

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 25, 1940, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, Assistant General Counsel

Reference was made to a draft of letter to the directors of all Federal Reserve Banks reading as follows:

"It has occurred to the Board that Class A, B and C directors of the Federal Reserve Banks may be interested in receiving regularly copies of the material prepared each month showing applications for membership received and containing excerpts from bank relations reports submitted by the Federal Reserve Banks during the previous month. Accordingly, there is enclosed, for your confidential use, a copy of the Board's letter R-678 dated July 19, 1940, together with its attachments.

"Although it is probable that copies of these reports are being made available to you by the Reserve Bank, it was thought that there would be some advantage in forwarding copies to you directly. In the event you prefer not to receive further copies of this material, or desire them forwarded to you at a different address, it will be appreciated if you will so advise us. In the absence of such advice, future copies will be forwarded to you at the above address each month until further notice."

The letter was discussed and approved unanimously, with the understanding that copies thereof would be sent to the Presidents of the Federal Reserve Banks.

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There was also presented a memorandum dated July 19, 1940, from the Division of Examinations submitting and recommending approval of an application filed by the Guaranty Trust Company of New York for permission to establish a branch of that bank at Vichy, France. The memorandum stated that the establishment of the branch had been approved by the New York State Banking Department, that approval was recommended by the Federal Reserve Bank of New York, and that it appeared that the application was occasioned by the desire of the bank, because of conditions in France, to open a branch at Vichy which could supplement the Paris branch or to which all of the business now being conducted through the Paris office could be transferred.

Mr. McKee stated that, because of unsettled conditions abroad and the possible liabilities with their attendant embarrassments to the bank and the Government of the United States that could arise because of the operation of the branch, there was a question in his mind as to what should be the policy of the Board in passing upon such applications. It was suggested that, while the application is in the form of a request for authority to establish a new branch, it was in effect a request for authority to conduct at the new location business formerly conducted in Paris and that, in view of the difficulty the bank was having in doing business in Paris, the approval in these circumstances of this particular application appeared to be justified.

Thereupon the following order was adopted by unanimous vote:

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"WHEREAS, the Guaranty Trust Company of New York, New York, New York has made application to the Board of Governors of the Federal Reserve System, pursuant to the provisions of sections 9 and 25 of the Federal Reserve Act, for permission to establish a branch in the City of Vichy, France; and

"WHEREAS, it appears upon consideration of said application and information submitted in connection therewith, that it may properly be approved;

"NOW, THEREFORE, IT IS ORDERED that the said application to establish a branch in the City of Vichy, France, be and the same is hereby approved, such branch to be operated and maintained subject to the provisions of sections 9 and 25 of the Federal Reserve Act; upon condition, however, that unless such branch is actually established and opened for business on or before February 1, 1941, the approval hereby granted shall automatically terminate."

The following letter to Vice President Gidney of the Federal Reserve Bank of New York was also approved unanimously:

"In accordance with the recommendation contained in your letter of July 16, 1940, the Board of Governors has authorized the Guaranty Trust Company of New York to establish a branch at Vichy, France, on condition that the branch be actually established and open for business by February 1, 1941.

"Enclosed for delivery to the trust company is a certified copy of the order adopted by the Board authorizing the establishment of the branch. A copy of the order is also enclosed for your files.

"It will be appreciated if you will forward advice as to the date of establishment of the branch and its exact location."

Mr. McKee suggested that during the period of the present war any further applications for the establishment of branches of member banks in belligerent countries be given special consideration by all of the members of the Board who are in Washington at the time the matter comes up for action.

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It was agreed unanimously that Mr. McKee's suggestion should be followed.

Mr. Szymczak presented a memorandum dated June 27, 1940, from Mr. Smead in which it was stated that at the request of Chairman Eccles the Division of Bank Operations had obtained detailed information from the Federal Reserve Banks with respect to the various types of insurance carried by them, the premiums paid, losses sustained, etc., during the period from 1914 through 1938, that it appeared from the study that had been made that the System could save a substantial amount by substituting self-insurance for a large part of the insurance now carried, and that, inasmuch as the Board's Counsel in 1934 rendered an opinion that the Federal Reserve Banks were without authority to undertake a plan of self-insurance, it was recommended that the matter be referred to Counsel with a request that it be reconsidered in the light of existing conditions.

Mr. Szymczak said that the question had been discussed with Mr. Wyatt and that under date of June 18, 1940, he expressed the opinion that it would be possible to work out an arrangement of self-insurance which would be lawful and which, if approved by the Board and limited to risks of losses to the Federal Reserve Banks themselves, would be upheld by the courts, that the question had never been passed upon by the courts and it was impossible to predict with certainty what the courts would hold if the question were presented to them,

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but that, as a practical matter, it was unlikely that the validity of such an arrangement would be challenged in the courts.

The matter was discussed, and Mr. Szymczak suggested that Mr. Harrison, Chairman of the Presidents' Conference, be advised that the Board would favor the adoption of a self-insurance plan by the Federal Reserve System and would suggest that a committee composed of representatives of the Federal Reserve Banks who are fully acquainted with the problem be appointed to work with representatives of the Board for the purpose of formulating a plan which would be submitted to the Presidents of the Federal Reserve Banks and the Board of Governors for approval.

Mr. Smead was requested to draft a letter to Mr. Harrison as Chairman of the Presidents' Conference in accordance with Mr. Szymczak's suggestion, with the understanding that Mr. Szymczak would discuss the matter with Mr. Harrison after which the letter in a form approved by Mr. Szymczak would be sent.

Mr. Szymczak then submitted a memorandum prepared by him under date of July 23 to which was attached a letter dated July 12, 1940, from Mr. Leach, President of the Federal Reserve Bank of Richmond, requesting approval by the Board of the purchase by the bank of a site for the proposed building for the Charlotte Branch of the Richmond Bank at a cost of not to exceed \$100,000 plus 5 per cent commission to the Bank's real estate agent and authorization to proceed with

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preparation of plans for the building. The memorandum stated that on July 22 Mr. Szymczak went to Charlotte and, in company with Mr. Leach; Mr. Lassiter, Chairman of the Bank; Mr. Clements, Managing Director of the branch; and Mr. Hemby, a director of the branch; looked at the proposed site and other possible locations for the branch building; that the price quoted for the proposed site seemed to be reasonable in the light of quotations on other business property in the locality, and that the site was in a location where it is expected that values will increase. The memorandum also said that the plans for the branch building which had been submitted with Mr. Leach's letter contemplated the construction of a one-purpose building, that Mr. Szymczak had advised Messrs. Leach and Lassiter that he thought the construction of such buildings for branches of Federal Reserve Banks was a mistake, and that they agreed that if a building is to be constructed for the Charlotte Branch it should be an all-purpose building which could be more readily sold. The concluding statement of the memorandum was that, unless the Board should now conclude that it would, within the reasonably near future, take up the question of discontinuing a number of branches or substantially curtailing their functions, it was recommended that the Bank be authorized to purchase the proposed lot in Charlotte at a cost of \$100,000 plus 5 per cent commission and to proceed with the preparation of detailed plans and specifications for the construction of an all-purpose building with the understanding

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that the plans and specifications will be submitted to the Board for approval before a construction contract is awarded.

There was a discussion of the question whether the proposed purchase price of the site was too high and Mr. Szymczak reviewed briefly the results of the investigation which he had made in Charlotte which led him to the conclusion that there was no other site available in Charlotte as satisfactory as the proposed one which could be obtained for that price. A question was also raised whether a commission would be paid to the agent by the present owners of the property and whether the Federal Reserve Bank would be justified in paying a commission in addition to the purchase price.

At the conclusion of the discussion, upon motion by Mr. Davis, Mr. Szymczak was requested to discuss the latter point with Mr. Leach with a view to satisfying himself as to the justification for the payment of a commission by the Bank and it was understood that when the purchase price of the proposed site was determined upon, a letter, to be approved by Mr. Szymczak, would be addressed to Mr. Leach authorizing the Bank to purchase the site and to proceed with the preparation of detailed plans and specifications for an all-purpose building, such plans and specifications to be submitted to the Board for approval before the execution of a contract for the construction of the building.

At the request of Mr. McKee, Mr. Dreibelbis reviewed briefly for the information of the Board the recent developments and telephone

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conversations which he had had with Mr. Logan, Vice President and General Counsel of the Federal Reserve Bank of New York, relating to (1) the attempt of the Federal Reserve Bank of New York to obtain a pledge of gold in connection with the renewal of the central bank credit to the National Bank of Hungary, and (2) requests that balances in correspondent accounts and gold under earmark at the Federal Reserve Bank of New York belonging to the National Banks of Lithuania, Latvia and Estonia be transferred to the State Bank of the Union of Socialist Soviet Republics.

There was agreement among the members of the Board present that it was not necessary for the Board to take any action on these matters at this time.

At this point Messrs. Smead and Dreibelbis left the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 24, 1940, were approved unanimously.

Letter to the board of directors of the "Peoples Bank of Cuba", Cuba, Missouri, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, 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

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Bank of St. Louis.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Peoples Bank of Cuba', Cuba, Missouri, 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 Finance for the State of Missouri for his information.

"Since the estimated losses classified in the report of examination for membership are reported to have been eliminated during the examination, the usual condition of membership regarding the elimination of losses has not been prescribed."

Memorandum dated July 24, 1940, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, stating that the computation of the revised index of industrial production had been completed and a description of the index, together with detailed statistical tables, had been set up in type and that unless the Board had objection this material would be published in the August issue of the Federal Reserve Bulletin. The memorandum also stated that it was contemplated that the article would be published without signature of any particular author but with the following footnote indicating responsibility of individual staff members for the various aspects of the work:

"Revision of the Board's production index was conducted by Maxwell R. Conklin under the general supervision

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"of Woodlief Thomas, Assistant Director, and Frank R. Garfield, head of the section on domestic business conditions of the Division of Research and Statistics. Mr. Conklin was primarily responsible for working out the methods used and supervising the actual work of compiling the new index and also for preparing this article. Other members of the section were responsible for or assisted in working up individual series where complex estimates or adjustments were necessary and made contributions also in other phases of the work; these included John O. Bergelin, Ray R. Foster, Clayton Gehman, H. C. Barton, Jr., Katharyne Reil, and Michael Marsh. Mr. Barton was responsible for much of the work in deriving adjustments for seasonal variations."

The memorandum stated further that any future substantial revisions in composition, base period, or methods of construction which would result in major changes in the figures in the index will be brought to the attention of the Board.

The publication of the index in the manner indicated was approved unanimously.

Letter to Mr. Ralph L. Hebbard, Acting Water Registrar of the District of Columbia, reading as follows:

"Receipt is acknowledged of your letter of July 19, 1940, in which you advised that at their board meeting July 12, 1940, the Commissioners of the District of Columbia approved a recommendation of the Corporation Counsel that the opinion of the Corporation Counsel approved January 7, 1938, exempting the Federal Reserve Building from payment of charges for water, be revoked, and that the Water Registrar be directed to remove the Federal Reserve Building from the list of those entitled to free use of water. You also advised that, pursuant to this order of the Commissioners, the water furnished to the Federal Reserve Building will be under the meter system and the charges will be uniform with the rates prevailing in the District of Columbia.

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"The Assessor for the District of Columbia has advised the Board of Governors under date of July 17, 1940, that under a recent opinion of the Corporation Counsel the Commissioners have directed his office to place the Federal Reserve Building on the taxable list, and he has submitted tax bills to the Board accordingly. The Board has advised the Assessor that its General Counsel will communicate with the Corporation Counsel regarding this matter upon the latter's return to the city, which we understand is expected on August 1. For your information in this connection, a copy of the letter from the Assessor, together with a copy of the Board's reply, is enclosed.

"Inasmuch as the opinion rendered by the Corporation Counsel in this matter relates both to the taxability of the Board's real estate and to the free use of water by the Board, it is hoped that you can arrange to defer any action with respect to water used by the Board pending the determination of the question of the taxation of its real estate. We will greatly appreciate advice from you to this effect."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. S. ...
Chairman.