

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 17, 1938, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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 January 15, 1938, were approved unanimously.

Memorandum dated January 13, 1938, from Mr. Paulger, Chief of the Division of Examinations, recommending, for the reason stated in the memorandum, that the official headquarters of Mr. C. S. Barker, Assistant Federal Reserve Examiner, be changed from Birmingham, Alabama, to Atlanta, Georgia, effective as of January 13, 1938.

Approved unanimously.

Recommendation from Messrs. Spurney and Koppang that Mrs. Maude E. Ellis, who had been selected in accordance with the action taken by the Board on July 12, and December 28, 1937, and who had passed the usual physical examination required to be taken by members of the Board's staff as a condition precedent to admission to the Retirement System of the Federal Reserve Banks, be appointed as a charwoman in the Board's new building, with salary at the rate of 50¢ per hour, effective as of

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January 17, 1938.

Approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Your letter January 14. Board approves appointment of Arthur L. Wikholm as assistant examiner for Federal Reserve Bank of Minneapolis. Please advise date appointment becomes effective."

Approved unanimously.

Letter to Mr. Merritt, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"In passing upon the salaries fixed by your board of directors for the officers of the Bank for the year 1938, the Board noted that Mr. Charles C. Huff was reelected General Counsel for the Federal Reserve Bank of Dallas, without compensation, and you were advised that the Board would write to you shortly with respect to such action. In so doing, you and the other members of your board are assured that the Board of Governors is not unmindful of Mr. Huff's contribution to the System or of the high character of his services during the period of his activity. Therefore, you will understand that the following comments are not made in criticism of Mr. Huff but relate only to the policy of maintaining an arrangement such as now exists between him and your Bank.

"The information in the Board's files reflects that in 1933, because Mr. Huff had ceased to be active as counsel for the Bank, it was mutually understood between the Board and the Bank that his connection with it would be terminated at the end of that year. However, because of his long and valued service, the board of directors of the Dallas Bank requested the Board to approve his designation as General Counsel for the year 1934, without compensation but with the understanding that he would be paid for such services as he might render pursuant to such designation, and this arrangement has been continued until the present time.

"The Board, however, does not understand that the Bank has found it necessary to avail itself of his services and in reviewing the situation is inclined, purely from the standpoint of good organization, to question the wisdom and propriety of such an arrangement. It realizes, of course, that its obligation

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"with respect to the approval of salaries is not involved in the present situation but, at the same time, it appears to the Board that Mr. Huff's designation as General Counsel of the Bank is not consonant with the facts and could be productive of confusion and possible embarrassment, particularly should the policy be carried to the extreme to which its blanket approval would permit.

"Under such circumstances, the Board has concluded that you should be advised with respect to its views and accordingly has directed that I communicate them to you."

Approved unanimously.

Letter to Mr. Merritt, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of January 7, advising that at the meeting of your Board of Directors held on January 5, 1938 Mr. R. E. Harding, of Ft. Worth, Texas, was re-elected a member of the Federal Advisory Council for the year 1938, and that Mr. Walter G. Lacy, President of the Citizens National Bank of Waco, Texas, was elected as an alternate member of the Council for the same period. With respect to the election of an alternate member of the Federal Advisory Council, your attention is called to the Board's letter of March 23, 1925 (X-4296), a copy of which is inclosed for your convenient reference.

"In accordance with the request contained in your letter the Board authorizes your bank, until further notice, to pay to the member of the Federal Advisory Council representing the Eleventh District an amount not to exceed \$250 as a traveling expense allowance for each meeting of the Council attended, and to pay the transportation and subsistence expenses incurred by the Council member in attending meetings of the Board of Directors of your bank."

Approved unanimously.

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

"This refers to your letter of December 8, 1937, inclosing a copy of a memorandum prepared by Examiner Wilson of your office, relative to his recent review with the management of 'The Peoples Savings Bank of Grand Haven', Grand Haven, Michigan, of the report of examination as of February 8, 1937,

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"for the purpose of determining as far as possible the present status of the bank's more important undesirable assets and its policies. It is noted that the State Banking Department conducted a regular examination of the bank during the time of Mr. Wilson's visit.

"Your examiner reports that the bank is a one-man institution, operated entirely by Mr. Bolt, Vice President and Cashier, who boasts that he is entirely responsible for the condition of the bank. Repeated criticisms have been made of Mr. Bolt's speculative tendencies and disregard of statutory restrictions, and in his memorandum your examiner comments adversely, among other things, on Mr. Bolt's policy of continuing to purchase low grade securities. The memorandum closes with the following statement:

'The entire investment policy of this bank is not in keeping with sound banking and in order to bring about a correction in this institution it appears necessary that Vice President Bolt be relieved of his executive duties.'

"You report that because of the continued unsatisfactory condition of the bank a representative of the Michigan State Banking Department and the managing officer and directors of the bank met on December 7 in your office to consider the situation, at which time the directors were informed that it was the opinion of the Commissioner of Banking of Michigan and your office that a change in the management was essential to the welfare of the bank. You report also that the bank's directors were opposed to taking such action at this time but promised to take a more active interest in the bank's affairs and gave assurances that an immediate change in policies would be effected. It is noted that you have confidence in Mr. Bolt's ability to effect the necessary corrections if his ability is directed along more conservative lines and that you believe that as a result of the conference material improvement will be shown in a short time, but that Mr. Bolt and his directors were informed that the time of the next examination would be advanced and that if satisfactory progress were not then shown a change in the management would be insisted upon.

"It is hoped that in cooperation with the State Banking Department the necessary corrections can be obtained. In any event, however, continuation of the criticized practices and policies should not be permitted to continue, and it is assumed that consideration has been or will be given to proceeding under the provisions of section 30 of the Banking Act of 1933 if appropriate corrections and proper management cannot otherwise be obtained. Please keep the Board advised as to developments.

"In his memorandum your examiner reports that on March 2, 1937, a loan of \$6,600 was made on certain registered

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"stock to purchase the stock at a cost of that amount. The criticism to which the management is subject for permitting such a loan, apparently in conflict with Regulation U, is intensified by reason of the fact that the loan is reported to be part of a concentration to the Bolt interests, and the examiner reports that Mr. Bolt practically admitted that he engineered the investments of the various accounts of the concentration. The examiner further reports that since March the stock has declined in value from \$6,600 to \$2,200, that the maker has no worth of her own, and that \$4,400 of the line has been classified as an estimated loss. It has subsequently been reported that all losses set up by the State examiner in his recent report have been charged off.

"On the basis of the information submitted, there would appear to be no reason why the bank should sustain a loss on the loan in question. On the contrary, any such loss should properly be borne by the officers and directors responsible for the improper loan, and prompt steps should be taken to correct the matter without any loss to the bank arising from the unwarranted actions of those granting or authorizing the loan. Please advise the Board as to the action taken with respect to this loan."

Approved unanimously.

Letter to Mr. Rounds, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is in reply to your letter of January 4, 1938, which presents a question under Regulation T regarding the debiting of a customer's account which ordinarily occurs in connection with the payment by the creditor of the Federal stock transfer tax incident to the reborrowing of a security which has been sold short.

"The question presented is whether a creditor must obtain additional margin in the amount of the transfer tax incident to the reborrowing if, at the time of the reborrowing and the consequent debiting to the customer's account, the adjusted debit balance of the customer's account exceeds the maximum loan value of the securities in the account. In the opinion of the Board, the amount of such a transfer tax in connection with the reborrowing may be debited to the customer's account in accordance with the provisions of section 6(g) of Regulation T without regard to the other provisions of the regulation, and therefore the creditor need not obtain additional margin in such amount.

"Your recommendation that, whenever Regulation T is

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"amended in other respects, it also be amended by changing the words 'premiums on securities borrowed' in section 6(g) to the words 'premiums and transfer taxes on securities borrowed' has been noted, and this recommendation, which would have the effect of removing all ambiguity on the subject of your inquiry, will be given further consideration when the amending of Regulation T is next under consideration."

Approved unanimously.

Letter to Mr. Rounds, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of January 11, 1938, regarding the use of a special miscellaneous account under revised Regulation T.

"The question presented is whether a member of a national securities exchange may, without violation of Regulation T, place cash in a special miscellaneous account pursuant to sections 4(a) and 4(f)(4) of the regulation, if such cash is obtained for the member's protection because of a decline in the market value of the securities in the customer's general account, and not because of any transaction effected in the general account. It is the view of the Board that such a deposit of cash in the special miscellaneous account would not constitute a violation of Regulation T."

Approved unanimously.

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

"Reference is made to your letter of January 8 requesting advice as to whether there is any objection from the Board's standpoint to the submission by one of the bank employees who is attending the Graduate School of Banking at Rutgers University of a statement, in connection with a paper he has been asked to write for one of his courses, showing the number and cost per item of the various classes of cash and noncash collection items handled by the San Antonio branch during the period 1928 - 1937, based on the functional expense reports.

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"An examination of the statement shows that per item costs vary considerably from year to year and while the reasons therefor may be apparent to one entirely familiar with the subject anyone not familiar with the subject might draw entirely erroneous conclusions unless a detailed explanation accompanied the statement. Should persons outside the System have access to such figures attempts might be made to compare the unit costs of one bank or branch with the unit costs of another without taking into consideration the limitations to which the figures are subject. On the whole, it would seem inadvisable to make such figures available to anyone outside the System since there is always a danger of their becoming public property and of conclusions being drawn therefrom not warranted by the actual facts."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...
Chairman.