used in the annual report for the year 1935.

Carried unanimously.

Reference was made to a memorandum dated July 16, 1937, from Mr. Morrill recommending that the Board accept the bid of \$3,924 made by the Commercial Office Furniture Company for furniture in the Board's offices which had been listed as being in such condition as to warrant disposal at the time of the removal of the Board's offices to its new building. It was stated that this was the highest of three bids received. The memorandum also recommended acceptance of the offer made by Weaver Bros., rental agents for the Washington Building, of \$1,500

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for the air conditioning units in the board room and in the offices of Chairman Eccles and Mr. McKee. Mr. Morrill called attention to the fact that the equipment in the board room was three years old and obsolete and that the other two units were two years and one year old respectively, that the price offered was about 50% of the original cost and that its acceptance would relieve the Board of the necessity of disposing of them.

Approved unanimously.

In response to an inquiry from Mr. McKee as to further expenditures that might be incurred in connection with the new building Mr. Morrill stated that consideration had been given to the question whether an automobile, motorcycle or other means of conveyance should be provided for transportation of official documents between the Board's new building and the Treasury Department and other offices in Washington and that it was felt desirable to have a light businessman's coupe for that purpose. There ensued a discussion of the desirability of the purchase of an automobile to provide transportation for the Board members and members of the staff between the Board's new building and various governmental offices on official business and it was suggested that for that purpose a seven passenger automobile as well as a light sedan which would also meet the need for messenger service should be purchased.

The members present concurred in the suggestion and the Personnel Committee was authorized by unanimous vote to arrange for the purchase of two automobiles.

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At this point Messrs. Thurston, Wyatt and Blattner 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 July 19, 1937, were approved 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. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of June 28, 1937, and previous correspondence, with regard to the 'Savings Investment and Trust Company', East Orange, New Jersey, and the transactions involved in the various efforts to rehabilitate that institution since the banking holiday of 1933, which include the absorption of the East Orange Trust Company, East Orange, New Jersey, by, and the merger of The Trust Company of Orange, Orange, New Jersey, with, the Savings Investment and Trust Company, and the establishment and operation of a branch at the former office of The Trust Company of Orange.

"The Board has given consideration to the facts and circumstances relating to the absorption and merger in question and now confirms the tentative position taken by it in its letter of September 30, 1935, that those transactions have not resulted in any change in the general character of the assets of, or broadening in the functions exercised by, the Savings Investment and Trust Company, which would violate the general condition of membership numbered 5 to which the continuing institution is subject.

"With respect to the Orange branch of the Savings Investment and Trust Company, which was established and op-

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erated at the former office of The Trust Company of Orange, and approval of which was deferred by the Board on September 30, 1935, because of a question of doubt as to the sufficiency of capital of the parent bank to meet the legal requirements, consideration has been given to the information heretofore submitted in regard to the rehabilitation program completed in March, 1937, from which it appears that the institution now has sufficient unimpaired capital to meet the legal requirements for the head office and its out-of-town branches.

"It is noted that the Commissioner of Banking and Insurance of the State of New Jersey has previously authorized the establishment and operation of the Orange Branch, and that your counsel has rendered opinions approving the legal aspects of the absorption, merger, and establishment of the branch. The Board, therefore, in accordance with your recommendation, approves the establishment and continued operation by the Savings Investment and Trust Company of its branch at Orange, New Jersey."

Approved unanimously.

Letter to Mr. J. W. Adams, Division Manager, American Telephone & Telegraph Company, Washington, D. C., reading as follows:

"As the result of a survey recently made by your company, it has been decided that TWX equipment should be installed on an experimental basis on the Chicago-Kansas City circuit of the Federal Reserve Leased Wire System in place of the present full time leased wire facilities on that circuit. This office is advised that the cost of the TWX service between the two points is 80 cents for each three-minute call and 25 cents for each additional minute over the three-minute minimum. The equipment in each office will consist of a number 19 teletypewriter machine which will be installed without cost. This machine is equipped with an automatic transmitter for which a monthly rental charge of \$25.00 is made, making a total monthly cost of \$50.00 for equipment. The contract covering the service will also provide that business in the minimum amount of \$10.00 will be originated at each end of the circuit during each month of its operation.

"It is desired that this new service be installed on the Chicago-Kansas City circuit to become effective as promptly as the installation can be made, with the understanding that it is to take the place of, and that your company agrees to discontinue as of the date upon which

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"the new service goes into operation, the existing leased wire, your contract No. 2-10, covered by the contract between the Board of Governors and the American Telephone and Telegraph Company.

"It is understood that the TWX service between Chicago and Kansas City is not handled directly by the American Telephone and Telegraph Company but that the Illinois Bell Telephone Company, an associate of your company, will handle the service in Chicago and that the Southwestern Bell Telephone Company, also an associate of your company, will handle the service at Kansas City. It is further understood that you will obtain and submit to this office for execution the necessary contracts covering this service and that you will arrange to have the monthly vouchers, covering the service rendered during the previous month, forwarded to reach this office not later than the sixth day of the month. It is also understood that these vouchers will be rendered on the basis of the number and length of calls initiated by the respective offices so that the Illinois Bell Telephone Company will submit vouchers covering the calls initiated by Chicago and the Southwestern will submit vouchers covering the calls initiated at Kansas City."

Approved unanimously, together with letters to Mr. Olson, Assistant Vice President of the Federal Reserve Bank of Chicago, and Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"There is attached a copy of a letter being addressed today to the American Telephone and Telegraph Company with respect to the installation of TWX telegraph service between the Federal Reserve Banks of Chicago and Kansas City.

"It will be noted that the Telephone Company is being instructed to render monthly vouchers to this office in order that all of the bills covering lines and equipment charges on the main lines of the Leased Wire System may be handled uniformly. However, in order that this office may be in a position to audit the vouchers submitted, it will be necessary that you advise as promptly as possible after the first of the month the number of connections initiated by your office and the number of additional minutes used on such connections during the preceding month. It is suggested that this information be included in the monthly telegram sent by your bank to the Board giving the amount of operators' salaries and number of words sent by your bank over the main lines of the

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"Leased Wire System during the month covered by the report.  
"A letter similar to this is being sent to the Federal Reserve Bank of Chicago."

Thereupon the meeting adjourned.

Chesley Morie  
Secretary.

Approved:

W. Steeles  
Chairman.