

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 27, 1940, at 10:40 a.m.

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

Mr. Morrill, Secretary
Mr. Goldenweiser, Director of the Division
of Research and Statistics

Mr. Goldenweiser stated that H. C. Barton, a Junior Economist in the Division of Research and Statistics whose present salary is at the rate of \$3,700 per annum, had been offered a position with the National Defense Commission with a salary of \$4,600 per annum, after Mr. Nathan, principal economist in the Bureau of Research and Statistics of the Commission in whose section Mr. Barton would work, had inquired whether there would be any objection to his negotiating with Mr. Barton; that in line with the policy of the Defense Commission Mr. Barton's training and experience had been reviewed by the Civil Service Commission; and that it was understood his qualifications would come within a grade which would justify a salary at the rate of \$4,600 per annum. Mr. Goldenweiser also said that Mr. Barton was the only man in his Division who had acquired special familiarity with labor matters; that difficulty had been experienced in finding anyone with proper qualifications in that field; that he felt quite certain that if he were faced with the necessity of replacing Mr.

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Barton the person selected could command a salary from \$5,000 to \$6,000 per year; and that, consequently, while he would not want to stand in the way of Mr. Barton's advancement, he was very much interested in retaining his services. He added that he understood that Mr. Barton would prefer to remain in the service of the Board, but did not feel he should make the financial sacrifice that a refusal of the offer of the National Defense Commission would entail. Mr. Goldenweiser made the further statement that he believed there was a question of policy involved for the reason that similar questions might arise in other divisions, that there were three other men in his division who might be considered as being on a comparable basis with Mr. Barton with respect to their present salaries, and that the services of these four men would justify higher salaries than they are receiving.

At the conclusion of a discussion, Mr. Goldenweiser recommended that the salaries of the four employees of his division to whom he had referred be increased as follows:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Hugh C. Barton, Jr.	Junior Economist	\$3,700	\$4,600
John O. Bergelin	Associate Economist	4,000	4,600
Clayton Gehman	Junior Economist	3,800	4,200
Roland I. Robinson	Associate Economist	4,000	4,400

Mr. Goldenweiser's recommendation was approved unanimously with the understanding that the salary changes would become effective September 1, 1940.

Mr. Goldenweiser left the meeting at this point.

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At the request of Mr. Szymczak, Mr. Morrill reported a telephone conversation which he had had with Mr. Parker, President of the Federal Reserve Bank of Atlanta, in which the latter inquired whether a policy had been established for the granting of leave and the payment of salary to employees of the Board of Governors and of the Federal Reserve Banks who are called into military service and stated that two members of the staff of the Atlanta Bank had been called to report for duty in the Naval Reserve, that there were six or more employees of the Bank who were members of the National Guard and who expected to be called for service in September, and that he felt that the policy followed by the Federal Reserve System in the matter should be a uniform one. Mr. Parker stated further, Mr. Morrill said, that the question would be discussed at the next meeting of the board of directors of the Bank, and that it was his personal opinion that it would be desirable to allow such men leave of absence and to pay their salaries to the extent necessary to make up the difference between their regular salaries and the pay received while in the service, which he understood many business concerns proposed to do for their employees. Mr. Szymczak said that, when he was in Chicago recently, a similar question came up in a conversation which he had with President Schaller.

Mr. Morrill made the further statement that, during his conversation with Mr. Parker, the latter said that a meeting of the Legislative Committee of the Presidents' Conference had been called

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for September 20, 1940, and in this connection Mr. Ransom stated that in a recent telephone conversation Mr. Harrison, President of the Federal Reserve Bank of New York, had referred to the meeting of the Legislative Committee of the Presidents' Conference and felt it would be desirable to call a meeting of all of the Presidents of Federal Reserve Banks at or about the same time.

Mr. Morrill was requested to address a letter to Mr. Harrison as Chairman of the Presidents' Conference suggesting that the question raised by Mr. Parker be put on the program for the next Presidents' Conference, and to advise Mr. Parker of this request.

For their information, Mr. Ransom advised the other members of the Board of informal discussions in which he had participated with representatives of the American Bankers Association and Mr. Delano, Comptroller of the Currency, regarding the possible effects on banks of pending excess profits tax proposals.

Mr. Ransom also advised the members of the Board of a recent visit which he had had from Mr. Charles F. Zimmerman, President of the First National Bank, Huntingdon, Pennsylvania, and Mr. E. W. Thomas, President of the First National Bank, Gettysburg, Pennsylvania, with respect to the "self-dealing" provisions of Regulation F, Trust Powers of National Banks. Mr. Ransom stated that the views which Mr. Zimmerman had expressed on this subject were being incorporated in a memorandum which would be circulated among the other members of the Board as soon as available.

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At this point Messrs. Carpenter, Assistant Secretary; Thurston, Special Assistant to the Chairman; and Smead, Chief of the Division of Bank Operations, joined the meeting.

Reference was made to a letter dated August 15, 1940, from President Harrison of the Federal Reserve Bank of New York, outlining the procedure which it was proposed to follow in the air conditioning of the bank building at a cost of approximately \$1,072,500, and requesting approval by the Board of Governors of the Bank's proceeding with this work. The letter, together with a memorandum dated August 22, 1940, from Mr. Van Fossen, had been circulated among the members of the Board.

After a brief discussion the following letter to Mr. Harrison was approved by unanimous vote:

"Reference is made to your letter of August 15, 1940, concerning the proposal to air condition the building occupied by your Bank.

"The Board has considered this matter in light of the circumstances described in your letter, and will interpose no objection to the expenditure of approximately \$1,072,500 for the air conditioning of your Bank building."

At this point Messrs. Thurston and Smead 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 August 26, 1940, were approved unanimously.

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Memorandum dated August 23, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reasons stated in the memorandum, Miss Mary Jane Harrington be appointed as a clerk in the Division, with salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

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

"In accordance with the request contained in your letter of August 22, the Board approves the designations of the following employees of the Reserve Bank as special assistant examiners:

Charles V. Burnett
Howard F. Craig
John E. Tyler
Joseph Free
H. Leland Clifford
Gordon J. Will
Gustav A. Kress

"As requested, the names of those listed as being no longer available to assist the examiners have been removed from the list of employees approved as special assistants for your bank."

Approved unanimously.

Letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of August 12 in reply to an earlier letter from the Board regarding primarily the matter of capital deficiency at the 'Commerce Union Bank', Nashville, Tennessee.

"It has been noted that you and Mr. Denmark went to Nashville and discussed the situation with President Potter

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"and Executive Vice President Williamson, the two principal executive officers of the bank. You report that the officers recognize that the bank's capital needs strengthening and have been giving considerable thought to the matter, that it has been, and is now, their definite intention to increase the capital by \$1,000,000, and the plan is to effect an initial increase of \$500,000 and follow that as soon as feasible with another increase of a like amount, but that they and the directors have felt that at no time since the bank was admitted to membership, and particularly so at this time on account of the foreign situation, have conditions been conducive to the sale of additional stock. You state that in the circumstances you were unable to obtain a commitment from the management covering an increase in the bank's capital structure within a definite time, but did receive assurances that appropriate steps would be taken just as soon as conditions seemed favorable. The Board is disappointed that nothing more definite developed from the discussions.

"It is understood that the bank is in responsible hands, that there are several men of means on the board of directors, that President Potter and members of his family represent substantial financial responsibility and that he is intensely interested in the welfare of the bank and its subsidiary national bank. It is understood also that President Potter is regarded as a capable bank executive.

"The situation with respect to capital, while unsatisfactory, is not acute. In view of the favorable factors involved, the Board is willing to pass the matter for the present. It must be recognized, however, that the same uncertainties which it is claimed have created a condition unfavorable to the sale of new stock may also have an adverse effect upon the assets of the bank and thereby intensify the need for the additional capital. The Board and the Reserve Bank must also be mindful of the fact that they have a definite responsibility in connection with the maintenance of adequate capital by the Commerce Union Bank and that, of course, that responsibility has not been discharged by reviewing the situation with the responsible officers of the bank and accepting their contention that conditions should improve before the sale of additional stock is undertaken. It is requested, therefore, that the matter be reviewed again with the management around the first of February of next year, unless of course some action has been taken in the meantime, and the Board advised of

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"the situation at that time.

"With respect to the absorption of the Broadway National Bank, the Board is not inclined to insist upon any action at this time."

Approved unanimously.

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

"This refers to your letters of July 24 and August 20, 1940, with regard to the application of the 'Citizens Bank', Hebron, Indiana, for permission to exercise limited trust powers.

"In view of the information submitted by you, and in accordance with your recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission, under the provisions of its condition of membership numbered 1, to act as executor and administrator of estates. The Board's approval is given subject to acceptance by the bank of the following conditions prescribed in connection with the admission to membership of banks exercising trust powers:

- "6. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
- "7. 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.
- "8. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

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"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 8 until further notice.

"With reference to the account listed in the report of examination of December 5, 1939, as 'trustee under agreement', it is noted from your letters that this is merely a deposit of securities which will in the event of death be turned over to the Department of Welfare to bear the expenses of burial of the depositor, and that you regard the account as being a safekeeping capacity rather than a fiduciary matter. In accordance with your recommendation, therefore, the Board interposes no objection to the applicant bank handling an account of this nature.

"You are requested to advise the Citizens Bank, Hebron, Indiana, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting the conditions listed above and forwarded a certified copy thereof to the Board."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Frank Vanom
Vice Chairman.