

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 5, 1938, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Davis
Mr. Draper

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. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Dreibelbis, Assistant General Counsel

There was presented a memorandum addressed to the Board by Mr. Ransom under date of April 2, 1938, in which he stated that in a telephone conversation on that date with Mr. Young, President of the Federal Reserve Bank of Boston, the latter had advised that the bank had been receiving inquiries recently from corporations with respect to advances secured by direct obligations of the United States under the provisions of the last paragraph of Section 13 of the Federal Reserve Act, as amended; that he was considering the advisability of suggesting to the board of directors of the bank at its next meeting that the bank's existing rate of 4% on such advances be reduced to 2% or 2½%, the reduction to be accompanied by a statement that the bank stands ready to lend to individuals, partnerships and corporations on the security of Government securities at par but reserves the right to change that policy at

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any time or to change the rate if conditions should warrant; and that he would like to have an expression of the views of the Board regarding the reduction before the next meeting of his directors.

During the ensuing discussion it was stated that the existing rates at other Federal reserve banks on advances under the authority of the last paragraph of Section 13 of the Federal Reserve Act were from $3\frac{1}{2}\%$ to $4\frac{1}{2}\%$; that the discount rate at all Federal reserve banks was $1\frac{1}{2}\%$, except at the Federal Reserve Bank of New York where the rate was 1%; and that the rate at all Federal reserve banks on loans made under Section 10(b) of the Federal Reserve Act was 2%. At the request of Mr. Ransom, Mr. Smead reviewed the activities of the Federal reserve banks in making advances to individuals, partnerships and corporations secured by direct obligations of the United States since the authority for such advances was granted on March 9, 1933, and stated that since that date the banks had made a total of \$4,848,000 of such loans, exclusive of renewals, \$3,341,000 having been advanced in 1933, \$1,500,000 in 1934, \$3,000 in 1935, \$2,000 in 1936, \$2,000 in 1937, and none in 1938.

At the conclusion of the discussion, the Secretary was requested to prepare a letter to Mr. Young stating that the Board of Governors would be willing to approve a reduction to 2% in the bank's existing rate on advances of the kind referred to if such reduction were voted by the board of directors of the bank.

It was understood that after the letter had been approved by the Board copies thereof would be sent to the other Federal reserve banks for the information of the boards of directors of the banks.

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Reference was made to the informal consideration which members of the Board and the staff had been giving for some time to possible modifications in the bank examination principles followed and forms used by examiners for the Federal reserve banks. Members of the Board had felt that changes should be made in the System examination policies, and that the Board should cooperate with the Federal Deposit Insurance Corporation and the Comptroller of the Currency in an effort to agree upon a uniform policy to be followed by their respective examiners, incorporating such modifications as could be agreed to particularly with respect to treatment of depreciation in securities and the classification of assets other than securities in reports of examination of banks made by such examiners. It was stated that a tentative draft of a statement of policy had been prepared with the understanding that it would be considered by the Board and if approved by it would be discussed with representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency with a view to the adoption of a uniform policy by the three supervisory agencies.

It was agreed that the statement would be considered informally by the members of the Board and the staff this afternoon and that the revised statement would be placed on the docket for consideration at a meeting of the Board on April 6, 1938.

Mr. Ransom stated that April 12, 1938, had been set as the date for the appearance of the members of the Board at the hearing being held by the Banking and Currency Committee of the House of Representatives on Bill H.R. 7230, introduced by Representative Patman, to provide for Government ownership of the twelve Federal reserve banks and for other purposes. Mr. Ransom stated that the hearings on the bill had disclosed the fact that some of the members of the House Banking

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and Currency Committee were not entirely familiar with the organization and operation of the Federal Reserve System and that he felt it would be desirable, if an opportunity were presented, for Mr. Goldenweiser to explain to the Committee (1) the organization and powers of the Federal Reserve System, (2) the sources of earnings of the Federal Reserve System and the disposition of such earnings, and (3) the details of the issue and redemption of Federal reserve notes. Following Mr. Goldenweiser's statement, Mr. Ransom said, the procedure suggested at the meeting of the Board on March 29 could be carried out under which the Chairman would appear first and present a general statement of the Board's position with respect to the bill, following which the members would appear individually to amplify their views.

It was agreed that, at an appropriate time, Chairman Eccles would discuss the matter with Representative Goldsborough, in the absence of Chairman Steagall, and ascertain whether the suggested procedure would be satisfactory to the Committee.

Mr. Davis submitted the following recommendations with respect to the appointment of Class C directors and directors of branches of Federal reserve banks:

That, subject to confirmation of his willingness to serve, Marion B. Folsom, Treasurer, Eastman Kodak Company, Rochester, New York, be appointed a director of the Buffalo Branch of the Federal Reserve Bank of New York for the unexpired portion of the term ending December 31, 1938, with the understanding that at the end of the year he will be appointed for the succeeding term.

That Francis Biddle, a member of the law firm of Barnes, Biddle and Myers, Philadelphia, Pennsylvania, be appointed a Class C director of the Federal Reserve Bank of Philadelphia for the

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unexpired portion of the term ending December 31, 1940.

That Robert H. Gamble, President, Florida Brick and Tile Corporation, Jacksonville, Florida, be appointed a director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta for the unexpired portion of the term ending December 31, 1938, with the understanding that at the end of the year he will be appointed for the succeeding term.

That, subject to confirmation of his willingness to serve, St. George Holden, owner of the St. George Holden Realty Company, San Francisco, California, be appointed a Class C director of the Federal Reserve Bank of San Francisco for the unexpired portion of the term ending December 31, 1940.

By unanimous vote, appointments were made in accordance with the recommendations submitted by Mr. Davis.

At this point Messrs. Thurston, Goldenweiser, Smead and Dreibelbis 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 April 4, 1938, were approved unanimously.

Memorandum dated April 2, 1938, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mr. Malcolm H. Bryan as a senior economist in the Division, to be effective at the close of April 11, 1938, in order that Mr. Bryan may assume his duties as Vice President of the Federal Reserve Bank of Atlanta and recommending that the resignation be accepted as submitted by Mr. Bryan.

Approved unanimously.

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Memorandum dated April 2, 1938, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mr. Alan R. Sweezy as a senior economist in the Division, with salary at the rate of \$5,600 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated April 2, 1938, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mr. C. Lowell Harriss as a junior economist in the Division, with salary at the rate of \$3,400 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"There is attached a copy of a report of the survey of the Bank Examination Department of the Federal Reserve Bank of St. Louis, recently conducted by Mr. C. E. Cagle of the Board's Division of Examinations.

"It will be appreciated if you will review the attached report of the survey and give the Board the benefit of your reactions to any of the statements or conclusions concerning which you would like to express your views.

"Although the report should be regarded as confidential, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, such of the bank's senior officers and directors as you deem advisable."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System decided some time ago that surveys should be made of the Bank Examination and Audit Departments at all of the Federal Reserve Banks. There is attached a copy of a report of the survey of the Audit Department of the Federal Reserve Bank of St. Louis recently conducted by the Board's Examiners Jones and Cagle. An additional copy of the report is inclosed for President Martin.

"While the survey indicates that the auditing function at the Federal Reserve Bank of St. Louis in general is being performed in substantial conformity with the standards recommended by the Conference of Auditors of the Federal Reserve Banks held in Washington in November 1936, the conclusions set forth by the examiners indicate a number of matters which merit consideration.

"It will be appreciated if you and any of your directors whom you may designate and President Martin will review this report of survey and give the Board the benefit of your reactions to the matters referred to above and any other statements concerning which you would like to express your views.

"The footnote of the letter transmitting the recommendations of the Conference of Auditors to Mr. George L. Harrison, Chairman of the Conference of Presidents of the Federal Reserve Banks, called attention to the confidential nature of the material contained in that report and other information relative to the auditing activities at the Federal Reserve Banks. As the inclosed report refers frequently to the Auditor's recommendations and also contains other information of a confidential nature concerning the activities of the Audit Department of your bank, it will be appreciated if the report itself is not made available to the bank's employees and the officers directly in charge of the operating departments. Of course, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, your directors and such of the bank's officers as you and President Martin deem advisable."

Approved unanimously.

Letter to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

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"There is attached a copy of a report of the survey of the Bank Examination Department of the Federal Reserve Bank of Kansas City, recently conducted by Mr. C. E. Cagle of the Board's Division of Examinations.

"It will be appreciated if you will review the attached report of the survey and give the Board the benefit of your reactions to any of the statements or conclusions concerning which you would like to express your views.

"Although the report should be regarded as confidential, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, such of the bank's senior officers and directors as you deem advisable."

Approved unanimously.

Memorandum dated March 25, 1938, from Mr. Smead, Chief of the Division of Bank Operations, transmitting the annual reviews submitted by the Federal reserve banks as of December 31, 1937, in compliance with the Board's letter of December 4, 1926 (X-4739), and October 5, 1933 (X-7629), covering the seventy-one member banks located in outlying sections of central reserve or reserve cities, except New York City, which had been authorized individually by the Board to carry reduced reserves on demand deposits. The memorandum stated that the Federal reserve banks in the nine Federal reserve districts in which these banks were located had indicated that there had been no change in the character of business of any of the seventy-one banks that would warrant revoking the permission which they had to carry reduced reserves, and that the reserve banks recommended that the permission be continued. The memorandum also stated that in a letter dated March 12, 1938, the Federal Reserve Bank of Chicago had recommended that the Kaspar-American State Bank, Chicago, Illinois, be granted permission to carry the same reserve on net demand deposits as is required of reserve city banks,

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instead of the reserve now required to be carried by the bank as a central reserve city bank. The memorandum recommended (1) that the respective Federal reserve banks be advised that the Board approves their recommendations that all of the member banks in their districts which had authority to carry reduced reserves on net demand deposits at the end of 1937 shall continue to have such permission; (2) that, in order to clear the Board's records, the Federal Reserve Bank of St. Louis be advised that the Board grants specific permission to the Tower Grove Bank and Trust Company, the Bremen Bank and Trust Company and the Cass Bank and Trust Company, all of St. Louis, Missouri, (successors to the Tower Grove Bank, the Bremen Bank, and the Cass Avenue Bank, which institutions had been given permission on June 5, 1922, February 24, 1923, and November 27, 1923, respectively, to carry reduced reserves,) to carry the same reserves against net demand deposits as are now required of country banks, and that such permission is retroactive to the dates on which the banks were admitted to membership in the Federal Reserve System; and (3) that the Federal Reserve Bank of Chicago be advised that the Board approves the recommendation contained in Mr. Young's letter of March 12, 1938, that the Kaspar-American State Bank, Chicago, Illinois, be permitted to carry the same reserves on net demand deposits as are required of reserve city banks.

The recommendations were approved
unanimously.

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Thereupon the meeting adjourned.

Brester Morrie
Secretary.

Approved:

W. S. ...
Chairman.