

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 25, 1941, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 24, 1941, were approved unanimously.

Telegrams to Messrs. Sanford and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, 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 April 22, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on April 24, 1941, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memorandum from Mr. Nelson, Assistant Secretary, submitting the resignation of Robert M. Garner as a guard in the Building Operation and Maintenance Section of the Secretary's Office, effective as of the close of business on May 15, 1941, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

"The salaries fixed by your Board of Directors for the officers of the Federal Reserve Bank of Boston for the period May 1, 1941 to April 30, 1942, as submitted in your letter of April 17, 1941, are approved by the Board of Governors as follows:

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> |
|-------------------|-------------------------------|----------------------|
| Roy A. Young | President | \$30,000 |
| W. W. Paddock | First Vice President | 20,000 |
| William Willett | Cashier | 14,500 |
| K. K. Carrick | Secretary and General Council | 14,000 |
| E. G. Hult | Assistant Cashier | 8,750 |
| C. B. Pitman | Assistant Cashier | 8,500 |
| L. W. Sweetser | Assistant Cashier | 7,500 |
| John J. Fogg | Auditor | 5,500 |
| A. C. Kennel, Jr. | Assistant Counsel | 5,000 |

"The Board also approves payment of salary to Mr. John C. Hunter, Assistant Cashier, at the rate of \$5,500 per annum, for the period April 16, 1941 to April 30, 1942 as fixed by your Board of Directors."

Approved unanimously.

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

"The salaries fixed by your Board of Directors for the officers of the Federal Reserve Bank of Philadelphia

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"for the period May 1, 1941 to April 30, 1942, as submitted in your letter of April 18, 1941, are approved by the Board of Governors as follows:

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> |
|-------------------|-------------------------------|----------------------|
| J. S. Sinclair | President | \$25,000 |
| F. J. Drinnen | First Vice President | 16,000 |
| C. A. McIlhenny | Vice President and Cashier | 13,200 |
| W. J. Davis | Vice President | 13,000 |
| E. C. Hill | Vice President | 10,000 |
| C. A. Sienkiewicz | Vice President | 9,000 |
| Arthur E. Post | Secretary | 3,500 |
| Wm. G. McCreedy | Assistant Vice President | 9,000 |
| L. E. Donaldson | Assistant Vice President | 6,500 |
| John McDowell | Assistant Vice President | 6,000 |
| James M. Toy | Assistant Cashier | 8,000 |
| Philip M. Poorman | Auditor | 7,000" |

Approved unanimously.

Letter to the board of directors of the "Erie County Trust Company", East Aurora, New York, stating that, subject to conditions of membership numbered 1 to 6, inclusive, 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:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$13,143, as shown in the report of examination of such bank as of March 13, 1941, made by an examiner for the Federal Reserve Bank of New York."

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

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"The Board of Governors of the Federal Reserve System approves the application of the 'Erie County Trust Company', East Aurora, 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.

"Standard condition numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future, if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board, you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York."

Letter to the board of directors of "The Hope State Bank", Hope, Indiana, stating that, subject to conditions of membership numbered 1 to 6, inclusive, 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 Bank of Chicago.

Approved unanimously, together with a letter to Mr. Young, 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 Hope State Bank', Hope, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank

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"are preferred claims in the 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 6 until further notice."

Letter to the board of directors of "The State Bank of Andrews", Andrews, Indiana, stating that, subject to conditions of membership numbered 1 to 3, inclusive, 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 Bank of Chicago.

Approved unanimously, together with a letter to Mr. Young, 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 State Bank of Andrews', Andrews, Indiana, 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 Director, Department of Financial Institutions, for the State of Indiana for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership requiring elimination of losses has not been prescribed. It is understood, however, that proper provision for losses will be made upon receipt of the State report of examination."

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

"Reference is made to the report of examination of the Wyoming County Bank and Trust Company, Warsaw, New

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"York, as of February 15, 1941.

"While the problems of this institution are well known and some action designed to bring about improvements in its condition has been taken, much remains to be accomplished. The examiner reports that the general condition of the bank is still considered unsatisfactory for the most part, its future prospects only fair, the management below average, and the board of directors unsatisfactory, apparently because 5 of the 7 members are also officials of the bank and have been, for the most part, closely associated with Chairman Humphrey for a period of years.

"The status of Chairman Humphrey seems to be deserving of consideration, although the examiner states that the changes made since the last examination lead one to believe that his former domination has been curtailed if not eliminated entirely. It would appear that the treatment being accorded the indebtedness of Mr. Humphrey and related interests is somewhat lenient despite the heavy charge-offs made thereon by the bank. In the confidential section it is reported that Mr. Humphrey has made promises in the past to obtain new board members but that it would seem his efforts in this direction have not been more than half hearted and that his reluctance to obtain new directors may be laid to his unwillingness to acquaint others with his present financial condition. It is fortunate that the two outside directors, Messrs. Klostermyer and Schlegel, who came to the bank several years ago, have been prompted by a civic duty to take a constructive interest in the bank's affairs, but it seems desirable that the preponderance of officials of the bank on the board of directors be substantially reduced. Whether the bank will be able to make adequate progress until it has a thoroughly independent and capable board of directors seems questionable. It is suggested that the matter of having a majority of the board of directors comprised of members who have not been affiliated with Mr. Humphrey or his interests and who are not officers of the bank be taken up with the New York State Banking Department and the bank. In the event that the matter meets with objection on the part of the bank it will be appreciated if you will advise whether you feel the Board should suggest to the Reconstruction Finance Corporation that it exercise its majority voting rights to elect suitable new members to the board.

"The discontinuance of further retirements of preferred stock and payment of dividends thereon appears to

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"be fully justified by the deep seated unsatisfactory features of the bank's condition and it is hoped that the bank will continue to conserve its earnings and its capital funds until such time as all need therefor has been clearly removed.

"As stated in the Board's letters of December 20, 1938, and July 25, 1939, the Board's approval of the application of the bank for membership was based largely upon the fact that the largest bank in the group to be merged was a national bank and thus a member of the System; that the proposed plan of merger was essentially a simplification of an existing situation; and that the consolidation of the several banks all controlled by the same interests in the one bank which would be a member of the System could be expected to contribute to the working out of an unsatisfactory situation. In view of these circumstances it is particularly important that nothing be left undone which will tend to improve the unsatisfactory features of the bank's condition and the Board will appreciate the continuation of your efforts in cooperation with the State Banking Department to effect improvements therein and will also appreciate your continuing to keep it advised in connection therewith."

Approved unanimously.

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

"In response to your request of April 21, 1941, you are advised that the Board approves the opening and maintenance of dollar and securities custody accounts as outlined in your letter for and in the names of the British, the Netherlands, the Canadian, and the Australian Governments.

"It is noted that you propose to offer participation in the accounts to the other Federal Reserve Banks after you have received confirmation that it is agreeable to the Treasury Department for your Bank to discontinue maintaining the accounts as fiscal agent of the United States and thereafter to maintain them under authority of section 14(e) of the Federal Reserve Act, as amended. The Board approves such participation effective when you have received confirmation from the Treasury Department and

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"accordingly a copy of this letter is being sent to each of the Banks."

Approved unanimously.

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

"Your bank is authorized, when it has received certification in accordance with the procedure provided in section 25(b) of Federal Reserve Act, to open and maintain accounts in name of Yugoslavian Government. The other Federal Reserve Banks are authorized to participate in such accounts and will be so advised by the Board."

Approved unanimously.

Letter to Honorable Ramsey S. Black, Third Assistant Postmaster General, reading as follows:

"The Board of Governors of the Federal Reserve System is establishing a voluntary payroll deduction plan for the purchase of Defense Savings Bonds (United States Savings Bonds, Series E). Under this plan any employee of the Board who desires to do so authorizes the Board to make periodic deductions from his salary and the amounts so deducted are accumulated and applied by the Board to the purchase of United States savings bonds from time to time in the denominations specified by the employee. A copy of a pamphlet describing the operation of this plan is enclosed herewith for your information. This matter has been the subject of a telephone conversation between a representative of the Board and the Superintendent of your Registered Mail Division.

"It will be observed that when bonds are purchased for an employee pursuant to the plan they are delivered by the Treasury Department directly to the employee and it is contemplated that this will usually be by registered mail. Some of the Board's employees have requested that arrangements be made so that, if possible, the registered mail packages containing the bonds may be addressed and delivered to the employees at the offices of the Board of Governors. This request is made because in some cases

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"there is no one at the residence of the employee who can receipt for registered mail packages and in other cases because of the possibility of the packages being lost or mislaid when delivered to the employees' residences. It is understood, however, that there is a rule or policy of the Post Office Department which prevents the delivery of registered mail packages of a personal character to Government employees at their office addresses in Washington.

"It would, it is believed, be a definite aid to the sale of Defense Savings Bonds to employees of the Board of Governors if some modification in this policy could be effected under which it would be possible for the Post Office to deliver registered mail packages containing such bonds to employees of the Board at the Federal Reserve Building. If this could be worked out in a manner satisfactory to your department, the Board would have its mail clerk give proper receipts to the Post Office representatives for registered mail packages containing such bonds addressed to employees of the Board. The mail clerk would then deliver the bonds to the addresses and obtain personal receipts from them which would be kept on file among the records of the Board.

"It will be greatly appreciated if you will give consideration to this matter and advise us whether or not a modification of the present policy to effect the purpose indicated will be possible. The employees of the Board have been asked to send in their authorizations for payroll deductions prior to May 5, 1941, if they desire to join the plan. These authorizations contain instructions as to the address at which the bonds should be delivered and, accordingly, it would be a distinct accommodation to us if we could hear from you on this subject not later than May 3, 1941, in order that those employees who desire to have bonds delivered at the Board's offices may be properly advised on this point when filling out their authorization blanks."

Approved unanimously.

Memorandum dated April 24, 1941, from Mr. Smead, Chief of the Division of Bank Operations, recommending that, for the reasons stated in the memorandum, the following letter be sent to all of the Federal Reserve Banks:

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"Recently one of the Federal Reserve Banks advised the Board informally that it expects a crowded condition in its vaults when the new financing program of the Treasury gets fully under way, and asked whether there would be any objection to canceling and shipping to Washington for destruction the stock of unissued Federal Reserve Bank notes now held by it.

"Available information indicates that \$265,188,000 of Federal Reserve Bank notes are now held at the Reserve Banks and \$450,800,000 in Washington. There appears to be little likelihood that it will be found necessary or desirable to pay out existing stocks of unissued Federal Reserve Bank notes. Accordingly, if you wish to cancel and ship to Washington for destruction in the usual manner any unissued Federal Reserve Bank notes now held by your Bank, the Board will interpose no objection.

"It is not contemplated that the stock of Federal Reserve Bank notes in Washington will be destroyed at this time."

Approved unanimously.

Memorandum dated April 23, 1941, from Mr. Paulger, Chief of the Division of Examinations, recommending that the budgets for the year 1941 for the bank examinations departments of the respective Federal Reserve Banks, except Atlanta, Chicago, St. Louis, and Kansas City which are being held for further consideration of certain matters, be approved as submitted as follows:

| <u>F. R. Bank</u> | <u>Budget</u> |
|-------------------|---------------|
| Boston | \$ 65,290 |
| New York | 346,467 |
| Philadelphia | 150,261 |
| Cleveland | 118,530 |
| Richmond | 86,370 |
| Minneapolis | 38,459 |
| Dallas | 45,122 |
| San Francisco | 103,267 |

Approved unanimously, together with the following letters to the Federal Reserve Banks of Atlanta, Chicago, St. Louis, Kansas City, and San Francisco:

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

"The budget for the bank examination department of your bank for the year 1941 was submitted prior to the death of President Parker, who had continued to be the officer in charge of the department after he became president, although none of his salary as president was allocated to that department.

"A successor to Mr. Parker as officer in charge of the bank examination department has not as yet been designated and in the circumstances the Board is deferring action upon the budget of the department until the matter of official supervision of the examination work has been determined.

"It is requested that as soon as a president of the bank has been selected and the designation of an officer in charge of the department approved, advice of any resulting changes in the proposed budget for the examination department be submitted in order that the Board may consider the budget on a current basis."

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

"The budget for the bank examination department of your bank for the year 1941 was submitted prior to your election as president and contained provision for 50 per cent of your salary as vice president in charge of the examination work. Your successor as officer in charge of the department has not as yet been designated. The Board, therefore, is deferring action on the budget of the department until the matter of official supervision of the department has been determined.

"It is requested that as soon as the designation of an officer in charge of the department is approved, advice of any changes in the proposed budget for the department be submitted in order that the Board may consider the budget on a current basis."

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

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"Although none of the salary of the president of the Federal Reserve Bank of St. Louis has been allocated to the examination department, the president has actually been the officer in charge of the department since the retirement of former Vice President Wood. It has occurred to the Board, therefore, that you, as the new president of the bank, might wish to review the budget of the department for the year 1941 before it is acted upon by the Board.

"After you have had an opportunity to review the matter, it will be appreciated if you will advise the Board whether or not there are any changes you wish to make in the budget as submitted."

Letter to Mr. Leedy, First Vice
President of the Federal Reserve Bank
of Kansas City, reading as follows:

"The budget for the bank examination department of your bank for the year 1941 was submitted prior to the resignation of Mr. Worthington and contained provision for part of his salary as officer in charge of the department.

"A successor to Mr. Worthington as officer in charge of the bank examination department has not as yet been designated and in the circumstances the Board is deferring action upon the budget of the department until the matter of official supervision of the examination work has been determined.

"It is requested that as soon as a president of the bank has been selected and the designation of an officer in charge of the department approved, advice of any resulting changes in the proposed budget for the examination department be submitted in order that the Board may consider the budget on a current basis."

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

"This is to advise you that the Board has approved the budget of the bank examination department of the Federal Reserve Bank of San Francisco for the calendar year 1941 as submitted.

"As you know, the Board has distinct reservations as to whether your examining staff is sufficiently large

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"to permit of proper participation in examinations and completion of the reports without undue delay. Approval of the budget as submitted is not to be interpreted as an indication that these reservations no longer exist, and it is expected that Mr. McKee and Mr. Paulger will discuss this situation with you as soon as opportunity is afforded."

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

McKee
Chairman.

| | Salary Increase | |
|---------------|-----------------|-------|
| | 1941 | 1942 |
| Edward A. ... | 2,500 | 2,800 |
| W. O. ... | 2,500 | 2,500 |
| Harold ... | 2,500 | 2,500 |
| Richard ... | 2,500 | 2,500 |
| E. B. ... | 2,500 | 2,500 |
| John ... | 2,500 | 2,500 |