

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 12, 1938, at 12:45 p. m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Dreibelbis, Assistant General Counsel  
Mr. West, Assistant General Counsel

Mr. Eccles stated that, in accordance with the decision reached at the meeting of the Board on June 30, he had called on the President of the United States for the purpose of ascertaining whether he intended that the executive order signed by him on June 24, 1938, extending the competitive classified civil service, should apply to the Board of Governors of the Federal Reserve System and that the President had advised that it was not his intention that the Board should be affected by the order. Chairman Eccles also stated that he had left with the President the draft of letter to the Civil Service Commission, which had been prepared by the Board's counsel, advising the Commission that it was not the President's intention to include the Board in the executive order and that on July 11, Mr. Mitchell, President of the Civil Service Commission, called on the telephone and stated that he had received the letter from the President and that it was the opinion of the attorneys for the Commission that provisions of the executive

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order did apply to the Board. Mr. Eccles said he had stated to Mr. Mitchell that the Board's counsel had looked into the matter and had reached the conclusion that the order was not applicable to the Board in view of the amendment to the Federal Reserve Act contained in the Banking Act of 1933. Mr. Mitchell indicated, Chairman Eccles said, that the Commission's position had been based on the provision in the original Federal Reserve Act authorizing the President to place the Board's employees in the classified Civil Service and that it had not taken into consideration the effect of the Banking Act of 1933 on that provision. Chairman Eccles added that in these circumstances he had suggested to Mr. Mitchell that the Commission's attorneys and the Board's counsel confer on the matter and that subsequently Mr. Vipond, Assistant Chief Examiner of the Commission, had called Mr. Vest on the telephone and had requested a copy of the opinion of the Board's counsel.

After discussion, Mr. Vest was authorized to confer with Mr. Vipond for the purpose of ascertaining the reasons for the position of the Civil Service Commission and advising Mr. Vipond of the provisions of law and the legislative history thereof upon which the Board's position was based.

The meeting recessed at 1:45 p.m. and reconvened at 2:40 p.m. with the same attendance as at the morning session except that Mr. Paulger, Chief of the Division of Examinations, was also in attendance.

There was presented a draft of letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

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"This refers to your letters of June 16 and 17, 1938, with regard to the regulation of the Banking Board of the State of New York adopted May 19, 1938, which is now to become effective October 1, 1938, limiting to  $1\frac{1}{2}$  per cent per annum the rate of interest which certain banks in New York may pay on that part of any time, thrift or savings deposit which is in excess of \$5,000.

"Under the provisions of section 24 of the Federal Reserve Act and Section 3(c) of the Board's Regulation Q, the rate of interest payable by a national bank upon a time or savings deposit may not exceed 'the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State' in which the bank is located.

"It is observed that the regulation of the Banking Board does not affect certain industrial banks and also, contrary to the regulation adopted June 21, 1935, does not apply to savings banks. It is also noted that you are unable to say that industrial banks in New York are not in substantial competition with national banks in respect to time and savings deposits, but that, since the volume of time deposits in those industrial banks which are not subject to the recent regulation of the Banking Board was as of March 31, 1938, only \$3,764,598, you think that for the purpose of section 24 of the Federal Reserve Act, industrial banks may be considered as subject to the regulation.

"Savings banks and national banks in New York both receive savings deposits in substantial amounts. Since savings banks will not be subject to the regulation of the Banking Board dated May 19, 1938, the maximum rate of return payable by savings banks on that part of any deposit over \$5,000 will not be  $1\frac{1}{2}$  per cent but 2 per cent.

"In these circumstances, to regard  $1\frac{1}{2}$  per cent as 'the maximum rate authorized by law to be paid \* \* \* by State banks or trust companies' in the State of New York on that part of a time or savings deposit in excess of \$5,000 would not, in the judgment of the Board, be in accord with the intention of the provisions of section 24 of the Federal Reserve Act above mentioned. The Board has concluded, therefore, that the law does not operate to make the limitation upon the rate of interest payable on time and savings deposits contained in the regulation of the Banking Board effective October 1, 1938, applicable to national banks in the State of New York.

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"It is noted, however, that the Superintendent of Banks of the State of New York has requested to be advised before any formal ruling is issued by the Board taking the position above indicated. In order to afford the Banking Board an opportunity to give such further consideration to this subject as it may deem advisable, it is requested that you wait a reasonable time before giving advice of the Board's position in this matter to national banks in New York. It is believed, however, that national banks should have ample notice as to whether the regulation of the Banking Board affects their deposits and in the event you do not receive advice before August 15, 1938, of the results of further consideration of the matter by the Banking Board, it is suggested that you then inform banks which have inquired on this subject and such others as you deem necessary of the Board's position. Please communicate to the Board any advice you may receive as to further consideration of the subject by the Banking Board.

"Inasmuch as the order which became effective October 1, 1935, was held by the Banking Board of New York to be applicable to Postal Savings deposits, it is assumed that the order of May 19, 1938, likewise applies to such deposits. However, we will appreciate it if you will obtain information at your convenience as to whether this is the case and advise the Board.

"For your information, there is inclosed herewith a copy of a letter received by the Board from the Superintendent of Banks of the State of New York on this subject, together with a copy of the Board's reply thereto."

The letter to Mr. William R. White, Superintendent of Banks of the State of New York, referred to in the last paragraph of the letter to Mr. Gidney read as follows:

"Receipt is acknowledged of your letter of June 28, 1938, with regard to the effect on national banks of Resolution No. 293 of the Banking Board of the State of New York limiting to 1-1/2 per cent per annum the rate of interest payable by certain banks in that State on that part of a time or savings deposit in excess of \$5,000.

"The Board welcomes an expression of your views with regard to this matter and has given careful consideration to the various points which you present. However, for the

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"reasons which are stated in its letter to the Federal Reserve Bank of New York, a copy of which is inclosed for your information, the Board has reached the conclusion that the recent regulation of your Banking Board will not affect national banks.

"In accordance with your wishes, you will note that the Board has requested the Federal Reserve Bank to wait a reasonable time before giving advice of the Board's position in this matter, in order to afford your Banking Board an opportunity to give the subject further consideration, if it so desires."

In a memorandum transmitting the drafts of letters referred to above, which had been circulated among the members of the Board under date of July 7, 1938, Mr. Vest had suggested that in the circumstances outlined in the letter to Mr. Gidney, the Board might wish to consider the advisability of inviting Mr. White to Washington for a personal conference with the Board before a formal ruling is made on the matter.

The members present expressed agreement with the position taken in the draft of letter to Mr. Gidney and with the suggestion that Mr. White be afforded an opportunity to discuss the matter with the Board, and Mr. Morrill was requested to call Mr. Gidney on the telephone and to ask him to advise Mr. White of the decision which the Board feels it would have to reach on the basis of existing circumstances and to advise Mr. White that the Board would be pleased to discuss the matter with him should he desire to do so.

At Mr. McKee's request, Mr. Paulger outlined the discussions which he had had with Messrs. Nichols, Chief of the Division of Examinations of the Federal Deposit Insurance Corporation, and Folger,

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Chief National Bank Examiner of the Office of the Comptroller of the Currency, with respect to proposed changes in examination report forms in the light of the recent agreement reached by the Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller with respect to examination procedure. Mr. Paulger also handed to the members of the Board a copy of a memorandum prepared by Mr. Leonard under date of July 12, 1938, outlining the points discussed during the conference of the representatives of the three agencies.

It was agreed that Chairman Eccles would confer with Messrs. Crowley, Chairman of the Federal Deposit Insurance Corporation, and Diggs, Acting Comptroller of the Currency, regarding the matter.

At this point Messrs. Paulger, 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 July 1, 1938, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on July 6 and July 8, 1938, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated July 7, 1938, from Mr. Morrill, Secretary, referring to the action taken by the Board on January 14 in transferring Miss Myriam O'Brien from the Office of General Counsel to the

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Office of the Secretary on a temporary basis for the purpose of expediting the work in connection with the preparation of the digest of X-letters, with the understanding that, in case the need for her services should not continue after this work was completed, her employment would be terminated. The memorandum stated that the work will be completed on July 15, 1938, and recommended that Miss O'Brien be granted the unused portion of her annual leave for the full current year, together with any accumulated leave, and that the termination of her employment become effective at the close of business on August 6, 1938.

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors approves the action taken by the Board of Directors of your bank on June 22, 1938, providing for the payment to directors for attendance at meetings of the Auditing Committee, or the Committee on Salaries, or any other Committee of the Board of Directors, of the same fee as is paid for attendance at meetings of the Executive Committee.

"It is our understanding that the fee for all directors' committee meetings is now \$20 per meeting, unless the meeting is held on the same day as a meeting of your Board of Directors or on the same day as a meeting of another committee of your board, in which case the fee for the second meeting is \$10 to those directors who attend both meetings."

Approved unanimously.

Letter dated July 9, 1938, to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

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"Receipt is acknowledged of your letter of June 29, 1938, advising the Board of the results of the consideration by your board of directors of the report of a survey of the Auditing Department of your bank transmitted to you with the Board's letter of November 26, 1937.

"The Board appreciates the completeness of your review of the report of survey and has noted with interest the views expressed on the various matters covered by the survey and also the changes being made in the auditing procedure."

Approved unanimously.

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

"Reference is made to the report of the Fiscal Agency Survey made at the Federal Reserve Bank of St. Louis as of June 9, 1938, by Messrs. Myrick and Porter of the Board's Division of Bank Operations, a copy of which was left for your information.

"We shall be glad to receive any comments you may care to make with respect to the report."

Approved unanimously.

Memorandum dated June 30, 1938, from Mr. Smead summarizing the replies received from member banks located in cities in which there is no office of a Federal reserve bank to inquiries made by the Federal reserve banks in accordance with the Board's letters of April 2, 1938, with respect to the termination of the designation of such cities as reserve cities. The memorandum recommended that, inasmuch as the Division of Research and Statistics is now studying the subject of reserves with a view to submitting a report to the Board with recommendations as to what, if any, changes should be made, any action with respect to discontinuance of the designation of any reserve city or the designation



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of any additional reserve cities be postponed until the Division of Research and Statistics submits its report.

Approved unanimously.

Telegram to Mr. Frank Warner, Secretary of the Iowa Bankers Association, Des Moines, Iowa, reading as follows:

"Relet July 7 to Wyatt. Typewritten form referred to as Form No. 9 (if blanks for rate of interest and maturity are filled out in accordance with provisions of Regulation Q and supplement thereto) and also Forms No. 22 and 23, which appear identical with those submitted with your letter of October 24, 1935, are not inconsistent with Regulation Q, and therefore Board will offer no objection to classification of deposits evidenced by such certificates as time deposits. Of course, under supplement to Regulation Q, rate of interest payable depends upon length of period before depositor can require payment."

Approved unanimously.

Thereupon the meeting adjourned.

Chesley Morrie  
Secretary.

Approved:

W. S. ...  
Chairman.