

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, October 29, 1940, at 10:45 a.m.

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

Mr. Morrill, 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

Mr. McKee stated that yesterday he and Messrs. Eccles and Morrill discussed the letter received from the Board's architect under date of October 21, 1940, in which the architect expressed a willingness to accept either of two suggested proposals. Under the first proposal, Mr. McKee said, the Board would make payment of the 20 per cent of the contract fee due upon completion of the preliminary studies for the alteration to the present building and 30 per cent of the fee for the annex which would cover the work on the preliminary studies as well as the work that had been done toward the completion of the contract drawings and specifications. To these sums would be added reimbursement for travel as provided in the contract and it would be understood that if no further work were authorized by the Board the payment would constitute full settlement, but that should the decision be made at a later date to proceed with the work the terms of the present contract

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would again apply. Under the second proposal the Board would pay the 20 per cent of the fee due upon completion of the preliminary studies for both the alteration and addition and authorize the architect to complete the contract drawings and specifications on the addition, and upon completion of the work the Board would pay the architect an additional 40 per cent of the contract fee for the addition. Should a decision be made to ask for bids the Board would then pay the architect an additional 20 per cent of the fee provided for the addition. Under this proposal the work on the contract drawings and specifications would be done at such times as would be convenient to the architect and if the Board should decide to ask for bids on the addition the terms of the present contract would again become effective.

Mr. McKee made the further statement that, in view of all the circumstances involved and the helpful attitude of the architect in the matter, it had been decided by the Board's committee to recommend that the Board approve an arrangement under which the work on the contract plans and specifications for the addition would be carried to completion with the understanding that no time limit would be set but that the architect would do the work as the other work in his office permitted, subject, however, to the right on the part of the Board, if in its judgment conditions required, to call on the architect to expedite the contract plans and specifications and to finish them within such time as the Board deemed reasonable after consultation

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with the architect. The plan would also provide, Mr. McKee said, that, while the Board has the right at this time under the contract to approve the preliminary drawings and to pay 20 per cent of the contract fee, the Board, instead, would agree to pay 30 per cent (together with the items of travel expenses submitted with Mr. Livingston's letter of October 21, 1940) at this time, and an additional 30 per cent when the plans and specifications for the addition were ready for bids, no further payments to be made by the Board unless it should be decided to ask for bids on the construction of the addition, in which event the additional 20 per cent of the fee provided in the contract for the annex would be paid. The payment of the 30 per cent at this time would not imply that the Board approved the preliminary drawings but would constitute approval in principle of the general character of the preliminary plans, including the elevations as shown on the drawings, it being understood that such approval would enable the Board to substitute marble for limestone and make changes in the floor plans, particularly the fifth floor, and that the architect would not proceed with any drawings based on the use of limestone until a decision on the material to be used was reached. Decisions on the floor plans and exterior stone would be made as soon as possible and after approval was then given by the Board any further changes made would be at the additional costs provided for in the existing contract. Further

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provision would be made, Mr. McKee added, for the immediate payment of the 20 per cent provided in the contract to be paid upon approval by the Board of the preliminary plans for the alteration to the present building.

Chairman Eccles stated that it was felt that, in order to relieve the Board of the duty of passing upon the detailed questions that might arise in connection with the completion of the contract plans and specifications, a committee should be appointed for that purpose with full power to act, and that it was his suggestion that the committee consist of Messrs. McKee and Szymczak, with Mr. Morrill serving as secretary of the committee, it being understood that if either member of the Board were absent the other member would be authorized to act.

Reference was made also to the question whether marble or limestone should be used for the exterior of the annex and it was stated that Chairman Eccles planned to confer on the matter with Mr. Miller, a former member of the Board who served in an advisory capacity in connection with the construction of the present building, and Mr. F. A. Delano, Chairman of the National Capital Park and Planning Commission. In connection with this point, Mr. Morrill stated that should it be decided to construct the building with a marble exterior, this would add to the cost of the building and the fee to the architect under the existing contract would be increased accordingly.

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Mr. Draper moved that the Board approve an arrangement with the architect as outlined by Mr. McKee.

Mr. McKee inquired whether a decision on the matter should be reached without determining whether Messrs. Ransom and Szymczak, who were absent from Washington, would be willing to approve. Mr. Draper stated that before leaving Washington Mr. Ransom said he would be willing to accept any solution of the matter that would be agreeable to Mr. Draper, as he had discussed the entire matter fully with Mr. Draper, and they were in agreement in principle on the Board's position in the matter. Mr. Davis stated that Mr. Szymczak expected to return to Washington this afternoon and the matter could be presented to him tomorrow.

Thereupon Mr. Draper's motion was put by the chair and carried unanimously, with the understanding that, if the proposed arrangement were approved by Mr. Szymczak, a letter to the architect setting forth the proposal would be prepared and sent upon approval by Chairman Eccles.

Mr. Davis moved that, as suggested by Chairman Eccles, Messrs. McKee and Szymczak be appointed a building committee with power to act on all questions arising in connection with the completion of the final plans and specifications for the addition and that Mr. Morrill serve as secretary of the committee.

Carried unanimously.

Before this meeting the attention of the members of the Board who were in Washington was drawn to a letter received under date of October 18, 1940, from Mr. Lichtenstein, Secretary of the Federal Advisory Council, asking for a list of topics which the Board of

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Governors desired the Council to discuss at its meeting of November 17-19, 1940. Mr. Davis suggested that the Council be requested to consider further the part that banks may take in financing the defense program.

This suggestion was agreed to unanimously, and the Secretary was requested to prepare a letter to Mr. Lichtenstein transmitting such a request.

Chairman Eccles stated that in accordance with the action taken at the meeting of the Board on October 9, 1940, he had appointed a committee consisting of himself and Messrs. Szymczak and Draper to confer with the committee appointed by the Federal Advisory Council on the "easy money" statement submitted by the Council, and that arrangements had been made with Mr. Fraser, Chairman of the Council committee, to meet with the Board's committee on Friday, November 15, 1940, at which time it was proposed to determine whether a statement could be prepared on which the members of the Council and the Board could agree. Chairman Eccles also stated that he had requested the Division of Research and Statistics to analyze the statement submitted by the Federal Advisory Council for the purpose of pointing out its objectionable features and to prepare a factual statement such as would be made by the Board if the question which gave rise to the Council's statement had been submitted to the Board. Mr. Eccles added that it was believed that, before the meeting of the two committees is held, the members of the Board should consider

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the material being prepared by the Division of Research and Statistics and to give the Board's committee any instructions that seem to be appropriate in the circumstances.

It was agreed that the Board would meet for this purpose on the afternoon of November 7 or 8, 1940.

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 then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 28, 1940, were approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, stating that the Board of Governors approves for the Minneapolis Bank, effective as of October 30, 1940, the following rates on industrial advances under section 13b of the Federal Reserve Act:

"Advances direct to industrial or commercial organizations: 3% to 6%.

"Advances to or in participation with financing institutions:

On portion for which institution is obligated: 3% to 6%, excepting that in those cases where financing institution charges less the rate may be the same as that charged by financing institution.

On remaining portion: 3% to 6%, excepting that in those cases where financing institution charges less the rate may be the same as that charged by financing institution.

"Commitments to make advances: 1% to 2%."

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The telegram also stated that the Board approves the establishment by the Bank without change of the other rates of discount and purchase in the Bank's existing schedule, advice of which was contained in Mr. Peyton's telegram of October 24, 1940.

Approved unanimously.

Letter to the board of directors of the "Bank of Babylon", Babylon, New York, 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 New York:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$692, as shown in the report of examination of such bank as of September 10, 1940, made by an examiner for the Federal Reserve Bank of New York."

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 of the 'Bank of Babylon', Babylon, New York, 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 New York for his information.

"It has been noted that the State Banking Department has suggested that the bank write down the book value of

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"the banking house \$6,300 in order to make provision for depreciation not written off in previous years, but that the directors replied that they felt they could not increase the amortization beyond the rate of 3 per cent which had recently been established. In accordance with the recommendation of the Reserve Bank, the Board has not prescribed any special condition regarding provision for depreciation in fixed assets, but this is not to be regarded as an indication that the proposed depreciation program should be considered satisfactory. That depends upon circumstances and provision for adequate depreciation in this and in other cases is a matter for continuing consideration by the Reserve Bank in the discharge of its regular supervisory responsibilities.

"It has been noted, also, that the supervisory examiner for the F.D.I.C. suggested that a condition of membership be prescribed requiring prior approval of the Reserve Bank or the Board before any future capital adjustments are made, but that the Reserve Bank feels that such a condition is unnecessary since the matter will be taken care of by standard condition of membership numbered 2. While such condition does not require prior approval of retirements of capital debentures owned by others than the Reconstruction Finance Corporation, its provisions regarding the maintenance of adequate capital and surplus funds restrict their retirement and it is expected, of course, that the Reserve Bank will not permit any unwarranted retirements of either the debentures owned locally or those held by the Reconstruction Finance Corporation."

Letter to the board of directors of "The Planters Bank of Bridgewater", Bridgewater, Virginia, 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 Richmond:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses aggregating

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"\$628.00 as shown in the report of examination of such bank as of September 14, 1940, made by an examiner for the Federal Reserve Bank of Richmond."

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Planters Bank of Bridgewater', Bridgewater, Virginia, 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 Commonwealth of Virginia for his information.

"In the report of membership examination the examiner comments upon the management's lax collection policy as evidenced by numerous loans in which there has been little or no change within recent years. The application has been approved with the understanding that the Reserve Bank will follow the situation closely and further the efforts which the Federal Deposit Insurance Corporation and the State Department have made to bring about the desired improvements in the handling of the bank's loans."

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Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that The Grant County Bank, Medford, Oklahoma, became a member of the Federal Reserve System on October 28, 1940, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Relet October 25, Board approves the 'Memorandum of procedure adopted by the Presidents' Committee for uniform treatment of employees of the Federal Reserve Banks who may be called for military service' enclosed therewith, and also the payment of up to one month's unearned salary to employees entering military and naval service as described in the report of your Committee."

Approved unanimously, with the understanding that a copy of the telegram would be sent by wire to the President of each other Federal Reserve Bank.

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Thereupon the meeting adjourned.

Chester Nowell
Secretary.

Approved:

W. Steuler
Chairman.