

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 30, 1938, at 11:00 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Thomas, Assistant Director of the Division of Research and Statistics

There was presented a telegram to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the bank on June 28, 1938, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Consideration was given to a memorandum prepared by Counsel under date of June 29, 1938, on the "Effect on Board of Executive Order Extending Civil Service", copies of which had been furnished to the members of the Board and placed in the general files. The various aspects of the problem which would be created in the event the Board's organization were covered into the competitive classified Civil Service were discussed.

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Mr. Wyatt stated that he had satisfied himself that the Executive Order of June 24, 1938, was not legally applicable to the Board of Governors of the Federal Reserve System but that, in the event of a controversy between the Board and the Civil Service Commission, the matter would probably be submitted to the Attorney General of the United States who might render an opinion otherwise.

At this point Messrs. Thurston and Thomas left the meeting.

Chairman Eccles stated that he had asked for an appointment to see the President early next week when he returns to Washington and that it was his thought that it would be desirable for him to have a concise memorandum setting forth the Board's position in the matter and also a very short letter addressed to the Civil Service Commission which he might, if it seemed appropriate to do so when he discussed the matter, ask the President to sign which would advise the Commission that it was not the President's intention to include the Board of Governors under the provisions of his Executive Order of June 24.

After a full discussion, during which Mr. Wyatt submitted an additional memorandum for the Board's information entitled "Employees of the Board of Governors of the Federal Reserve System and the Classified Civil Service", a copy of which has been placed in the Board's files, the Board agreed unanimously that the course outlined by the Chairman should be followed with the understanding that, in the event the President should be unwilling to send a note or letter to the Civil

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Service Commission along the lines indicated above, the Chairman would endeavor to obtain the President's oral assurances that it was not his intention that the Executive Order of June 24, 1938, should apply to the Board's organization and that he would support the Board in taking this position. In this connection, it was understood that Mr. Wyatt would submit a written opinion holding that the Executive Order of June 24, 1938, was not applicable to the Board and that his office would prepare the necessary memorandum and letter required by the Chairman for use in his discussion with the President.

At this point Messrs. Wyatt, Dreibelbis and Vest 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 June 28, 1938, were approved unanimously.

Letter to Mr. Charles W. Kelly, Jr., reading as follows:

"As requested in your letter of June 29, 1938, the Board of Governors of the Federal Reserve System accepts your resignation, effective at the close of July 9, 1938, as Guard in the Office of the Secretary.

"The Board takes this action with sincere regret and wishes you success in the position you have accepted with the Metropolitan Police Force."

Approved unanimously.

Letter to the board of directors of the "Peoples Deposit Bank & Trust Company", Paris, Kentucky, stating that, subject to the conditions of membership numbered 1 to 4 and 6 contained in the Board's

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Regulation H, and the following additional 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 Cleveland:

- "5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Within six months from date of notice by the Board of Governors of the Federal Reserve System, such bank shall effect the removal from its banking quarters of the building and loan association now located therein."

The letter also contained the following special comments:

"It has been noted that although the bank has full trust powers and is exercising such powers to a limited extent under the direction of the cashier, who acts as trust officer, no designation of a trust officer has been made by the directors and no trust committee has been appointed, and there are a number of criticisms of the operating details of the department. Acceptance of trust business, no matter how small, entails serious responsibilities and if the bank expects to continue its trust business it will be expected to take the proper steps to bring its trust activities into conformity with approved practices.

"As indicated by condition of membership numbered 8, the Board believes that it is not a desirable situation where the quarters of a bank are shared with another

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"financial institution. Even when the only connection between the two institutions appears to be that of landlord and tenant, the true relationship, so far as the public at large is concerned, is often unknown and confusing and in the event of difficulties of either institution the situation might result in serious embarrassment to both.

"It has been noted from the report of examination that the files of the bank do not contain adequate supporting information in connection with all mortgage loans held and that credit data in connection with unsecured loans and discounts are inadequate. The bank will be expected to obtain such information and data in connection with mortgages and loans now held as soon as practicable and to maintain adequate information in connection with all mortgages and loans made in the future."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Peoples Deposit Bank & Trust Company', Paris, Kentucky, 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 Banking & Securities Commissioner of the Commonwealth of Kentucky for his information.

"There are listed in the confidential section of the report of examination for membership two savings accounts which do not conform to the definition of savings deposits as contained in the Board's regulations, and it is assumed, of course, that in the event the bank completes its membership, such accounts will be brought into conformity with the regulations.

"According to the report the bank is holding 24 shares of its own stock as part security to two loans, such stock having been taken as additional security to debts previously contracted. A bank's own stock is not desirable

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"as collateral, even in such circumstances, and it will be expected that as soon as practicable the bank will work out some plan whereby it will not be necessary to hold such stock as collateral."

Letter dated June 29, 1938, to the board of directors of the "West McHenry State Bank", McHenry, Illinois, 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. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding, a legend reading substantially as follows:

'Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Deferred Certificates issued by the bank to depositors who waived the payment of a part of their deposits in 1933, pursuant to certain agreements copies of which are on file with the West McHenry State Bank, must be paid.'

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the

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"foregoing condition, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Deferred Certificates to the rights of stockholders.)

- "6. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses totaling \$1,899.17 as shown in the report of examination of such bank as of June 8, 1938, made by an examiner for the Federal Reserve Bank of Chicago."

Approved unanimously, for transmission through the Federal Reserve Bank of Chicago.

Letter to Mr. Joseph Pasqual, The Washington Hotel Beauty Parlor,

reading as follows:

"Reference is made to your letter of June 23, 1938, giving notice of your desire to terminate the agreement between yourself and the Board of Governors of the Federal Reserve System for the operation of the barber shop and beauty parlor in the Board's building. You state that you will settle all your obligations under the agreement, and in the postscript to your letter you request that the provision requiring thirty days' notice of termination be waived and that you be released from the agreement on June 30.

"In accordance with your request, the agreement will be terminated as of the close of business on June 30, 1938, after the checking of the inventory and the payment by you of the amount due to the Board pursuant to the agreement."

Approved unanimously.

Letter to Mr. Ralph Vendemia, Capitol Heights, Maryland, read-

ing as follows:

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"In accordance with the arrangements worked out between you and Mr. Spurney, the Board agrees to permit the operation of the barber shop and beauty parlor by you in the basement of its building under the following conditions:

The Board will furnish the permanent equipment such as barber, facial and shampoo chairs, mirrors, cabinets, wash bowls, vanities, hair dryers, side chairs, clothes trees and other such equipment as may in its judgment be required. All other necessary equipment, including tools, linen, soaps and other similar items, will be furnished by you.

Ten per cent of the gross receipts from operations will be paid to the Board by you as a rental or concession fee. An accounting of receipts and payment of rental fee shall be made to the Board weekly. A review will be made at the end of the first ninety days of operations to determine whether such payment is equitable and, if not, with the view of making any adjustment in the amount of subsequent payments that may be satisfactory to you and to the Board.

You will furnish as many barbers and beauty parlor operators, all of whom shall be competent and satisfactory to the Board, as may be required to handle adequately the business and to have at least one qualified operator available for duty in the barber shop and one in the beauty parlor at all times during the regular hours of service.

You will be responsible for the payment of all expenses, including the salaries of your employees and laundry charges, in connection with the operation of the barber shop and the beauty parlor.

The hours of service will be fixed by agreement between you and the Board's representative.

Service will not be available to the general public.

The cleaning of the barber shop and the beauty parlor, other than the washing of windows and the polishing of window bronze, shall be performed by your employees.

This arrangement may be terminated at the

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"request of you or of the Board's representative on thirty days' written notice.

"Kindly advise in writing whether you agree to assume the responsibility of the operation of the barber shop and the beauty parlor in the Federal Reserve Building under the conditions outlined above."

Approved unanimously.

Thereupon the meeting adjourned.

Walter H. Morris
Secretary.

Approved:

W. H. ...
Chairman.