

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 8, 1938, at 10:30 a. 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  
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. Smead, Chief of the Division of Bank Operations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the Division of Examinations  
Mr. Thomas, Assistant Director of the Division of Research and Statistics  
Mr. Horbett, Assistant Chief of the Division of Bank Operations  
Mr. Gardner, Senior Economist in the Division of Research and Statistics  
Mr. Bryan, Senior Economist in the Division of Research and Statistics

Prior to this meeting there had been sent to each member of the Board copies of a memorandum dated February 2, 1938, from Mr. Smead on the subject of analysis of the reserve position of individual member banks during the week ended January 14, 1938; a memorandum from Mr. Longstreet, Senior Economist in the Division of Research and Statistics, commenting on the survey of the reserve position of member banks for the

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week ending January 14, 1938; and a memorandum dated February 7, 1938, from Mr. Goldenweiser on the subject of member bank reserve requirements and containing an analysis of the proposal made in 1931 by the System Committee on Bank Reserves. The reserve position of member banks as shown by the analysis submitted by Mr. Smead was discussed. Consideration was also given to the possible effects on reserves of member banks of changes in the interdistrict time schedule for cash items to reduce substantially the periods prescribed by the schedule before the proceeds of collection items are made available. There was discussion also of the problem presented by the practice of certain banks particularly in the Cleveland district of soliciting collection items from their correspondent banks on the basis of their crediting the proceeds of the items at an earlier time than would be the case in the event collection were made by the Federal reserve banks and question was raised as to what steps could be taken by the Federal Reserve System to meet that situation. It was understood that this matter would be considered further by the staff with a view to the formulation of a conclusion prior to the forthcoming conference of Presidents of Federal reserve banks.

The members of the Board had also been furnished with copies of Mr. Smead's memorandum of January 28, 1938, to Chairman Eccles on the subject of changes in designations of reserve and central reserve cities. The formula set forth in the memorandum for the desig-

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nation of reserve and central reserve cities was discussed, together with the suggestion that central reserve and reserve cities might be confined to cities in which Federal reserve banks or branches are located.

Reference was also made to a memorandum dated February 7, 1938, from Mr. Smead on the subject of deposits of foreign central banks and nonmember clearing banks with the Federal reserve banks and it was pointed out that changes in these deposits can have a substantial effect upon the reserve position of member banks.

At the conclusion of the discussion it was understood that the members of the Board would study carefully the memoranda referred to above and that the subjects treated in the memoranda would be placed on the docket for further consideration at the meeting on Friday, February 11, 1938.

At this point Messrs. Thurston, Wyatt, Paulger, Goldenweiser, Smead, Dreibelbis, Leonard, Thomas, Horbett, Gardner and Bryan 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 February 7, 1938, were approved unanimously.

Letter to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, prepared in accordance with the action taken at the meeting

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of the Board on February 4, 1938, and reading as follows:

"Receipt is acknowledged of your letter of January 27, 1938, in which you advise that the board of directors of your bank, at its meeting on that date, appointed Col. Frank D. Rash as Managing Director of your Louisville Branch for the remainder of the current year and that, subject to approval by the Board of Governors, his salary had been fixed at the rate of \$10,000 per annum.

"The salary proposed for Mr. Rash in the new position was considered by the Board in the light of the salaries which have been paid the Managing Directors of other branches of Federal reserve banks and the fact that the salary of Mr. John T. Moore, who retired as Managing Director of the Louisville Branch on December 31, 1937, was at the rate of only \$8,000 per annum. It is also understood by the Board that Mr. Rash will become sixty years of age shortly and that, should he remain as Managing Director until his retirement, he would be subject to retirement after a period of service of only approximately five years. In view of these circumstances the Board felt that a salary at the rate of \$10,000 per annum would not be justified. However, I was requested to advise you that the Board would approve a salary at a rate of not to exceed \$8,000 per annum for Mr. Rash if fixed by the board of directors of your bank.

"As you know, the Board is charged with the responsibility for the approval of all salaries at Federal reserve banks and therefore when a salary for a position such as that of Managing Director of a branch is submitted to the Board it is necessary for it to give consideration not only to the effect of approval of such salary upon the expenses of a particular Federal reserve bank but also to its relation to other salaries in the system. Your letter contained no information with respect to the considerations which led the board of directors of the bank to appoint Mr. Rash to the position of Managing Director, the reasons for proposing a salary higher than that received by his predecessor or the necessity for bringing in a man from outside instead of promoting or transferring a member of the bank's present personnel. In the circumstances, the Board felt somewhat handicapped in passing upon the matter in the light of other information available to it and the suggestion was made during the discussion that if these aspects of the situation were brought to your attention you would appreciate the Board's

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"position fully and would take such steps as might be necessary to insure the submission of complete information in future cases sufficiently in advance to enable the Board to communicate its views to you before the bank commits itself finally to the person whose salary is under consideration."

Approved unanimously.

Letter to "The Sandy Hill National Bank of Hudson Falls", Hudson Falls, New York, reading as follows:

"This refers to the resolution adopted on December 20, 1937, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise the trust powers which have heretofore been granted to it under the provisions of section 11(k) of the Federal Reserve Act, as amended.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. Such certificate is inclosed.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading

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as follows:

"The question has been raised in connection with the annual review of the capital position of State member banks referred to in the Board's letter X-9506, dated February 28, 1936, whether the ratio of capital to deposits, so far as demand deposits are concerned, should be based upon gross demand deposits or net demand deposits as defined in Regulation D.

"For the purpose of the review, it is requested that the capital ratio be based upon total deposits; i. e., the total of time deposits and gross demand deposits, as defined in Regulation D."

Approved unanimously, together with a telegram to Mr. Sonne, Chief Examiner for the Federal Reserve Bank of San Francisco, reading as follows:

"Your wire February 5. For review referred to ratio of capital to deposits should be based upon total of time deposits and gross demand deposits."

Thereupon the meeting adjourned.

Chesler Morrie  
Secretary.

Approved:

W. C. Steeles  
Chairman.