

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, May 7, 1938, at 11:30 a.m.

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

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

Consideration was given to each of the matters herein-after 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 May 5, 1938, were approved unanimously.

Telegrams dated May 6, 1938, to Messrs. Kimball, Post and Young, Secretaries of the Federal Reserve Banks of New York, Philadelphia and Chicago, respectively, and Mr. Stewart, Chairman 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 May 3, by the Federal Reserve Banks of New York, Chicago and San Francisco on May 5, and by the Federal Reserve Bank of Philadelphia on May 6, 1938, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated May 4, 1938, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending

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that, for the reason stated in the memorandum, the probationary appointment of Miss Lottie Kriegel as a secretary in the Division be extended for a period of one year from May 7, 1938, the date of expiration of her present appointment, with no change in her present salary at the rate of \$1,620 per annum.

Approved unanimously.

Letter to the board of directors of the "Somerset Trust Company", Somerset, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 4 and 6 contained in the Board's Regulation H, and the following additional conditions, 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 Cleveland:

- "5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses totaling \$3,287.54 in loans and discounts and other real estate, and depreciation of \$10,737.05 in stocks and defaulted bonds, all as shown in the report of examination of such bank as of March 10, 1938, made by an examiner for the Federal Reserve Bank of Cleveland."

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The letter also contained the following special comment:

"It appears that, under the laws of the Commonwealth of Pennsylvania, the bank may possess but was not exercising certain powers not necessarily required in the conduct of a banking or fiduciary business, such as the power to give its bond as surety for another in connection with transactions involving the importation, exportation, or domestic shipment of goods or commodities. Attention is invited to the fact that, if the bank should hereafter desire to exercise such powers or any other power not actually exercised at the time of admission to membership, it would be necessary under condition of membership numbered 1 to obtain the Board's permission 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, for transmission to the Somerset Trust Company through the Federal Reserve Bank of Cleveland.

Letter to the board of directors of the "Curry County Bank", Gold Beach, Oregon, 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 San Francisco:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

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



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"The Board of Governors of the Federal Reserve System approves the application of the Curry County Bank, Gold Beach, Oregon, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks of the State of Oregon for his information.

"It is assumed that, in the event the bank completes its membership, it will be requested to reduce the excess balance with a State nonmember bank to within the limitations fixed by Section 19 of the Federal Reserve Act.

"It has been noted that the bank has been granted trust powers but that no such powers have ever been exercised; therefore, the application has been approved on the same basis as if the bank did not have trust powers, and should it desire in the future to exercise its trust powers, application for permission to do so should be made to the Board in accordance with the provisions of condition of membership numbered 1."

Telegram to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Re letter April 28, 1938, Board interposes no objection to proposed retirement by Citizens State Bank, Puyallup, Washington, of \$5,000 capital debentures."

Approved unanimously.

Letter to Mr. Marshall R. Diggs, Acting Comptroller of the Currency, reading as follows:

"Reference is made to Mr. Gough's letter of April 27, 1938 regarding a possible violation of section 32 of the Banking Act of 1933. Mr. Gough states that a director of a certain national bank is president of a local finance company which invests in purchase money liens on motor vehicles;

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"that a large portion of the funds it invests is derived from the sale of collateral trust notes, some of which are sold to country banks; that the executive officers of the national bank have recommended these securities to its clients or have indicated confidence in the soundness of the same; and that the trust department of the bank is the trustee under the indenture.

"Section 32 refers to corporations 'primarily engaged' in the sale of 'stocks, bonds, or other similar securities', and although in most cases little information is required in order to determine whether or not section 32 is applicable, there are other cases which cannot be decided without a detailed examination of the facts. The case referred to in Mr. Gough's letter is one of the latter kind, and the information contained in his letter is not sufficient to enable the Board to reach a decision. The nature of the additional information which would be required is illustrated by the following rulings.

"The Board has ruled that although mortgage notes arising out of the ordinary type of direct loan on real estate are not 'securities' within the meaning of section 32, there are other obligations secured by real estate mortgages which are 'securities' within the meaning of that section (1934 Federal Reserve Bulletin, p. 302). In a later ruling, the Board decided that a certain trust company was primarily engaged in the sale of 'securities' within the meaning of section 32, the principal business of the trust company being the making of loans secured by mortgages and the sale of bonds secured by those mortgages. The ruling states that the bonds were issued in denominations of \$100, \$500 or \$1,000 each, interest being payable semi-annually, that the bonds were negotiable in form, and that it was the practice of the trust company to authorize the issue of such bonds in series of \$1,000,000 or less, with maturities of five or ten years (1934 Federal Reserve Bulletin, p. 485).

"Another ruling of the Board, which was not published, involved a type of business which was apparently similar to that described in Mr. Gough's letter. An officer and director of a national bank in the Seventh Federal Reserve District was

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"the director of an investment company which invested in purchase money liens on automobiles and, for the purpose of providing additional working capital, issued collateral trust notes secured by such liens. About 75 per cent of such collateral trust notes were pledged with various banks as security for lines of credit, the remaining 25 per cent being sold to the public. The Board found that the investment company was not 'primarily' engaged in the business of selling these collateral trust notes. The Board did not specifically decide whether or not the notes were 'securities' within the meaning of section 32. However, among the factors which would be pertinent in determining this question would be the maturity of the notes, whether they are in the form of coupon bonds, whether they form part of an 'issue', the total amount of such issue, if any, the manner in which they are distributed and sold to investors, and whether they are designed to be more or less actively traded in.

"Accordingly, if you wish the Board to express an opinion on the case referred to in Mr. Gough's letter, it is suggested that you furnish the Board with full information regarding the nature of the collateral trust notes and the manner in which they are sold or used, or, if you prefer, advise the Board as to the name of the national bank and of the director involved in order that the Board may request the Federal Reserve bank to ascertain the facts and submit them to the Board."

Approved unanimously.

Letter dated May 6, 1938, to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place a special order with the Bureau of Engraving and Printing, supplementing previous orders of June 19, 1937 and March 24, 1938, for the printing of Federal reserve notes of the 1934 Series in the amounts and denominations stated for the Federal Reserve Bank of Boston:



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"Denomina- tion	Number of sheets	Amount
\$500	1,700	\$10,200,000
1000	450	5,400,000
5000	200	12,000,000
10000	100	12,000,000"

Approved unanimously.

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

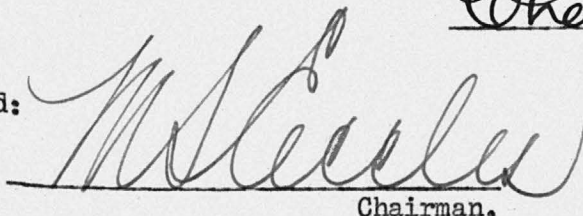
"A reply to your letter of April 22, 1938, has been deferred until it could be determined which of the members of the Board would attend the joint meeting of the directors of your bank and its branches at Richmond on Thursday, May 19.

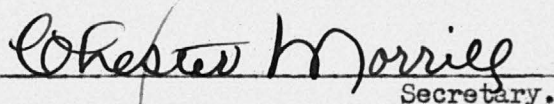
"Messrs. Eccles, Szymczak, McKee and Draper are planning definitely on being with you on that date and Mr. Davis is trying to arrange his plans so that it will be possible for him to go. It is not possible to state at this time whether they will go to Richmond on the 18th, but it has been suggested that, in order to assure the availability of hotel accommodations, you make hotel reservations for that night."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.