

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 17, 1937, at 10:30 a. m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Wingfield, Assistant General Counsel  
Mr. Baumann, Assistant Counsel  
Mr. Hostrup, Federal Reserve Examiner

There was presented the memorandum which was addressed to Mr. McKee by Mr. Paulger under date of April 17, 1937, and on which action was deferred at the meeting of the Board on May 21, 1937, with respect to the treatment of securities depreciation in reports of examination.

After a discussion, consideration of the memorandum was again deferred until such time as Mr. McKee might wish to bring it up for further discussion by the Board.

At this point Mr. Bradley, Assistant Chief of the Division of Security Loans, joined the meeting.

Reference was made to informal discussions which had taken place with respect to the installation of a news ticker service and the members present expressed agreement that the service was desirable and that, instead of being located in the Division of Security Loans,

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it should be installed in one of the rooms adjoining Mr. Thurston's office.

Mr. Bradley withdrew from the meeting at this point.

Mr. Davis then submitted memoranda dated August 10 and 11, 1937, from the Personnel Committee recommending that the Chairman of the Federal Reserve Bank of Atlanta be requested to indicate to each of the following persons that the Board is considering him for appointment as a director of a branch of the Federal Reserve Bank of Atlanta as shown below, and to ascertain and advise the Board by wire whether he would be willing to accept the appointment if tendered:

<u>Name</u>	<u>Branch</u>	<u>For unexpired portion of term ending December 31:</u>
W. E. McEwen	Nashville	1939
Clyde Austin	Nashville	1938
Edward L. Norton	Birmingham	1937, and at the end of the year, for the succeeding three year term.

Mr. Davis also submitted a memorandum dated August 17, 1937, from the Personnel Committee recommending that the Chairman of the Federal Reserve Bank of Kansas City be requested to indicate to Mr. Clarence Roberts that the Board is considering him for appointment as a director of the Oklahoma City branch of the Federal Reserve Bank of Kansas City for the unexpired portion of the term ending December 31, 1938, and to ascertain and advise the Board by wire whether he would be willing to accept the appointment if tendered.

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Mr. Davis moved that the recommendations of the Personnel Committee be approved.

Carried unanimously.

Attention was called to a letter received under date of July 6, 1937, from Vice President Sargent of the Federal Reserve Bank of San Francisco inclosing a copy of a letter received under date of July 2, 1937, from Mr. John M. Grant, President of Transamerica Corporation, San Francisco, California, and to a letter addressed to the Board by Mr. Grant under date of July 23, 1937, with respect to the violation of Section 20 of the Banking Act of 1933 by member banks in the Transamerica group by reason of their affiliation with Bankamerica Company, a securities company.

At the conclusion of a discussion of the matter, Mr. McKee moved that the Board approve a letter to Mr. Sargent reading as follows:

"This refers to your letter of July 6, 1937, transmitting a copy of a letter of July 2, 1937, addressed to Mr. Day by Mr. John M. Grant, president of Transamerica Corporation, requesting that the Board review the circumstances relating to the violation of section 20 of the Banking Act of 1933 by certain member banks by virtue of their affiliation with Bankamerica Company, a securities company. The Board is also in receipt of a letter of July 23, 1937, from Mr. Grant relating to the same matter and a copy thereof is inclosed for your information.

"In the letter addressed to Mr. Day, Mr. Grant suggested that, on the basis of the information contained therein, it would be within the discretion of the Board to waive the penalties provided by section 20 for at least one year from the date when the affiliation of the member banks with Bankamerica Company became effective as a result of the dissolution of Inter-America Corporation on June 28, 1937, and the transfer of its assets to Transamerica Corporation.

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"With respect to this question, it is the Board's view that while it may exercise discretion with respect to the assessment of penalties for violations of section 20, it has no authority to exempt particular cases from the application of that section or to authorize or consent to the continuance of relationships which are in violation of the law.

"In the letter addressed to the Board you will observe that Mr. Grant's position is that where an affiliation results through common control by a holding company affiliate the provisions of section 5144 of the Revised Statutes of the United States, instead of those of section 20, apply and that the affiliate relationship need not be terminated prior to five years from the date the holding company affiliate files its application for a voting permit. However, as you were advised in the Board's telegram of July 1, 1937, the Board has already ruled with respect to that question and you are advised that, after reconsidering the matter, it sees no reason to alter its views.

"Mr. Grant also stated that Bankamerica Company would seem to have been a securities company affiliate of the banks in question ever since the passage of the Banking Act of 1933 and that in permitting such affiliate relationships to continue long after June 16, 1934, the Board had obviously followed the theory that the provisions of section 5144, instead of those of section 20, control. He also suggested that, as a practical matter, the dissolution of Inter-America Corporation and the transfer of its assets to Transamerica Corporation made no change in the relationships.

"In this connection, however, you will recall that in a ruling involving loans by Bank of America National Trust and Savings Association to a corporation controlled by Transamerica Corporation, the Board held that, since Transamerica Corporation only owned the stock of a corporation which in turn owned stock of the bank, Transamerica Corporation was not a 'shareholder' of the bank within the meaning of section 2(b)(2) of the Banking Act of 1933, and hence the borrowing corporation was not an affiliate. By the same reasoning Bankamerica Company was not technically an affiliate of any of the member banks in question. The dissolution of Inter-America Corporation and the transfer of its assets to Transamerica Corporation, of course, changed this situation, making the latter corporation a shareholder of each of the banks under any construction of the law. Thus, Transamerica Corporation and its subsidiary banks lost the benefit of the technical ruling which had protected them theretofore.

"With respect to Bank of America National Trust and Savings Association, Mr. Grant apparently recognized that,

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"under the letter of the law, the distribution of a majority of the shares of its stock to the shareholders of Transamerica Corporation would not in itself, terminate the affiliate relationship between that bank and Bankamerica Company. However, you will observe his comment to the effect that 'it seems obvious that it was not the intent of the Banking Act to include within the term "affiliate" a relationship based upon the ownership by large number of individuals of stocks of two different institutions, where the disposition of either or both of such stocks by such individuals is not restricted in any way.' However, the provisions of law defining the term 'affiliate' make no such express exception and, in the opinion of the Board, afford no justification for so limiting the meaning of the words by implication.

"In conclusion, you are advised that if, in the light of the views herein expressed, any member banks of the Transamerica group are now violating section 20 as a result of affiliation with Bankamerica Company, the Board will expect such violations to be terminated within a reasonable time and that Transamerica Corporation will take such action as may be necessary on its part to bring about such termination. Meanwhile, with the view of affording Transamerica Corporation an opportunity to comply with law, the Board, pending receipt of advice with respect to the steps which are being taken to comply with the law, will defer any action concerning the assessment of penalties. Please advise Transamerica Corporation accordingly and the Board will appreciate your keeping it currently informed regarding the matter."

Carried unanimously.

At this point Messrs. Wyatt, Paulger, Dreibelbis, Wingfield, Baumann and Hostrup left the room.

Mr. Davis presented a memorandum dated August 16, 1937, from the Personnel Committee regarding the selection of a Class C director of the Federal Reserve Bank of Philadelphia to succeed Mr. J. David Stern, resigned. The memorandum suggested for consideration in this connection Mr. Thomas B. McCabe, President of the Scott Paper Company, Chester, Pennsylvania, and Mr. Lessing Rosenwald, Chairman of Sears Roebuck & Company.

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After a review of the consideration which the Personnel Committee had given to the matter, Mr. Davis moved that the Board indicate to Mr. McCabe that it is considering him for appointment as a Class C director of the Federal Reserve Bank of Philadelphia for the unexpired portion of the term ending December 31, 1939, and ascertain whether he would be willing to accept the appointment if tendered.

Carried unanimously, with the understanding that Mr. Davis would take the necessary steps to ascertain whether Mr. McCabe would be willing to serve.

At this point Mr. Thurston left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 16, 1937, were approved unanimously.

Telegrams to Messrs. Stewart and Sargent, Secretaries of the Federal Reserve Banks of St. Louis and San Francisco, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated August 13, 1937, from Mr. Thomas, Assistant Chief of the Division of Research and Statistics, recommending that Mr. Horace F. Drury, who has been working on a part-time temporary basis in the storeroom of the Division since October 1, 1935, be placed on a full time temporary basis for the period from August 17 to September 30, 1937, both dates inclusive, and that his present

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salary, at the rate of \$800 per annum, be changed accordingly to the rate of \$1,600 per annum.

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to the application of 'The Citizens National Bank in Gastonia', Gastonia, North Carolina, for full fiduciary powers, which was transmitted to the Board with Mr. Fry's letter of July 21, 1937.

"The Board has given consideration to the application and to the information available in relation thereto. It appears that the bank has immediately available one large voluntary trust; that it has other trust business in prospect; and that the population and business activity of the city of Gastonia and its trade territory are such as to warrant the belief that a corporate fiduciary in Gastonia would eventually be able to develop a satisfactory volume of trust business, particularly as there is said to be at present no corporate fiduciary in Gastonia or the county of Gaston.

"It appears further, however, that while the applicant bank is in a generally satisfactory condition, Mr. Sims, the proposed trust officer, has had but little practical experience or training in fiduciary matters, and that his conduct of the trust department of the predecessor bank was subject to criticism by the national examiner, although it is recognized that the business of that department was limited in nature and volume and the criticisms related mainly to inadequate books and records.

"It has been noted also, that the report of investigation by a national examiner, made in August, 1933, of the application to organize the applicant bank, reveals that the examiner regarded Mr. Sims as being overly optimistic, speculatively inclined and hopelessly involved financially. No information is available here as to Mr. Sims' present financial status, but the foregoing comments raise a question of doubt as to his qualifications and fitness to act as a trust officer.

"It is the view of the Board that, if a national bank is to be authorized to exercise trust powers in Gastonia, where the importance of the city and its trade territory as a field for trust business warrant the assumption that a substantial amount of such business could eventually be

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"developed, such bank should have available the services of an experienced and competent trust officer.

"The Board, therefore, has deferred action on the fiduciary application of The Citizens National Bank in Gastonia until such time as the bank can show that its proposed trust officer is qualified by training and experience to handle properly the volume and types of fiduciary business which it would be likely to acquire."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morine  
Secretary.

Approved:

W. S. ...  
Chairman.