

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 29, 1941, at 11:00 a.m.

PRESENT: Mr. Eccles, 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:

Memorandum dated July 28, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, Miss Elizabeth C. Fischer be appointed on a temporary basis for a period of three months as a draftsman in that Division, with salary at the rate of \$135 per month. The memorandum also recommended that, inasmuch as Miss Fischer will probably be recommended for a permanent appointment at the expiration of her three-months' temporary appointment, provided her work has been satisfactory, she be permitted to become a member of the Federal Reserve Retirement System and her temporary appointment be made subject to passing satisfactorily the usual physical examination.

Approved unanimously.

Letter to Mr. Lassiter, Chairman of the Federal Reserve Bank of Richmond, reading as follows:

"Since the conference of Chairmen on April 26, 1941,

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"the Board of Governors has given further thought to the question of official salaries at Federal Reserve Banks in the light of the information presented in the Chairmen's salary report and at the Conference. The helpful manner in which the constructive conclusions in the report have been presented is much appreciated, and the Board considers it particularly useful to have received in a written report approved by the Chairmen a carefully considered appraisal of official positions in the Federal Reserve Banks by experts outside the System.

"Since the Federal Reserve Banks are institutions set up by Congress to serve the public interest and the Board is charged by a provision of the law, which has remained unchanged since its original enactment in 1913, with the specific responsibility of approving salaries at the Banks, the Board is of the opinion that it is under obligation in determining the salaries that should be paid, particularly to the Presidents and First Vice Presidents, to give special consideration to the public character of the Reserve System. While the salaries paid in commercial banks have a bearing on the matter, they are not a controlling consideration. The Board's responsibility in this field is a special one in view of the fact that the System's employees are not under Civil Service and its expenses are not reviewed by another agency of the Government as might be the case if they were paid from Congressional appropriations.

"The Board appreciates fully that if the salaries of officers of Federal Reserve Banks are substantially lower than salaries paid by commercial banks and other financial institutions the System may lose officers of outstanding ability. It is also aware that, inasmuch as directors of Federal Reserve Banks are for the most part in charge of private organizations which must actively compete in the market for efficient executive personnel, it is quite natural for them to be of the opinion that salaries of Federal Reserve Bank officials should be fixed in the light of salaries paid by other financial institutions. The Board feels strongly, however, that the System, because of its public character, cannot expect to compete with private institutions in the salary field for the higher brackets.

"After mature consideration, the Board has reached the conclusion that salaries for Presidents and First Vice Presidents of Federal Reserve Banks should be fixed

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"in the light of these considerations, that in general the salaries at the Reserve Banks should not be higher than the present scales, and that in some instances the maximum salaries for future appointees to the positions of President and First Vice President should be lower. The Board therefore is of the opinion that it will assist materially in future discussions of official salaries if maximum salaries are established for the President and First Vice President of each Federal Reserve Bank, irrespective of who may be occupying the positions at the present time or who may occupy them in the future, it being understood (1) that the fixing of such maxima will not affect salaries now being paid in excess thereof but that the Board will not approve any further increases in these salaries, and (2) that in all other cases the maxima fixed represent rates beyond which the Board is not willing to go. It is not expected, however, that salaries of new appointees as President or First Vice President will be fixed at such maximum rates at the beginning of their service or until they have demonstrated their capacity to meet all of the responsibilities of their respective offices. The salaries of other officers should, of course, be consistent with those paid the President and the First Vice President.

"Accordingly, the Board has established maximum salaries for the positions of President and First Vice President at the respective Federal Reserve Banks, that for the President of the Federal Reserve Bank of Richmond being \$20,000 and for the First Vice President \$15,000. At the first opportunity Mr. Szymczak will take occasion to discuss this matter in greater detail with you and, if possible, with your Board.

"In view of this action, the Board is not willing to approve the salary at the rate of \$25,000 fixed by your Directors for Mr. Leach as President of the Federal Reserve Bank of Richmond, but approves a salary for him at the rate of \$21,000 per annum for the period ending May 31, 1942, if fixed by your Directors at that rate."

Approved unanimously, with the understanding that a similar letter would be sent to the Chairman of each of the other Federal Reserve Banks setting out the maximum salaries which the Board would be willing to approve for the positions of President and First Vice President at the respective banks in accordance with the action taken at the meeting of the Board on June 26, 1941.

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

"In accordance with the request contained in your letter of July 25 the Board approves the appointments of A. E. Bollinger, George C. Muir and R. M. Brennan as assistant examiners for the Federal Reserve Bank of San Francisco. Please advise us of the effective dates."

Approved unanimously.

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

"In your letter of July 11 to Mr. Paulger you state that the Discount Committee has reached the conclusion that action on the application of the Union County Trust Company, Elizabeth, New Jersey, for membership in the Federal Reserve System should be deferred.

"According to your letter, you were undertaking to arrange a conference with the management of the bank, and it is understood that the president of the bank has since conferred with you with respect to the application. It is assumed that you will follow developments in the situation and that, as opportunities afford, you will further the efforts of the Federal Deposit Insurance Corporation to bring about the desired improvements in the affairs of the bank. The Board will be glad to consider the application whenever you feel that, in the light of all of the circumstances, developments have been such as to justify your favorable recommendation."

Approved unanimously.

Letter to Mr. Evans, Vice President, Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of July 15, raising the question as to whether or not you should proceed further with the application for membership of the Farmers State Bank, Temple, Texas, in view of the opinion expressed by the Supervising Examiner for the Federal Deposit Insurance Corporation with respect to the bank's capital structure.

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"The Supervising Examiner advised you that, in his opinion, the bank's common stock should be increased as the debentures now outstanding are retired, and that a capital structure equal to 10 per cent of liabilities should be substantially maintained in the future. It appears, however, that the Federal Deposit Insurance Corporation has made no demands on the bank in this connection and recently permitted the retirement of a substantial amount of debentures.

"As you know, the Board believes strongly that a bank should maintain an adequate capital. However, the question of adequacy cannot be measured solely by deposit liabilities, and must be determined in individual cases. Consideration has to be given to the nature of the individual bank's liabilities, the character and qualities of its assets, earning power, record and abilities of the management, trends, local conditions, and other intangible factors. After an examination of the Farmers State Bank of Temple and other investigations made in connection with an application for membership, the Reserve Bank might come to the conclusion that the bank needs more than a 1 to 10 ratio of capital to deposits or that it would be adequately capitalized with less; and there might be differences of opinion as to the amount of basic capital which the bank should have.

"Insofar as the provisions of the Board's letter of July 10, 1936 (Loose-Leaf Service #3476) are concerned, there is no reason apparent why, if the bank should wish to file an application for membership, the Federal Reserve Bank should not feel free to make an examination and the usual investigation and then consider the application in the light of all of the data available."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved.

Chairman.