

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, December 28, 1938, at 3:00 p.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

There was further discussion with respect to the appointment of Chairmen and Federal Reserve Agents, Class C directors, and directors of branches of Federal reserve banks for terms beginning January 1, 1939, and consideration was given to names which were being considered by the Personnel Committee to fill some of the existing vacancies.

During the discussion Mr. Davis moved that, subject to confirmation of his willingness to accept, James C. Stone, Lexington, Kentucky, be appointed a Class C director of the Federal Reserve Bank of Cleveland for the three-year term beginning January 1, 1939.

Carried unanimously, with the understanding that Mr. Davis would ascertain whether Mr. Stone would be willing to accept the appointment.

Subject to the acceptance by Mr. Stone of appointment as a Class C director of the Federal Reserve Bank of Cleveland, G. C. Brainard, Class C director whose term expires on December 31, 1940, was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Cleveland for

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the year 1939 and his compensation as Chairman and Federal Reserve Agent was fixed on the uniform basis for the same position at all Federal reserve banks, i.e., at the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

Subject to the acceptance by Mr. Stone of appointment as a Class C director of the Federal Reserve Bank of Cleveland, R. E. Klages, Class C director whose term expires on December 31, 1939, was appointed Deputy Chairman of the Federal Reserve Bank of Cleveland for the year 1939.

Subject to confirmation of his willingness to accept, E. F. Billington, Vice President, Soule Steam Feed Works, Meridian, Mississippi, was appointed a director of the New Orleans branch of the Federal Reserve Bank of Atlanta for the unexpired portion of the three-year term ending December 31, 1940.

The Board approved increases in the salaries of Miss Carol S. Piper and Miss Margaret J. Rauber, Secretaries to Messrs. Davis and Draper, respectively, from the rate of \$3,000 to the rate of \$3,300 per annum, effective immediately.

The action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 27, 1938, were approved unani-  
mously.

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Letter to the Chairmen of all Federal reserve banks, prepared in accordance with the action taken at the meeting of the Board on December 21, 1938, and reading as follows:

"At its meeting on December 21, 1938, the Board of Governors discussed the informal advices that had been received from Federal Reserve banks of proposed changes in official salaries for the year 1939. The Board has felt for some time that it labors under a considerable handicap in endeavoring during a short period each year, to pass on proposals for changes in salaries of officers of the twelve Federal Reserve banks which, with few exceptions, represent increases and which, in accordance with the practice prevailing heretofore, are submitted annually to become effective on the first of January.

"The Board believes that it has met the problem with respect to its own staff by terminating the practice of considering a list of salary changes annually as a part of the budget and by substituting the practice of dealing only with meritorious cases on an individual basis when it appears that an adjustment is due because of a substantial change in duties or responsibilities or other exceptional circumstances pertaining to the particular person or his job. It is convinced that such a change in practice has a salutary effect on the submission of proposals to increase salaries because of the realization that they will undergo an individual review when there is sufficient time to consider them instead of a necessarily more hasty consideration when there is great pressure at the end of the year.

"With these points in mind, the Board has decided to adopt a policy with respect to the consideration of future changes in salaries of officers of the Federal Reserve banks similar to that which is in effect with respect to its own staff and to defer at this time consideration of the pending changes until it has had an opportunity during 1939 for a full discussion of the question of salaries with the Presidents of the Federal Reserve banks.

"Accordingly, as early in 1939 as circumstances will permit, the Board will invite the President of each Federal Reserve bank to come to Washington at a convenient

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"time for the purpose of reviewing thoroughly the salary situation at his bank.

"With this procedure in mind, the Board will approve the salaries of the officers of your bank at the rates in effect on December 31, 1938, if fixed by the board of directors at those rates."

Approved unanimously.

Letter to Mr. McKinney, President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your telegram of December 22, 1938, regarding prospective changes in the titles and duties of certain members of the examining staff of your bank.

"The Board approves the appointment of Examiner I. F. Betts as chief examiner for the Federal Reserve Bank of Dallas. In this connection, however, it has been noted that the Personnel Classification Plan of your bank does not provide for the position of chief examiner, and an appropriate amendment to the Plan is therefore in order.

"The appointment of C. L. Childers as an assistant examiner has had the approval of the Board and after his transfer to the bank relations department he could retain his assistant examiner's commission in order to be in position to lend clerical assistance in examinations. Therefore, further action by the Board in his case is not necessary for the purposes of the proposed changes. In connection with E. A. Chancellor, he was designated as an assistant examiner, such designation being approved by the Board, in order that he might lend temporary assistance in examinations, and was not appointed as a regular assistant examiner. You understand of course that before passing upon his appointment as a regular assistant examiner it will be necessary to submit for consideration the information requested in the Board's letter X-7595, dated September 20, 1933.

"With reference to the proposed salary adjustments affecting Mr. Betts and Mr. Chancellor, which you state will be submitted to the Board for approval shortly after January 1, it is assumed that you are familiar with the

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"fact that Board approval is not required on salary increases coming within the maximum provided for in the Personnel Classification Plans of the Federal reserve banks."

Approved unanimously.

Letter to the board of directors of the "First National Bank & Trust Company of Elmira", Elmira, New York, stating that, subject to conditions of membership numbered 1 to 4 and 6 contained in the Board's Regulation H and the following additional conditions, the Board approves the application for membership in the Federal Reserve System made on behalf of a proposed State institution in Elmira, New York, to be organized to succeed the First National Bank & Trust Company of Elmira, and for the appropriate amount of stock in the Federal Reserve Bank of New York, effective if and when the successor bank is duly authorized to commence business by the New York State Banking Department:

- "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 made adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Such bank shall, at the time of admission to membership, have assets and liabilities substantially the same in amount (with due allowance for changes arising from the ordinary course of business) and character

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"as shown in the report of a survey of the national bank as of November 7, 1938, made by an examiner for the Federal Reserve Bank of New York, and shall have a paid-up and unimpaired capital of at least \$792,000 and a surplus of at least \$792,000.

- "9. In the acquisition of the assets of the First National Bank & Trust Company of Elmira provision shall be made for the charge-off or elimination otherwise, if such has not already been done, of all the estimated losses, aggregating \$1,440, as shown in the report of a survey of such national bank as of November 7, 1938, made by an examiner for the Federal Reserve Bank of New York.
- "10. Prior to admission of such bank to membership, Marine Midland Corporation shall have filed with the Board of Governors of the Federal Reserve System an application for, and complied with all conditions to the issuance of, a general voting permit entitling it to vote the stock of such bank."

The letter also contained the following special comment:

"Since the application for membership was made on behalf of the successor State institution prior to its organization, it is requested that, in connection with the acceptance of the conditions of membership prescribed by the Board, the board of directors of the State bank ratify the action which has been taken on its behalf in making application for membership in the Federal Reserve System."

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

"The Board of Governors of the Federal Reserve System approves the application made by the 'First National Bank & Trust Company of Elmira', Elmira, New York, on behalf of a proposed State institution in Elmira, New York, to be organized to succeed the First National Bank &

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"Trust Company of Elmira, for stock in the Federal Reserve Bank of New York effective if and when the successor bank is duly authorized to commence business by the New York State Banking Department, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the national bank. 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 Superintendent of Banks for the State of New York for his information.

"Before issuing stock in the Federal Reserve Bank of New York to the new State institution, you are requested to satisfy yourself that its capital stock as required in condition numbered 8 has been paid in, and that the organization papers and all agreements and contracts entered into between it and the First National Bank & Trust Company of Elmira covering the purchase of assets from, and the assumption of liabilities of, that bank and any and all other agreements and contracts between such bank and the stockholders and/or directors or other individuals or concerns, incident to the organization of the new State institution, have been considered by your counsel, and that he is satisfied as to their legal aspects. It is requested that a copy of the opinion of your counsel given in this connection, together with copies of any such agreements and contracts, including a copy of the bank's charter and the approval given by the State Superintendent of Banks to the establishment of the branches at Elmira Heights and Horseheads, be forwarded to the Board as soon as possible. It is requested also that the Board be furnished with a copy of the resolution of the board of directors of the State institution, ratifying the action taken in its behalf in making application for membership in the Federal Reserve System.

"Inclosed is a letter approving the establishment of branches at Elmira Heights, New York, and Horseheads, New York, which you are requested to forward to the board of directors of the First National Bank & Trust Company of Elmira, if in the opinion of your counsel such branches will be established in conformity with the requirements of the Federal Reserve Act in view of the provisions of the State law. Please furnish the Board with a copy of the opinion of your counsel given in this connection. Inclosed also is a copy of the letter for your files.

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"It appears that among the assets of the First National Bank & Trust Company of Elmira are certain securities and corporate stocks which member banks are prohibited from purchasing under the provisions of section 5136 of the Revised Statutes of the United States and the Comptroller's regulation governing the purchase of investment securities. It is suggested that you advise the management that such securities and stocks should be disposed of prior to the conclusion of the transaction or as soon thereafter as practicable.

"It is understood that under the laws of the State of New York trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization previously granted by the Board with which you are familiar.

"It has been noted that the attention of the national bank, has been called to the provisions of Section 12B (i)(4) of the Federal Reserve Act relating to the termination of the insurance on its deposits and that the Federal Deposit Insurance Corporation has been notified of the proposed conversion to a State institution."

In connection with the above matter the following letter to the board of directors of the First National Bank & Trust Company of Elmira, was also approved unanimously:

"In connection with the application made on behalf of the proposed State institution to be organized in Elmira, New York, to succeed the 'First National Bank & Trust Company of Elmira', for stock in the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment and operation of branches at Elmira Heights, New York, and Horseheads, New York, by the successor State institution, effective if and when such institution is admitted to membership in the Federal Reserve System, subject, however, to the approval of the appropriate State authorities."



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

"Reference is made to your letter of December 19, 1938, recommending that the time within which the 'Coopersville State Bank', Coopersville, Michigan, may increase the aggregate of its capital and surplus to not less than \$50,000, as required by condition of membership numbered 6, be extended to February 1, 1939.

"According to your letter, on December 13, 1938, the directors of the bank authorized the officers to proceed to increase the capital of the bank by the sale of \$10,000 preferred stock locally and it is expected that such action will be ratified at the shareholders' meeting to be held in January. It is understood also that the stock can be disposed of without difficulty as soon as the subscriptions may be closed under Michigan laws.

"Accordingly, in accordance with your recommendation, the Board extends to February 1, 1939, the time within which the increase in capital and surplus as required by condition of membership numbered 6 may be effected. Please advise the Board when the increase is accomplished."

Approved unanimously.

Letter to "The Dunbar National Bank of New York", New York, New York, reading as follows:

"This refers to the resolution adopted on May 3, 1938, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"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. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of

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"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.

"Since it may be necessary for you to file a certified copy of the Board's certificate with the State authorities in connection with the release of the securities which you have deposited with them, such a copy is inclosed herewith."

Approved unanimously.

Letter to Mr. Byron Dunn, Executive Vice President, National Bank of Commerce, Lincoln, Nebraska, reading as follows:

"This will acknowledge receipt of your letter of December 13, 1938, in which you refer to the letter which you addressed to the Board of Governors of the Federal Reserve System under date of November 14, 1938, at the suggestion of national bank examiner P. V. Miller in connection with the Board's request for information regarding the absorption of exchange charges by your bank for its depositors. Your letter of November 14 was transmitted to the Board through the office of the Comptroller of the Currency, together with additional information furnished by the examiner in accordance with the Board's request.

"In your recent letter you request a hearing before the Board in connection with this matter before its decision is rendered and you state that you will bring with you any additional information that the Board might wish.

"The absorption of exchange charges by member banks of the Federal Reserve System is a matter which is under

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"consideration and the information developed in connection with your operations will be used with other information in the consideration of the matter. You may be assured that, before any action is taken on this account respecting your institution individually, the Board will give consideration to your request for a hearing and will afford you adequate opportunity to present, either orally or otherwise as may then appear to be proper in the circumstances, such information and arguments as you may desire."

Approved unanimously.

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

"Following receipt of your letter of November 26, 1938, regarding attendance of employees of the bank at the Graduate School of Banking at Rutgers University, the Board again reviewed the entire question of Federal Reserve bank participation in, and support of, the Graduate School and the conclusions reached are set forth in the attached letter, dated today, which is being sent to all Federal Reserve banks.

"Since employees of the several Federal Reserve banks and of the Board of Governors attend the Graduate School under much the same circumstances, the Board feels that it is more important to have the policy of all Federal Reserve banks uniform than it is to have uniformity between an individual Reserve bank and its local member banks.

"As you will note, the revised procedure permits the Federal Reserve banks to pay the registration and the resident and extension tuition fees. The only expenses the students will have to pay will be the dormitory and dining hall charges, which amount to \$55, and any incidental expenses they may incur. Since it is expected that students attending the Graduate School will diligently pursue the prescribed work, it has not seemed to the Board that the students should be expected to consider the period of the school term as vacation time."

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Approved unanimously, together with a letter to the Presidents of all Federal reserve banks, reading as follows:

"Recently, the Board had occasion to review again the subject of Federal Reserve bank participation in, and support of, the Graduate School of Banking at Rutgers University.

"The Board still feels that the officers and employees of the Federal Reserve banks should be encouraged to participate in the educational activities of the Graduate School of Banking and to this end that the Federal Reserve banks should follow a uniform system policy insofar as may be practicable.

"Under the procedure set forth in the statement attached to the Board's letter of October 30, 1936, X-9729, the System's contributions toward expenses of officers and employees in attending the Graduate School are limited to transportation expenses and leave with pay for the time necessary to take the course. Upon further consideration of this subject in the light of the recommendations made by a number of the Federal Reserve banks the Board has modified the first paragraph on page 3 of the statement attached to the Board's letter of October 30, 1936, X-9729, to read as follows:

Each Federal reserve bank may assume the transportation expenses to and from the University of officers and employees selected to attend the Graduate School of Banking at Rutgers, pay the Registration and Resident and Extension tuition fees, and may grant them leave of absence with pay of such duration as may be necessary to enable them to attend the two weeks' session of the school, in addition to their regular annual vacation. As it is felt that the student should have a personal financial stake in the attainment of the objective, and accordingly that the Federal Reserve banks should not bear the entire expense, it appears to the Board most reasonable that the student should be expected to pay his living expenses. Therefore, it is the view of the Board that no reimbursements should be made for dormitory and dining hall charges and incidental expense."

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Letter to Mr. Walter E. Lichtenstein, Secretary, Federal Advisory Council, Chicago, Illinois, prepared in accordance with the action taken at the meeting of the Board on December 20, 1938, and reading as follows:

"In answer to a request made by the Board of Governors of the Federal Reserve System, the Federal Advisory Council on May 17, 1938, presented to the Board a report on 'How Can the Federal Reserve System Increase the Value or Scope of its Services to Member Banks in Practicable or Desirable Ways'. However, it was stated at that time that the report was a compilation made by a Committee of the Council on the basis of 333 replies from member banks to a request for criticisms or suggestions to enable the Council to furnish the Board of Governors of the Federal Reserve System with comprehensive material. On November 29, 1938, in response to a request from the Board of Governors that the Council state its own views in respect to the problems discussed in the report of May 17, 1938, the Council submitted a statement which contained certain suggestions as to services and as to general policies of the Federal Reserve System.

"A review of the contents of the compilation submitted on May 17, 1938, indicates that the replies upon which the compilation was based covered a wide variety of subjects, including the collection system, the examination functions, the report requirements, and the reserve requirements, of the Federal Reserve System, together with a number of other matters which do not fall within any one of the foregoing groups but nevertheless are of some importance. In this connection, in reviewing this report there was drawn off for ready reference a summary of items of the character indicated above and as this may be of some convenience also to the Council, copies are attached. It should be understood, however, that this summary is not intended to indicate any opinion on the part of the Board as to the relative importance of any of these items nor is it an exhaustive abstract.

"The statement filed by the Council did not indicate its views on a number of these matters, and, since the Board of Governors understands from the separate statement

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"filed by the Council on May 17, 1938, that the Council considers that its functions include advising the Board on relationships of member banks with the Board and with the Federal Reserve banks, the Board would like to have the recommendations of the Council as to all of the suggestions or criticisms referred to in the attached summary and others of any importance that were covered by the compilation but may have been omitted from the summary, in order that the Board may make a comprehensive review of the whole matter and consider what steps it may take appropriately to improve the relations of the Board and the Federal Reserve banks with member banks.

"It will be appreciated if you will, at your early convenience, send to each member of the Council a copy of this letter and a copy of the inclosure. For this purpose a sufficient number of sets of copies is inclosed herewith."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. ...  
Chairman.