

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 24, 1938, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. Szymczek
 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 21, 1938, were approved unanimously.

Recommendation from Messrs. Spurney and Koppang that Mrs. Nellie B. Holmberg, 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 January 24, 1938.

Approved unanimously.

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

"This will acknowledge receipt of your letter of January 13, with respect to the bank's contribution to the Retirement System on behalf of Mr. E. B. Stroud, Jr., a member of the firm of Locke, Locke, Stroud and Randolph, which firm is retained by the bank as counsel on a retainer basis. You state that some question has been raised as to whether the payment to the Retirement System on Mr. Stroud's behalf might be considered additional compensation and, therefore, ask the Board's approval for such payment.

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"After reviewing this matter in some detail it is thought best to defer action thereon until after we have had an opportunity of discussing the matter with you the next time you are in Washington."

Approved unanimously.

Letter to the Chairmen of all Federal reserve banks, prepared pursuant to the action taken at the meeting of the Board on January 11, 1938, and reading as follows:

"Occasionally in the past a director of a Federal reserve bank has been appointed to serve also as a director of a branch of the bank. While it is recognized that valuable service has been rendered the Federal reserve banks and the respective branches in these cases, it appears to the Board, after having given careful consideration to the desirability of such dual service, that the stronger reasons appear to be against such appointments. Directors at the head office should be regarded as representing primarily the interests of the entire district rather than those of a single branch. Furthermore, service by different individuals on the branch boards will afford an opportunity to bring their counsel and influence to the System, and for closer contact with the fields of activity with which these directors are identified. Therefore, the Board has reached the conclusion that in the future the appointment of a director of a reserve bank to serve at the same time as a branch director should not be made.

"Accordingly, the Board has amended its regulation with respect to the appointment of directors of branches of Federal reserve banks, a copy of which was attached to the Board's letter of January 4, 1937 (X-9778), by adding at the end of the second paragraph a new sentence reading as follows:

'No director of a Federal reserve bank shall be appointed to serve as a director of a branch of the bank during the period of his service as a director of the Federal reserve bank.'

"Of course, this change in the regulation does not apply to Federal reserve bank directors who are serving as branch directors at the present time, but to all appointments hereafter made. A copy of the regulation as amended is inclosed with this letter."

Approved unanimously.

Memorandum dated January 24, 1938, from Mr. Morrill stating that the Board had been advised of the selection by the boards of

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directors of the Federal reserve banks of the following members of the Federal Advisory Council for the year 1938:

<u>District</u>	<u>Name and Affiliation</u>
No. 1	* Thomas M. Steele, President, The First National Bank and Trust Company of New Haven, Conn.
No. 2	* Winthrop W. Aldrich, Chairman, The Chase National Bank of the City of New York, New York, N. Y.
No. 3	* Howard A. Loeb, Chairman, Tradesmens National Bank & Trust Company, Philadelphia, Pennsylvania.
No. 4	* Lewis B. Williams, Chairman, The National City Bank, Cleveland, Ohio.
No. 5	Robert M. Hanes, President, Wachovia Bank and Trust Company, Winston-Salem, N. C.
No. 6	* Edward Ball, c/o Barnett National Bank Building, Jacksonville, Florida.
No. 7	* Edward E. Brown, President, The First National Bank of Chicago, Chicago, Illinois.
No. 8	* Walter W. Smith, President, First National Bank in St. Louis, St. Louis, Mo.
No. 9	* John Crosby, Vice President, Farmers and Mechanics Savings Bank of Minneapolis, Minneapolis, Minnesota.
No. 10	*# W. T. Kemper, Chairman, Commerce Trust Company, Kansas City, Missouri.
No. 11	* R. E. Harding, President, The Fort Worth National Bank, Fort Worth, Texas.
No. 12	* Paul S. Dick, President, United States National Bank, Portland, Oregon.

* Reappointed

Died January 19, 1938.

Noted.

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Letter to the board of directors of the "Merchants State Bank", Rhinelander, Wisconsin, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following additional 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 Minneapolis:

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

Approved unanimously, together with a letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Merchants State Bank', Rhinelander, Wisconsin, 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 Banking for the State of Wisconsin for his information.

"It has been noted that the bank is authorized to exercise full trust powers but is not exercising such powers at this time, having discontinued the practice in 1936; therefore, the application has been approved on the same basis as if the bank did not have trust powers, and should it desire in the future to exercise its trust powers, application for permission to do so should be made to the Board in accordance with the provisions of condition of membership numbered 1.

"In order that the Board's files may be complete, it is requested that you forward a copy of the form of capital debentures which the bank sold to the Reconstruction Finance Corporation, together with a copy of the form of participating certificates which the trustees issued to the waiving depositors at the time of the reorganization of the bank."

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Letter to Honorable Wright Patman, House of Representatives,
reading as follows:

"In response to your telephone request to Chairman Eccles a few days ago, there is inclosed a list of holding company affiliates together with a tabulation of the number and aggregate resources of the banks controlled by such holding company affiliates, arranged by States, which have been compiled on the basis of the latest information readily available to the Board in connection with the issuance of voting permits pursuant to the applicable provisions of the Banking Act of 1933.

"The holding company affiliates which now hold general voting permits are indicated on the list by asterisks. The list does not include organizations which have been determined by the Board, pursuant to section 2(c) of the Banking Act of 1933, as amended, not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, and which therefore are not holding company affiliates except for the purposes of section 23A of the Federal Reserve Act and are not subject to the statutory requirements regarding voting permits.

"As you know, the law does not require an organization which controls only nonmember banks to obtain a permit from the Board or to submit information such as is required in connection with the issuance of voting permits to holding company affiliates controlling member banks."

Approved unanimously.

Letter to Mr. Geo. H. Beck, Cashier, First National Bank in
Crestline, Crestline, Ohio, reading as follows:

"This refers to your letter of January 15, 1938, inquiring how the Board defines an executive officer of a member bank, and you refer particularly to the president and vice president of your bank who you state are both inactive. Your letter states that it is in response to our letter of recent date, but the Board's records do not indicate any recent correspondence with your bank. However,

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"the Board has been informally advised by the office of the Comptroller of the Currency that the letter to which you refer was from that office under date of November 20, 1937.

"The president and every vice president of a member bank, regardless of whether they are active, are included within the definition of the term 'executive officer' under the provisions of the Board's Regulation O, a copy of which is inclosed. At the time Regulation O was promulgated the Board was aware of the fact that some banks had honorary or inactive officers and gave careful consideration to this question. Moreover, on several occasions since then the Board has reconsidered this particular matter. It has been the Board's position, however, that inactive officers should be included within the definition of the term 'executive officer' for the following reasons:

(1) It appears that the principal purpose underlying the enactment of section 22(g) of the Federal Reserve Act was to prevent the exercise of undue influence by executive officers of member banks in obtaining credit from the banks they serve and it is the Board's view that the exercise of such undue influence may be present in the case of inactive or honorary officers;

(2) Congress did not make a distinction in section 22(g) between active and inactive officers and the legislative history of the section indicates that the chairman of the board of directors and the president of a member bank should appropriately be regarded as executive officers for the purposes of the law in question even though they may be inactive;

(3) From the standpoint of the public, persons having the usual titles of executive officers in member banks are considered as executive officers whether or not they are active, and the Board does not feel that it should give encouragement to the employment in an inactive capacity of persons who are given the titles of executive officers and held out to the public as such.

"While, therefore, the president and vice president of your bank must be considered in the circumstances stated in your letter as executive officers within the meaning of section 22(g) of the Federal Reserve Act and the Board's

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"Regulation O, it is hoped that you will understand the Board's position in attempting to carry out the purposes of the law and to deal fairly with all member banks in accordance with the statute.

"If you have any further inquiries regarding this matter it is suggested that you communicate directly with the Federal Reserve Bank of Cleveland."

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 January 4, 1938, and reading as follows:

"From time to time matters have arisen at the Federal reserve banks, the effective disposition of which made it advisable that they be taken up with a department or agency of the Government.

"It has been the experience of the Board that more satisfactory results, from the standpoint of the System as a whole, have been obtained in such cases when the matter was first brought to the attention of the Board by the Federal reserve bank and in turn taken up by the Board, either separately or in conjunction with the Federal reserve bank, with the department or agency involved. Accordingly, it is suggested that when such a question arises in the future your bank communicate with the Board by letter or telegram advising in such detail as the circumstances may require regarding the matter and, if possible, the disposition which your bank would prefer to have made of it.

"This suggestion, of course, does not apply to routine matters which relate to the performance of work by a Federal reserve bank as fiscal agent, custodian or depository for a particular department or agency of the Government, but rather to other questions which the Federal reserve bank feels should be taken up with a Government department or agency or to questions which involve System policy or procedure. Also, it is not intended to change in any way the procedure with respect to foreign relationships of Federal reserve banks as set forth in the statement enclosed with the Board's letter of October 30, 1936."

Approved unanimously.

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Letter dated January 22, 1938, to Mr. Parker, General Counsel for the Federal Reserve Bank of Atlanta, reading as follows:

"In response to your letter of January 15, 1938, you are advised that the Board approves payment by the Federal Reserve Bank of Atlanta of \$950 to Mr. J. C. Fleming of Elba, Alabama and \$950 to Mr. G. L. W. Smith of Brewton, Alabama, for services rendered in connection with litigation against Pike County involving the validity of certain warrants issued by that County. The original fee bills are returned herewith, as requested.

"The Board has noted your comment concerning Mr. Fleming's request for reimbursement for traveling expenses with respect to which it is assumed that you desire no action by the Board."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. C. C. C.
Chairman.