

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 1, 1940, at 10:30 a.m.

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

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

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Post and Hays, Secretaries of the Federal Reserve Banks of Philadelphia and Cleveland, respectively, Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on February 27, by the Federal Reserve Bank of Atlanta on February 28, by the Federal Reserve Banks of Cleveland, Chicago and Kansas City on February 29, 1940, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Reference was made to a memorandum prepared by Mr. Vest under date of February 16, 1940, calling attention to the passage by the House of Representatives on February 9, 1940, of the Ramspeck Civil Service Bill H.R. 960 and its reference to the Senate Committee on Civil Service which it is understood proposes to hold hearings on the bill. Mr. Vest stated that if enacted into law the bill would authorize the President to cover into the classified civil service any Government employees, including employees of the Board of Governors, and to bring such employees under the provisions of the Classification Act of 1923, that at the present time there was some doubt whether the President is authorized to place employees of the Board in the classified service, but that the provisions of this bill would make his authority to take such action entirely clear.

It was unanimously agreed by the members present to take no action at the present time, except that Mr. Vest was requested to prepare a memorandum which could be used by Chairman Eccles in any discussion that he might have with the President should the bill be enacted into law.

Mr. Davis stated that replies to inquiries for information of a general character on matters concerning the Federal Reserve System, preparation of material of an informational character for encyclopedias and various annual publications, requests for miscellaneous publications, mailing lists for publications, and the proofreading of printed material, have been handled in the Board's organization in a scattered

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and unorganized way in the past, some of the work being done in the Secretary's Office, some in the Division of Bank Operations and some in the Division of Research and Statistics, with the cooperation of other divisions of the Board's organization, and that, as a result of studies as to how this situation might be corrected, Messrs. Morrill, Thurston, Goldenweiser, and Smead were in agreement that these activities should be concentrated in a single unit in the Secretary's Office which would be known as the Correspondence and Publications Section of the Secretary's Office under the general supervision of the Secretary and which would be located in quarters to be assigned to it on the first floor of the building.

It was contemplated, Mr. Davis said, that the new unit would be headed by Bray Hammond, now Technical Assistant in the Division of Bank Operations, assisted by Roman L. Horne, now Senior Economist in the Division of Research and Statistics, that their titles would be changed to Chief and Assistant Chief, respectively, of the new section, and that the transfers of employees who would make up the personnel of the section would be made without change in the existing salaries as set forth below, although it would be understood that the Secretary would be authorized to add such amount as he estimated would be necessary to the 1940 budget for the Secretary's Office to provide for non-personal expenses:

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<u>Name</u>	<u>Present Title</u>	<u>Present Salary</u>
Bray Hammond	Technical Assistant Division of Bank Operations	\$5,400
Roman L. Horne	Senior Economist Div. of Research & Statistics	5,000
William A. Kline	Printing Clerk Div. of Research & Statistics	2,400
Mrs. Margaret A. Rice	Clerk, Secretary's Office	2,100
J. Robert Surguy	Assistant Printing Clerk Div. of Research & Statistics	1,800
Mrs. Vera R. Glaser	Stenographer Div. of Research & Statistics	1,800
Virginia T. Glazebrook	Stenographer Division of Bank Operations	1,440
Stewart Thorn	Clerk, Secretary's Office	1,380

Mr. Davis made the further statement that for some time past an informal experiment had been carried on as to the work of Messrs. Hammond and Horne to determine whether or not the change should be made and that this experiment indicated the desirability of the proposed concentration of this type of work. He added that the members of the section would continue the work that they had been doing heretofore, except that the stenographic work might be done by other stenographers from the Secretary's Office assigned for the purpose whenever necessary, that the services of Messrs. Hammond and Horne would be available to the members of the Board and its staff to the same extent as heretofore, and that it was contemplated that, upon receipt by any member

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of the Board or staff of matters of the kind which Messrs. Hammond and Horne had been handling in the past these would be routed in each case to the new section through the Secretary's Office and replies would be prepared for the signature of the Secretary or an Assistant Secretary unless the person sending the item to the section indicated otherwise.

There ensued a discussion of the nature of the work that the new section would be expected to perform and the need which it would fill, at the conclusion of which Mr. Davis moved that the creation of the new section be authorized and that the transfer of the employees listed above be approved as outlined by him, the change to become effective as soon as the necessary arrangements could be made.

Carried unanimously.

At this point Messrs. Wyatt, Goldenweiser, Dreibelbis and Vest left the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board, Chairman Eccles who was not available when the meeting convened participating:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 29, 1940, were approved unanimously.

Letter to the board of directors of "The Peoples Savings Bank", New Knoxville, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following

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special condition, 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:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

Approved unanimously for transmission through the Federal Reserve Bank of Cleveland.

Letter to the board of directors of "The Morrice State Bank", Morrice, Michigan, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, 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."

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 Morrice State Bank', Morrice, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of Michigan for his information.

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"Since the amount of estimated losses classified in the report of examination for membership is only nominal, the usual condition of membership regarding the elimination of estimated losses has not been prescribed.

"It is understood that your office intends to follow closely the matter of the bank's making the needed improvements in its internal operations.

"It is noted that on page 16 of the report of examination for membership, in answer to the question concerning the number of days' notice provided for in connection with savings deposits withdrawals, it is stated that the minimum is 10 days on accounts under \$100. It is assumed that the bank's attention will be called to the provisions of Regulation Q requiring a minimum of 30 days."

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

"In accordance with the request contained in your letter of February 28 on the subject, the Board extends to April 1, 1940 the time within which the 'Jersey State Bank', Jerseyville, Illinois, may accomplish membership in the System."

Approved unanimously.

Letter to "The Citizens National Bank of Norwalk", Norwalk, Ohio, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Ohio, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and

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"the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of January 31, 1940, regarding the investment by The Bank of Carmel, Carmel, California, in its new banking premises.

"On August 23, 1937, the Board approved the investment of \$27,000 which had been made by the bank in a site for a proposed new bank building and the proposed investment of approximately \$35,000 for improvements, with the understanding that the profit, estimated at \$20,000, to be derived from the sale of the old bank premises would be applied to reduce the carrying value of the bank's investment in banking house and fixtures, thus bringing the total down to approximately \$42,000.

"The expenditures actually made, however, greatly exceeded the amount estimated by the bank and approved by the Board. According to the information submitted, the new quarters, furniture and fixtures, cost approximately \$92,500 and the investment is carried on the bank's books at approximately \$68,700, the reduction of \$23,800 having been accomplished through application of the profit of \$8,400 received from the sale of part of the old property, a charge of \$14,100 to undivided profits, and depreciation of \$1,300. The profit realized from the sale of the old banking premises, reported as \$18,400, includes full allowance for a second mortgage of \$5,500 on the old premises, which is carried as a nonbook asset. It is understood that the bank proposes to apply the proceeds of the \$5,500 second mortgage to the reduction of the carrying value of the bank premises and to continue the regular depreciation of both building and furniture and fixtures, which it is stated should amount to at least \$2,500 annually under the present

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"program.

"The expenditures made by the bank over the amount approved by the Board constituted a violation of condition of membership numbered 8 and Section 24A of the Federal Reserve Act. In view of your recommendation and the information available, the Board approves retroactively the investment in bank premises as reported in your letter of January 31. The approval is subject to the condition, however, that the proceeds of the \$5,500 second mortgage referred to in the preceding paragraph are applied to the reduction of the carrying value of the bank premises and a satisfactory program of provision for depreciation in banking premises and furniture and fixtures is maintained."

Approved unanimously.

Letter to French American Banking Corporation, New York, New York, reading as follows:

"Receipt is acknowledged of your letter of February 19, 1940, referring to the Board's letter of February 16, 1940, in which mention was made that the aggregate liability of your corporation, as shown by the call report of condition submitted as of December 30, 1939, for acceptances outstanding and total deposits exceeded by approximately \$202,000 the limitation on such aggregate liability provided for in your agreement with the Board.

"You advise that your daily statement of condition as of December 30, 1939, reflected a balance on your books of \$62,017.75 to your credit with the Guaranty Trust Company of New York, while that institution's balance on its books to your credit amounted to \$1,206,020.47 (which was shown in the call report of condition as an asset), and you state that the difference of \$1,144,002.72 was shown in the call report as Treasurer's checks payable at the Guaranty Trust Company and included in your total deposit liabilities. It thus appears that the call report of condition in this respect reflected figures different from your books and according to informal information obtained from Mr. Claflin, Treasurer of your corporation, in a telephone conversation the situation arose through a misapprehension as to the manner in which the Board desired to have balances with domestic correspondent banks and officers' checks drawn against such balances

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"reported in the call report of condition.

"It is suggested that in future call reports of condition correspondent bank balances be reported net, after deduction of outstanding checks, rather than be reported gross with the outstanding checks included among liabilities.

"In the light of the explanation afforded, it appears that the inclusion in the corporation's deposit liability in the call report of condition of unpaid Treasurer's checks aggregating \$1,144,002.72, drawn against your credit balance with the Guaranty Trust Company, served to inflate such deposit liability and that, in the circumstances, the apparent violation of the provisions of your agreement with the Board referred to above did not exist."

Approved unanimously.

Thereupon the meeting adjourned.

Orestes Morrell
Secretary.

Approved:

W. S. ...
Chairman.