

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 6, 1937, at 12:30 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
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 December 4, 1937, were approved unanimously.

Telegram to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Referring your December 1 letter, in accordance with action taken by your board of directors, Board of Governors approves appointment of Mr. F. Guy Hitt as First Vice President of your bank, effective December 16, 1937, for the unexpired portion of the 5-year term ending February 28, 1941, of Mr. Olin M. Attebery who has resigned as First Vice President and accepted appointment as Vice President. Board has also approved a salary at rate of \$18,000 per annum, as fixed by your Board of Directors, for Mr. Hitt for period December 16 to December 31, 1937. Board has also approved a salary for Mr. Attebery as Vice President at rate of \$15,000 per annum for period December 16 to December 31, 1937. It is understood that Mr. Hitt will resign as a Class A Director when he assumes the position

12/6/37

-2-

"as First Vice President of the bank. Please advise Board by telegram when announcement has been issued regarding Mr. Hitt's election as First Vice President."

Approved unanimously.

Letter to Mr. Wood, Deputy Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to the report of examination of the Federal Reserve Bank of Chicago, as of September 25, 1937, a copy of which was left for your information and the information of the other directors. A copy was also furnished President Schaller. After the report of examination has received the consideration of the Board of Directors of the Federal Reserve Bank, the Board will appreciate advice as to any action taken or to be taken with respect thereto, and to other significant matters which may have been discussed with the management during the course of examination."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the 'Metropolitan Trust Company' of Chicago, Illinois, became a member of the Federal Reserve System on November 29, 1937, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and

12/6/37

-3-

"6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"Reference is made to your letter of November 24, 1937, requesting written consent of the Board of Governors for examiners for your Corporation to examine the Coffman-Dobson Bank & Trust Company, Chehalis, Washington, which you have been advised by the State Banking Department contemplates withdrawal from membership in the Federal Reserve System. It is assumed that the bank desires to continue its status as an insured bank without interruption.

"In accordance with the provisions of subsection (k) (2) of section 12B of the Federal Reserve Act, the Board of Governors hereby grants written consent for examiners for the Federal Deposit Insurance Corporation to examine the Coffman-Dobson Bank & Trust Company in connection with an application for continuation of insurance as a nonmember bank."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, prepared in accordance with the action taken at the meeting of the Board on November 8, 1937, and reading as follows:

"Pursuant to the authority conferred upon it by Section 8 of the Clayton Act as amended by the Banking Act of 1935, the Board of Governors, as you know, has granted permission to any private banker or any director, officer or employee of a member bank to serve at the same time as a director, officer or employee of not more than one 'Morris Plan bank, cooperative bank, credit union or other similar institution.' This permission, which is set forth in Section 3(a) of the Board's Regulation L, was granted because it appeared that Morris Plan banks were not generally engaged in the same classes of business as commercial banks.

"There appears, however, to be an increasing tendency

12/6/37

-4-

"On the part of commercial banks and on the part of Morris Plan banks and other similar institutions to engage in the same classes of business. Specifically, it appears that some Morris Plan banks and other similar institutions now receive deposits subject to check, as well as time and savings deposits, and that some no longer limit the scope of their lending activities to the type of loans which were originally peculiar to Morris Plan banks and similar institutions. Some commercial banking institutions, on the other hand, have inaugurated personal loan departments which are being operated on the basis of installment repayments and co-maker note security.

"These developments raise the question whether Morris Plan banks and similar institutions, on the one hand, and commercial banks, on the other, are now engaged in some of the same classes of business to such an extent that the permission granted by the Board in Section 3(a) of Regulation L to serve a member bank of the Federal Reserve System and not more than one Morris Plan bank or other similar institution should be withdrawn. In the circumstances, it will be appreciated if you will ascertain and advise the Board as to the approximate number of interlocking relationships involving Morris Plan banks and similar institutions in your district which would be prohibited by the Clayton Act except for the permission granted in Section 3(a) of Regulation L, and also as to the extent to which such institutions in your district are now engaged in the same classes of business as member banks.

"It is not contemplated that the information desired by the Board will require that the Federal Reserve banks address questionnaires or other requests for information generally to the banks in their respective districts, as it is believed that data already in the possession of the Reserve banks by reason of their own intimate knowledge of banking conditions in their districts, or readily available to them through directories, reports of examinations, and discussions with examiners, supervisory authorities and representative bankers, should be sufficient to provide the Board with the information necessary to a proper consideration of the question. In addition, it is possible that counsel to your bank may have knowledge of developments which would have a bearing on the matter.

"In submitting this information it will be appreciated if you will also give the Board the benefit of your views as to the desirability of amending Regulation L at this

12/6/37

-5-

"time by eliminating the words 'Morris Plan bank,' from Section 3(a) thereof."

Approved unanimously.

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

"The daily balance sheet, Form 34, has been revised for use during 1938 and a proof copy will be sent you as soon as it is received from the printer.

"Form 34 now provides for the deduction of reserves on bank premises and on certain miscellaneous assets from the respective assets to which they apply. Reserves to cover estimated losses on industrial advances or on other assets carried among bills and securities, however, are shown on the present Form 34 against the liability item 'Reserves for losses not elsewhere provided for'. In the published statements such reserves have been included with 'Reserves for contingencies'. Since reserves for contingencies are intended to take care of future unforeseen losses rather than losses of the kind above mentioned, Form 34 as revised for use in 1938 provides for showing 'Reserves for contingencies' immediately following 'Surplus' and 'Reserves for estimated losses on bills and securities' as a separate item under 'Miscellaneous liabilities'. The latter item should include reserves for estimated losses on industrial advances and on discounted bills shown in the bills and securities block of the daily balance sheet. Accordingly, beginning January 1, 1938, reserves for estimated losses on industrial advances carried among 'Bills and securities' should be shown against the new item 'Reserves for estimated losses on bills and securities'. All reserves except those deducted from assets and those shown against the caption 'Reserves for estimated losses on bills and securities' should be reported against the caption 'Reserves for contingencies'.

"The 1938 edition of Form 34 provides for showing the Hungarian credits under 'Miscellaneous assets' against a new caption 'Hungarian credits'. Accordingly, beginning January 1, 1938, the reserves set up against such credits should be included with reserves deducted from 'Miscellaneous assets'.

"Charge-offs of assets against which reserves for estimated losses are carried, whether such reserves are deducted

12/6/37

-6-

"From the particular assets or included in 'Reserves for estimated losses on bills and securities', should be made direct to such reserves. If at the end of the year the reserve on a particular class of assets is in excess of the anticipated losses on such assets, the excess should be credited to profit and loss.

"Inasmuch as reserves for contingencies are in effect a segregation of surplus, beginning with 1937 no additions to 'Reserves for contingencies' should be charged to current net earnings. Further additions to reserves for contingencies should be charged direct to surplus, and the reserves thus established should be kept separate on the bank's books from contingent reserves heretofore set up, credits to which have been deducted from current net earnings in the annual profit and loss statements.

"If it is desired at any time to reduce reserves for contingencies, the amount of the reductions should be included in the profit and loss statement as an addition to current net earnings until the contingent reserves set up out of current net earnings have been exhausted, and thereafter such reductions should be credited direct to surplus. By this procedure reserves which have been accumulated prior to 1937 through charges to current net earnings will be exhausted before any use is made of reserves accumulated by transfers from surplus.

"There are inclosed copies of pages 40, 41 and 42 of the Board's Manual of Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks, which revised pages should be inserted in the copies of the Manual sent you in accordance with the Board's letter B-1200."

Approved unanimously.

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

"Replies from the Federal Reserve banks to the Board's letter of February 24, 1937 (B-1200) indicate that it will be impracticable to compile comparable figures of earnings and expenses of the Federal Reserve banks for the period 1914-1935 in the detail shown on Forms 95, 96 and 96a as revised for use during 1937. Accordingly, it is proposed at this time to prepare only condensed comparative reports

12/6/37

-7-

"of earnings and expenses for the years prior to 1936. While it may be necessary to request some additional information from your bank in order to prepare such statements, it is not contemplated that you will be asked to submit extensive data as to earnings and expenses of prior years.

"In compiling comparative reports of profit and loss for prior years, we should like to have more complete information than is now available with respect to losses sustained by the Federal Reserve banks, and, accordingly, it is requested that you submit the data called for on the inclosed forms, which provide for a tabulation of losses by years during the period 1914-1936. The figures for 1929-1934 should be reconciled with those furnished the Board in reply to its telegram of August 2, 1935 (TRANS 2293) before they are forwarded to the Board."

Approved unanimously.

There was submitted a recommendation, which had been approved by the Personnel Committee, that the Board authorize the purchase of blue prints, and miscellaneous equipment for use in the cafeteria and photostat room, the installation of a water cooler in the first aid room and certain sanitary equipment, and the furnishing and installation of fireplace screens in the Board members' offices, as listed in purchase orders numbered 2518, 2526, 2553, 2554, 2556, 2567, 2568, 2582, 2584, 2585 and 2586, at a total cost of \$532.27.

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie
Secretary.

Approved:

W. S. Lewis
Chairman.