

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 21, 1941, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, 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:

Memorandum dated May 19, 1941, from Mr. Morrill recommending, for the reasons stated in the memorandum, that the salaries of Mrs. Dorris T. Dassing and Miss Ida Goodloe, stenographers in the Office of the Secretary, be increased from the rates of \$1,620 and \$1,680 per annum, respectively, to \$1,740 per annum, effective as of June 1, 1941.

Approved unanimously.

Letter to Honorable Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"This refers to your letter of March 28, 1941, regarding The Syracuse Trust Company, Syracuse, New York. In the meantime, Mr. Davies, president of the bank, came to Washington on April 11 and with Mr. Gidney, of the Federal Reserve Bank of New York, discussed the situation with Mr. Sailor and other members of your staff. On the same day Mr. Davies, together with Mr. Paulger, Chief of the Board's Division of Examinations, had an extended discussion with Mr. McGrath and Mr. Boggs, of the Reconstruction Finance Corporation. On April 23 we forwarded to you, in accordance with the request of Mr. Davies, a copy of a memorandum

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"he had prepared regarding the condition of the bank and certain developments since he became president of the institution in January 1939.

"You refer to the understanding that corrective action would be taken with respect to The Syracuse Trust Company when the First Trust and Deposit Company of that city was reorganized last year, point out that such plans have not materialized, and ask whether any program calculated to meet the necessities of the situation is now under consideration or contemplated.

"The members of the Board's staff who participated in the conferences with representatives of your Corporation and the Reconstruction Finance Corporation leading up to the rehabilitation of the First Trust and Deposit Company concurred unreservedly in the view that steps should be taken at the same time to strengthen the situation with respect to The Syracuse Trust Company. The management of the trust company, however, was reluctant to make application to the Reconstruction Finance Corporation for the capital aid and it was only after considerable pressure by the State Banking Department and the Federal Reserve Bank that, early in 1940, the bank did file application with the Reconstruction Finance Corporation for additional preferred stock. Subsequently the Corporation indicated that it did not wish to consider the application until after another examination. An examination of the bank was made as of September 21, 1940, in which representatives of the Reconstruction Finance Corporation participated. In the following January the Reconstruction Finance Corporation took the position that before the Corporation would consider making an additional investment in the bank local interests would have to raise \$1,000,000 and there would have to be changes in the management satisfactory to the Reconstruction Finance Corporation.

"In the early part of February representatives of the bank reviewed the situation with the Federal Reserve Bank and the New York State Banking Department and brought with them data to support their contention that the bank had a net sound capital considerably larger than that shown by either the examiner for the State Banking Department or the examiner for the Reserve Bank. It was suggested that they submit more complete information to support their position and then seek a conference with the Reconstruction Finance Corporation. The revised material was forwarded to the Reconstruction Finance Corporation on March 6 with

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"the request for a conference after representatives of the Corporation had had an opportunity to review the material. Such a conference was held on April 11.

"In your letter you refer to the net capital of \$922,000 based upon the report of examination by representatives of the Reconstruction Finance Corporation. This is after the deduction of all assets classified as IV, all assets classified as III, and net market depreciation on the entire securities account. On the same basis, the examiner for the Reserve Bank estimated net sound capital of \$1,516,000, and the State examiner a net sound capital of \$1,537,000. The examiner in charge of the examination for the Reserve Bank is regarded as an able examiner, well informed on conditions in Syracuse, and conservative in his valuations. The Reserve Bank reports in a recent letter that, after a review of the report of examination made by their examiners as of September 21, 1940 and of the memorandum submitted by President Davies, a copy of which was furnished you, they are convinced that the net sound capital of the bank is more than \$1,500,000 at the present time. Independent review made by the Board's Division of Examinations supports this opinion and indicates that there has been a distinct improvement in the capital position of the bank since date of examination due to earnings, increase in security values, and reductions in classified loans believed warranted in the light of reported developments.

"In any such situation the question of management is vital, and in this connection it should be noted that there was a substantial change in the management of the bank when Mr. Davies, formerly associated with the L. C. Smith and Corona Typewriter Company, was made president of the bank in January 1939, succeeding Mr. Sanford, who was elected chairman of the board at a reduced salary without executive authority. Further changes in the supporting staff seem desirable, but President Davies has deferred making the changes pending completion of the recapitalization program which has been under consideration. He has been advised by the Reserve Bank to proceed with the needed changes without waiting further for the completion of a recapitalization plan.

"As to how Mr. Davies became associated with the bank may be in order. In 1926 control of the L. C. Smith Typewriter Company, one of the principal industries of Syracuse, was acquired by other interests, although the Smith

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"family retained a large block of preferred stock and bonds of the company. Subsequently, however, the company encountered difficulties. As a consequence, in 1932 Mr. H. W. Smith and associates returned to the management of the company. In 1933 the company obtained an industrial loan of substantial size from the Reserve Bank, which had frequent contacts with Mr. Smith and Mr. Davies, who was vice president and controller of the L. C. Smith and Corona Typewriter Company, during the following years while the loan was being paid off and the company made rapid strides. Because of their favorable experience with Mr. Smith, the Reserve Bank persuaded him to take a more active part in the affairs of the bank of which he was a director, and in 1937 Mr. Davies also was elected a director of the bank.

"It is understood that President Davies made a rather favorable impression at his conference with the Reconstruction Finance Corporation and that Mr. Boggs, who made the examination for the Reconstruction Finance Corporation last September, feels that there has obviously been considerable improvement in the condition of the bank since the date of that examination. We have been advised informally that the Reconstruction Finance Corporation wishes to wait until after the next examination before taking further action on the application of the bank to purchase additional preferred stock.

"While, of course, the Board would like to see a substantial increase made in the capital as soon as possible, it does not appear in the light of the information submitted and the reported improvement in the condition of the bank and in conditions generally in Syracuse, that the situation presents an immediate hazard or is retrogressing. In fact, it appears that distinct improvement is being shown.

"Specifically, therefore, it may be stated that the corrective program contemplated is to endeavor to obtain additional capital from the Reconstruction Finance Corporation as soon as possible after the next examination, and to press for further strengthening in the active management of the bank. The situation is being followed closely, your supervising examiner is being kept advised by the Reserve Bank as to developments, and the Board believes that in this manner, and with the cooperation of the Reconstruction Finance Corporation, an adequate corrective program can be made effective."

Approved unanimously.

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

"The charter of The Birmingham Trust and Savings Company, Birmingham, Alabama, as amended, provides that the determination of the fair value of the assets of the corporation for the purposes of Article THIRD shall be made by such person or persons as may be designated by the Board for the purpose.

"In a telegram dated June 28, 1939, President Parker was designated by the Board to make such determinations. In view of his death, the Board hereby designates the President or the First Vice President of the Federal Reserve Bank of Atlanta to make determinations of the fair value of the assets of The Birmingham Trust and Savings Company in accordance with the procedure outlined in the Board's letters of July 31, 1936, and June 3, 1937, to Mr. Newton."

Approved unanimously, together with a letter to the Reconstruction Finance Corporation reading as follows:

"Under date of December 19, 1935, the Board advised you of its willingness to designate a person or persons to make a determination of the fair value of the assets of The Birmingham Trust and Savings Company, Birmingham, Alabama, as provided for in a proposed amendment to Article THIRD of its charter, which amendment was later adopted by the shareholders of the bank.

"In view of the recent death of President Robert S. Parker, of the Federal Reserve Bank of Atlanta, who was last designated to make the determination, the Board is today designating the President or the First Vice President of the Federal Reserve Bank of Atlanta to make the determination provided for in Article THIRD, as amended, of the charter of The Birmingham Trust and Savings Company."

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

"This will acknowledge your letter of May 13, 1941, referring to the possible control of instalment credit and enclosing a letter from the president of a member bank in

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"Eau Claire, Wisconsin -- which refers in turn to a story appearing recently in the American Banker which said that the Federal Reserve Board is ready to curb instalment sales.

"The story might well have conveyed the impression to many readers that something is likely to be done in this field right away and that the Board would be likely to take precipitate action -- instead of following its established policy, when getting up a regulation, of consulting extensively with the persons and institutions to be regulated. Such an impression would be unfortunate, since the Board's established policy is one that has not only had good results over the years but also one of which the Board has reason to be proud.

"I believe it is quite safe to say that unless the emergency should be much more acute than now seems likely, the Board, if called upon to issue a regulation on this subject, will not only give the bankers opportunity to express themselves but will also give a similar opportunity to other interests that would be affected by the regulation."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of May 10 with which you enclosed a copy of a letter received by you from Mr. Harris McAshan, Vice President of the South Texas Commercial National Bank of Houston, Texas, suggesting that arrangements ought to be made whereby information on defense loans and commitments would be called for only through the Federal Reserve Banks.

"The Board is, of course, very anxious to relieve the banks as much as practicable from the burden of submitting reports. To that end all proposals for additional reports or expansion of existing reports are given most careful consideration, and not infrequently suggestions for new or revised reports are rejected in whole or in part. When drafting the form of report of defense loans and commitments (form F.R. 550), we were aware that the American Bankers Association was collecting data on the same subject, but unfortunately such data did not include all the information that was needed by the Office of Production Management and the Board for the purpose in view. Our report form was

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"brought to the attention of the Comptroller's office and the Federal Deposit Insurance Corporation, but through some misunderstanding the Comptroller's office asked for data on the same subject through the chief national bank examiners in the respective districts. When that request was called to our attention we took the matter up with the Comptroller's office and later were informed that the Comptroller's office was withdrawing its request.

"The Board is glad to have you call these matters to its attention, so that it may have the opportunity of looking into them."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

"There is enclosed for your information a copy of a letter dated May 13, 1941 from Mr. C. B. Upham, Deputy Comptroller of the Currency, advising that the Office of the Comptroller of the Currency recently has taken the position that bonds of the Port of New York Authority and bonds of the Triborough Bridge Authority of New York are not 'general obligations of any State or of any political subdivision thereof' within the meaning of that term, as used in section 5136, U.S.R.S. It is suggested that this matter be brought to the attention of the examiners for your Bank."

Approved unanimously.

Memorandum dated May 2, 1941, from Mr. Morrill referring to the arrangements in effect during the last three summers for maintaining a skeleton force on Saturdays during the summer months and suggesting that, if the Board wished to adopt the same plan during the coming summer season, it authorize the maintenance of a skeleton force on Saturdays from Saturday, May 24, to Saturday, September 6, 1941, inclusive, a period of sixteen Saturdays. The memorandum stated that the arrangement

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for a skeleton force on Saturdays would not change the official working hours of the Board's organization.

The maintenance of a skeleton force on Saturdays as suggested in Mr. Morrill's memorandum was approved unanimously, subject to the same regulations as were in effect during the corresponding period last year.

Thereupon the meeting adjourned.

Chester Morrill

Secretary.

Approved:

W. S. Coulter

Chairman.