

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 7, 1940, at 10:30 a.m.

PRESENT: Mr. Eccles, 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. Thurston, Special Assistant to the Chairman
 Mr. Wyatt, General Counsel
 Mr. Smead, Chief of the Division of Bank Operations
 Mr. Goldenweiser, Director of the Division of Research and Statistics
 Mr. Dreibelbis, Assistant General Counsel

Mr. Szymczak stated that recommendations had been received from the Federal Reserve Banks of Atlanta and Kansas City covering salaries of officers of the Banks for the year beginning June 1, 1940, and that the recommendations included the following salary increases:

Federal Reserve Bank of Atlanta

| <u>Name</u> | <u>Title</u> | <u>Salary Increase</u> | |
|--------------------|---------------------------|------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| W. S. McLarin, Jr. | First Vice President | \$10,500 | \$11,500 |
| M. H. Bryan | Vice President | 7,500 | 8,100 |
| | <u>New Orleans Branch</u> | | |
| L. M. Clark | Managing Director | 10,000 | 11,000 |
| M. L. Shaw | Cashier | 4,000 | 4,300 |
| | <u>Savannah Agency</u> | | |
| E. M. Looney | Assistant Manager | 2,100 | 2,400 |

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Federal Reserve Bank of Kansas City

| <u>Name</u> | <u>Title</u> | <u>Salary Increase</u> | |
|---------------|---|------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| D. W. Woolley | Assistant Cashier | \$5,400 | \$6,000 |
| T. B. Robb | Manager, Research and Statistical Department | 5,400 | 6,000 |
| S. A. Brown | <u>Denver Branch</u> Cashier | 4,800 | 5,400 |
| O. P. Cordill | <u>Omaha Branch</u> Assistant Cashier | 4,300 | 4,800 |

Mr. Szymczak stated that the salary proposed for Mr. Cordill was in excess of the maximum of \$4,500 per annum provided in the tentative classification adopted by the Board but that in view of the surrounding circumstances, he felt the increase was justified. He also stated that he had reviewed the comments of the Board's examiners with respect to the officers of these banks and in the light of the examiner's comments had discussed with President Hamilton of the Federal Reserve Bank of Kansas City over the telephone the increase proposed for Mr. Brown, and that President Hamilton indicated that he would be satisfied if the Board approved an increase of \$200 to \$5,000 per annum in Mr. Brown's salary although he did feel that in the circumstances to which he referred some increase should be granted. Mr. Szymczak stated that he would recommend approval of all of the increases proposed with the exception of the increase proposed for Mr. Brown and that he would recommend an increase to \$5,000 per annum in that case with the understanding that he (Mr. Szymczak) would discuss the matter with Mr. Caldwell, Chairman of the Kansas City Bank, before the letter to the

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Kansas City Bank advising of the Board's action is sent.

Mr. Szymczak's recommendations were approved unanimously, with the understanding that the letters to the Federal Reserve Banks of Atlanta and Kansas City would be prepared and submitted to the Board for approval.

Following the meeting of the Board on May 3, 1940, the draft of letter to the Bureau of the Budget with respect to section 5 of a proposed bill which would amend section 24 of the Federal Reserve Act to permit national banks to make real estate loans for a term of fifteen years provided 60 per cent of the principal amount of the loan was repaid within that period, was revised and circulated among the members of the Board and was placed on the docket for this meeting for further consideration. The revised draft of letter stated that, for the reasons set forth therein, it was the Board's view that section 5 should be omitted from the proposed bill.

In connection with a discussion of this matter Mr. Eccles reviewed for the information of the other members of the Board a conversation which he had yesterday with Mr. Jones, Federal Loan Administrator, with respect to this bill and also with regard to the latest draft of the Mead bill which would amend section 13b of the Federal Reserve Act relating to industrial loans by Federal Reserve Banks.

There ensued a discussion of the position the Board should take in replying to the request from the Bureau of the Budget and Counsel's office was requested to prepare a draft of reply

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along lines agreed upon during the discussion for consideration by the Board.

Further reference was made to the draft of letter to the Chairmen of all Federal Reserve Banks, which was discussed at the meeting of the Board on May 3, 1940, and which requested any comments that the directors of the banks may wish to make with respect to the latest draft of the Mead bill on industrial loans by Federal Reserve Banks. Consideration was given to the letter in the light of the question whether there is any possibility of the bill being considered at this session of Congress and, therefore, whether any useful purpose would be served at this time in asking the Federal Reserve Banks for their comments. The suggestion was made that, if sent, the letter to the banks should review briefly the background of the present bill and refer to proposals recently made with respect to the creation of an independent system of banks to make industrial loans.

At the conclusion of the discussion, it was agreed that the comments of the Federal Reserve Banks should be invited, the letter to the Banks to be in a form to be approved by Mr. Draper.

During the discussion of the above matter Mr. Vest and Mr. Gardner joined the meeting.

Mr. Eccles stated that H. Merle Cochran, Technical Assistant to the Secretary of the Treasury, called him on the telephone yesterday and said that, because of conditions in Europe, the Bank for International Settlements was considering the appointment of T. H.

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McKittrick, Jr., an American, who is now the President of the bank, as Chairman of the board of directors; and that the matter was being presented to the Board informally to determine whether it saw any objection to the appointment.

During the discussion which followed, Counsel was requested to look into the legal situation with respect to such appointments and be prepared to report on the matter at a meeting of the Board to be held tomorrow morning at 10:30 a.m.

Mr. Dreibelbis stated that yesterday Mr. Logan, Vice President and General Counsel of the Federal Reserve Bank of New York, called him on the telephone and stated that a request had been received by the New York Bank that it honor a request to be made under a power of attorney held by the Norwegian Minister in this country for permission to withdraw the funds held by the Federal Reserve Bank of New York in an account maintained by the Bank in the name of Norges Bank, the central bank of Norway, it being understood that the funds so withdrawn would be deposited in a new account set up on the books of the Federal Reserve Bank in the name of the Norwegian Minister. Mr. Dreibelbis said that Mr. Logan indicated that the Treasury desired the Federal Reserve Bank to handle the account in this manner and had suggested to Mr. Logan that, if the Reserve Bank did not have the necessary authority to take such action, it might be proposed by the Treasury that legislation be enacted to give the bank that power. The question involved so far as the New York Bank is concerned, Mr.

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Dreibelbis said, was whether it would be justified in recognizing the authority of the Norwegian Minister to withdraw the funds of the central bank and, if that question were answered in the affirmative, whether the Reserve Bank could establish the account in the name of the Norwegian Minister. Mr. Dreibelbis added that Mr. Logan had said that the matter was being reported to the Board informally at this time because the questions were of such importance that the Reserve Bank did not want to act on them without taking the matter up with the Board.

There was a discussion of the problem in the light of the consideration which had been given by the Board some time ago to the opening of special accounts for the Bank of England and the Bank of France in which transactions of their respective Governments are conducted, and, at the conclusion of the discussion, the staff was requested to investigate the question of the authority of the New York Bank to open the account for the Norwegian Minister as proposed, it being understood that the matter would be given further consideration at the meeting of the Board to be held tomorrow morning.

At this point Messrs. Thurston, Wyatt, Smead, Goldenweiser, Dreibelbis, Vest and Gardner left the meeting and 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 May 3, 1940, were approved unanimously.

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 4, 1940, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated May 6, 1940, from Mr. Morrill recommending that the salary of Lee W. Langham, guard, be increased from \$1,380 per annum to \$1,500 per annum, effective as of May 16, 1940.

Approved unanimously.

Letter dated May 6, 1940, to "The Citizens-State Bank of Strasburg, Ohio", Strasburg, Ohio, 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 Cleveland:

- "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. 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 Citizens-State Bank of Strasburg, Ohio', Strasburg, Ohio, 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 Superintendent of Banks for the State of Ohio for his information.

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"It is assumed that your office will follow the matter of bringing the savings accounts listed on page 16 of the report of examination for membership into conformity with the Board's regulations."

Telegram to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, referring to the application of the "Currie County Bank", Gold Beach, Oregon, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal Reserve Bank stock issued to the Currie County Bank, the Federal Reserve Bank of San Francisco is authorized to cancel such stock and make appropriate refund thereon. The telegram also stated that it was understood that the Currie County Bank desired its withdrawal to become effective concurrently with the opening of the proposed branch and its acceptance by the Federal Deposit Insurance Corporation as a non-member insured institution.

Approved unanimously.

Letter dated May 6, 1940, to Sanders & Day, Bluefield, West Virginia, reading as follows:

"This refers to Mr. Sanders' letter of April 25, 1940, relating to the authority of your client, The First National Bank of Bluefield, Bluefield, West Virginia, to exercise fiduciary powers in the State of Virginia.

"The Board has frequently expressed the opinion that a national bank which has received permission to exercise fiduciary powers under the provisions of the

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"Federal Reserve Act may, without other authority, exercise the powers granted not only in the State in which the bank is located but also in any other State the laws of which do not expressly or by necessary implication prohibit the exercise of those powers by national banks located in other States. The Board has expressed the opinion, however, that in any such case the national bank would have to conform to those laws of any such other State in which it is acting which relate to the exercise of fiduciary powers by a foreign corporation. We are enclosing for your information a copy of a ruling to this effect published in the Federal Reserve Bulletin for July 1921 at page 816.

"Copies of your letter and this reply are being furnished to the Federal Reserve Bank of Richmond and if you have any further questions concerning the matter it is suggested that you communicate with that institution."

Approved unanimously.

Letter to Mr. Rounds, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This will acknowledge receipt of your letter of May 3, enclosing a letter Mr. Barrows received from Mr. H. F. Browne, Director, Management Research Division, The Conference Board, in which he requests that your bank fill out the enclosed questionnaire on personnel practices.

"The Board sees no objection to your furnishing Mr. Browne with the information as shown on the questionnaire enclosed with your letter.

"For your information, there is enclosed a copy of a letter we are writing to the other Federal Reserve banks with respect to this matter."

Approved unanimously, together with a letter to the Presidents of all Federal Reserve Banks except New York, reading as follows:

"We are in receipt of a letter from the Federal Reserve Bank of New York, enclosing a letter received from

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"Mr. H. F. Browne, Director, Management Research Division, The National Industrial Conference Board, together with a detailed questionnaire on personnel practices which he asked the Federal Reserve Bank of New York to fill out.

"The Board sees no objection to the Federal Reserve banks' furnishing Mr. Browne with the information called for in the questionnaire.

"If your bank receives such a request, it will be appreciated if you will furnish the Board with a copy of your reply."

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

"This refers to your letter of April 30, 1940, with enclosure, regarding the question whether the service of Mr. James H. Penick, a director of the Little Rock Branch of your bank, as Chairman of the State Planning Board of the State of Arkansas would be in violation of the resolution of the Board of Governors of December 23, 1915 with respect to the holding of political or public office by officers and directors of Federal Reserve Banks.

"It is understood that the Arkansas State Planning Board consists of 15 members, including the Governor, representatives of 7 State offices and departments, a representative from the College of Agriculture of the University of Arkansas, and 6 members appointed by the Governor; that all members of the Board serve as such without compensation; and that in general the function of the Board is to prepare an official State plan for the physical development of the State with the purpose of accomplishing a coordinated, adjusted, efficient and economic development of the State. It is noted from your letter that in the opinion of your General Counsel and yourself the service in question is not in violation of the resolution of the Board of Governors.

"On the basis of the information stated above, the Board of Governors offers no objection to Mr. Penick's serving as Chairman of the Arkansas State Planning Board while serving as a director of the Little Rock Branch of your bank."

Approved unanimously.

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Letter dated May 6, 1940, to Mr. Lowell Mellett, Chairman of the Central Housing Committee, prepared for the signature of Chairman Eccles, reading as follows:

"Your request of May 2 for the full time of at least one research person to work two or three months for the Committee on Economics and Statistics has been given careful consideration. We are interested in the problems under review and wish to help in any way possible. Our position, however, is somewhat different from that of the several agencies whose primary concern is with housing. Only one of our research people--Mr. Foster--devotes his time primarily to housing and construction and you will realize, I am sure, that it would not be possible for us to release him from his regular work here. We shall be glad, however, to have him participate in any conferences that may be called with regard to the work planned and to help in any other way that appears feasible."

Approved unanimously.

Thereupon the meeting adjourned.

Chester M. Mowbray
Secretary.

Approved:

W. A. Eccles
Chairman.