

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, May 5, 1938, at 11:15 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Paulger, Chief of the Division of
Examinations
Mr. Parry, Chief of the Division of
Security Loans
Mr. Dreibelbis, Assistant General
Counsel

Mr. Dreibelbis stated that following conversations with Mr. Allen E. Throop, General Counsel of the Securities and Exchange Commission, he (Mr. Dreibelbis) and Mr. Parry had gone to New York for the purpose of conferring with representatives of the Federal Reserve Bank of New York and the New York representatives of the Securities and Exchange Commission with respect to the possibility of violations of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, in connection with loans of Richard Whitney. Mr. Dreibelbis said that, after discussing the matter with Messrs. Rounds, Logan and Davis of the Federal Reserve Bank of New York, he and Mr. Parry called on the New York representatives of the Securities and Exchange Commission and that, as a result of the conference with the latter, certain files of the New York office of the Securities

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and Exchange Commission with respect to Mr. Whitney's security loans were turned over to the Board's representatives for review. Mr. Dreibelbis added that these files were being reviewed in the Board's Division of Security Loans and that it was proposed, upon completion of the review, to present the pertinent facts to the Comptroller of the Currency in order that he might make such investigation as may be necessary with respect to possible violations of Regulation U by national banks, and to request the Federal Reserve Bank of New York to make such further investigation as may be necessary with respect to possible violations of the regulation by State member banks.

The proposed procedure was approved unanimously by the members of the Board present.

At this point Mr. Parry left the meeting.

Messrs. McKee and Davis reported on the series of conferences that had been carried on by the chief examiners of the Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, which had not resulted in a general agreement on the question of a uniform policy with respect to the treatment of depreciation in securities and the classification of assets other than securities in examination reports of banks, although the points of agreement and difference had been reduced to a written report, copies of which had been sent to each member of the Board.

Mr. McKee stated that at a conference at the Treasury on Tuesday, May 3, 1938, attended by Messrs. Diggs, Acting Comptroller of the Currency, Smythe, Executive Assistant to the Acting Comptroller,

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and Folger, Chief National Bank Examiner, from the office of the Comptroller of the Currency; Messrs. Crowley, Chairman, and Nichols, Chief Examiner, from the Federal Deposit Insurance Corporation; Messrs. McKee, Davis and Paulger from the Board of Governors; and Messrs. Taylor, Assistant Secretary, and Gaston and Upham, Special Assistants to the Secretary, from the Treasury Department, the situation had been reviewed again and that another meeting of the representatives of the three organizations and the Treasury had been called for Friday, May 6, 1938.

Following a discussion, it was understood that Messrs. McKee and Davis would continue their efforts to bring about an agreement along the lines of the general policy set forth in the memorandum referred to at the meeting of the Board on April 26, 1938.

At this point Messrs. Paulger 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 May 3, 1938, were approved unanimously.

Memorandum dated May 4, 1938, from Mr. Morrill, recommending, for the reason stated in the memorandum, that (1) Miss Frances D. Farrin be appointed as substitute nurse in accordance with the recommendation approved by the Board on February 21, 1938, with salary at the rate of \$5.00 for each calendar day worked, including

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Sundays or holidays falling between days worked; (2) Mr. Thomas F. Andrews be appointed as assistant gardener on a temporary basis during the growing season (May to October 1), with salary at the rate of \$90 per month effective as of the date upon which he enters upon the performance of his duties; and (3) Amy P. French be appointed as relief day maid, with salary at the rate of \$3.00 for each day while on duty.

The recommendations were approved unanimously.

Memorandum dated May 4, 1938, from Mr. Morrill recommending (1) the appointment of Mr. Paul T. Phinney as clerk of the guard force, with salary at the rate of \$1,200 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; (2) that Mr. Joseph P. Harris, Jr., elevator operator, be promoted to the position of guard, with salary at the rate of \$1,500 per annum, effective immediately; and (3) that Mr. Reginald C. Power be appointed as an elevator operator, with salary at the rate of \$1,200 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.

The recommendations were approved unanimously.

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Letter to the board of directors of the "Industrial Morris Plan Bank of Detroit", Detroit, Michigan, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, 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 Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. On or before June 30, 1938, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$56,446.65, as shown in the report of examination of such bank as of March 19, 1938, made by an examiner for the Federal Reserve Bank of Chicago."

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

"The Board of Governors of the Federal Reserve System approves the application of the Industrial Morris Plan Bank of Detroit, Detroit, Michigan, 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 the Banking Department for the State of Michigan for his information.

"On page D of the report of examination, the following comment appears:

'Savings deposits of \$11,670,152.72 are represented by 33,548 accounts which are in reality investment certificates in book form,

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"providing for withdrawals, etc., but essentially the same as savings accounts in other banks in Detroit. Interest is paid at the rate of 2 per cent annually and credited June 30 and December 31 of each year."

"It is assumed that consideration has been given to the form of the investment certificates and the rate of interest paid thereon, and that it has been determined that they conform to the provisions of Regulation Q, and that if the bank is admitted to membership any nonconforming accounts will be brought into conformity with the provisions of the Board's regulations. In this connection, however, it has been noted that the list of large savings accounts on page A-2 of the report of examination includes accounts which may not qualify as savings accounts by reason of the nature of the depositors. The account of the insurance company would appear to be clearly nonconforming and the question as to the conformity of the account of the Detroit Tuberculosis Sanitarium would depend upon whether the funds are those of the city, an institution operated for profit, or an institution operated primarily for philanthropic or charitable purposes.

"While it is noted that the State Banking Department has advised that the amendments increasing the bank's capital stock and changing its name are all of the amendments which have been made to its original Articles of Incorporation, it appears from the Certificate of Amendment to the Articles of Incorporation which was executed on January 12, 1938, that the agreement under which the bank and the Industrial Morris Plan Bank of Detroit were consolidated in January, 1932, may also contain amendments to such Articles of Incorporation. A copy of the consolidation agreement was not submitted with the bank's application, and, accordingly, if the agreement contains any such amendments, it will be appreciated if you will forward a copy thereof to the Board."

Letter to "The Farmers National Bank of Hutchinson",
Hutchinson, Minnesota, reading as follows:

"This refers to the resolution adopted on July 15, 1936, by the board of directors of your bank signifying the bank's desire to surrender its right to

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"exercise the trust powers which have heretofore been granted to it by 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 its duties as fiduciary. The Board, therefore, has issued a formal certificate 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.

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

"Receipt is acknowledged of your letter of April 29, 1938, advising the Board of the results of the consideration given by you and by President Martin and your board of directors to the report of a survey of the Audit Department of your bank transmitted to you with the Board's letter of April 5, 1938.

"The Board appreciates the completeness of your review of the matters contained in this report of survey and has noted with interest the steps taken by your bank for the improvement of the Audit Department."

Approved unanimously.

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Memorandum dated April 28, 1938, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, submitting for the approval of the Board the budgets for the statistical and analytical function at the respective Federal reserve banks for the year 1938, and recommending that the Federal reserve banks be advised that the Board approves the proposed budgets as follows:

Boston	\$37,220
New York	188,975
Philadelphia	48,585
Cleveland	33,849
Richmond	21,099
Atlanta <u>1/</u>	11,000
Chicago	45,321
St. Louis	21,374
Minneapolis	16,724
Kansas City	20,990
Dallas	17,858
San Francisco	<u>45,148</u>
Total	\$508,143

1/ Proposed budget for 1938 makes only partial allowance for appointment of economist subsequent to submission of budget.

Approved unanimously.

Letter dated May 4, 1938, to the Presidents of all Federal reserve banks, reading as follows:

"According to the minutes of the Conference of Presidents, held in Washington on February 28 - March 1, 1938, the Conference accepted the report of the Standing Committee on Collections, dated December 17, 1937, and approved the recommendations contained therein, some of which involved changes in the cash and noncash collection circulars of the Federal Reserve banks.

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"Since the Presidents' Conference referred certain additional questions regarding the collection services of the Federal Reserve banks to the Standing Committee on Collections, we conferred with the Chairman and another member of that Committee and were advised that the Committee anticipates submitting recommendations to the next Presidents' Conference which, if approved, will necessitate additional changes in the cash and noncash collection circulars of the Federal Reserve banks. We were also advised that changes recommended in the December 17, 1937, report were considered not to be of such immediate importance as to warrant reissuing the circulars until after the next Presidents' Conference has acted upon the recommendations to be contained in the forthcoming report of the Standing Committee on Collections.

"Accordingly, the Board has deferred action until after the next Presidents' Conference on the recommendations contained in the December 17, 1937, report of the Standing Committee on Collections, except as to the recommendation that no shipping charges be absorbed by the Federal Reserve banks in handling negotiable securities received and forwarded for collection, which is noted without objection."

Approved unanimously.

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

"A further reply to your letter of April 19, 1938, in which you extend an invitation to the members of the Board to attend the meeting of the board of directors of your bank which will be held at the Louisville Branch on May 12, 1938, has been delayed with the thought that some of the members of the Board might find it possible to arrange their program so that they could be present. However, there are so many things requiring their attention at the present time that they have concluded that it will not be possible for them to be absent from Washington for the time that would be required to attend the meeting. In these circumstances, they have requested me to advise you that they appreciate the invitation very much, and that they regret exceedingly that it will not be possible for any of them to go to Louisville, particularly

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"in view of the fact that they were unable to attend the meeting held in Little Rock last month.

"Chairman Eccles has received a letter from Mr. Thompson, General Manager of Mammoth Cave Properties, in which he extends an invitation to the members of the Board to visit the cave at the time of the Louisville meeting. It will be appreciated if you will advise Mr. Thompson that circumstances make it impossible for the Board to accept his invitation at this time."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Eccles
Chairman.