A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 10, 1938, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper
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. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel

There were presented telegrams to Mr. Paddock, First Vice President of the Federal Reserve Bank of Boston, Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. McCravey, Stewart and Powell, Secretaries of the Federal Reserve Banks of Atlanta, St. Louis and Minneapolis, respectively, Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, Mr. McKinney, President of the Federal Reserve Bank of Dallas, 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 June 7, by the Federal Reserve Banks
of New York, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, and Dallas, on June 9, 1938, and by the Federal Reserve Banks of Boston and Atlanta today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Ransom stated that yesterday afternoon Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, called him on the telephone and requested that the Board reconsider its decision with respect to the proposed supervision by Mr. C. A. Sienkiewicz, Assistant Vice President of the bank, of a study to be made by the National Bureau of Economic Research of consumer financing activities of commercial banks. Mr. Sinclair stated, Mr. Ransom said, that he had a very earnest desire to have Mr. Sienkiewicz undertake the study, that when the matter was first presented a committee of directors of the bank had been appointed to look into the matter, that they had reached the unanimous conclusion that his participation in the study was desirable, and that the board of directors of the bank had voted unanimously to approve his undertaking the task. President Sinclair added, Mr. Ransom said, that he was very proud of the Department of Statistics and Research at the Philadelphia bank, that he did not want to do anything that would in any way hamper the work of the department, and that he was convinced after careful investigation that Mr. Sienkiewicz could undertake the supervision of the study without detriment to the
work of the department. Mr. Ransom stated further that Mr. Sinclair said that if the Board's decision were based on a matter of System policy that it would be undesirable for members of its staff or employees of the Federal reserve banks to engage in such studies, he would be entirely satisfied to abide by that policy, but that in the absence of such policy he felt it was desirable that Mr. Sienkiewicz undertake the work, particularly since he understood that the National Bureau of Economic Research felt it would have considerable difficulty in finding another man to accept the task. If the Board still felt that it would be unwilling to approve the arrangement, Mr. Ransom said, Mr. Sinclair would like to come to Washington on Monday, June 13, for a discussion of the matter.

At the conclusion of the ensuing discussion, upon motion by Mr. Davis, the Secretary was requested to prepare a letter to Mr. Sinclair, for consideration by the Board, advising that the Board will interpose no objection to Mr. Sienkiewicz undertaking the study with the understanding that his salary will continue to be paid by the bank, that his primary obligation will continue to be to his work at the bank, and that he will devote such time to the supervision of the study as he may be able to give without detriment to his work at the Federal reserve bank.

There was presented a letter addressed to Chairman Eccles under date of June 9, 1938, by President Harrison of the Federal Reserve Bank of New York, in which it was stated that, subject to agreement by the Board of Governors, the board of directors of the bank had
authorized Mr. Harrison to send Messrs. L. W. Knoke, Vice President of the Federal Reserve Bank of New York in charge of the foreign function, and Emile Despres, an employee in the foreign and research departments of the bank, to Europe for a period of approximately six weeks for the purpose of visiting the Bank of England, the Bank of France, the Reichsbank, the Netherlands Bank, the Swiss National Bank, the Bank for International Settlements, and such other foreign central bank correspondents as it might be possible for them to include in their itinerary.

The letter was discussed briefly and it was agreed that, since the matter involved a question of policy, action should be deferred pending a meeting at which all of the members of the Board are present.

At this point Messrs. Goldenweiser and Thurston left the meeting.

Mr. Paulger stated that yesterday morning Marshall R. Diggs, Acting Comptroller of the Currency, called Mr. Wyatt on the telephone and advised that his office had redrafted the regulation issued by the Comptroller covering the purchase of investment securities by national and State member banks and was practically agreed on the form that the regulation should take, and that he would like to discuss the matter with representatives of the Board. Yesterday afternoon, Mr. Paulger said, he and Messrs. Wyatt and Vest attended a meeting at the Treasury at which Messrs. Nichols, Chief Examiner of the Federal Deposit
Insurance Corporation, Messrs. Diggs, Folger and Kelly, from the office of the Comptroller of the Currency, and Mr. Upham, Special Assistant to the Secretary of the Treasury, were in attendance. Mr. Paulger added that the redrafted regulation was discussed and he gathered from the discussion that the Comptroller's office was prepared to issue the regulation in the revised form.

Mr. Paulger then distributed copies of the revised draft of regulation and outlined briefly the changes which would be made thereby, including the provision in paragraph B(2) of the draft that securities which did not have the public distribution provided in paragraph B(1) were marketable when issued by an established commercial, mercantile, or manufacturing business, which could demonstrate its ability to service its securities, and when the debt evidenced by such securities matured not later than ten years after date of issuance, was secured by a first lien on assets of such business, and the securities by their terms provided for regular amortization of the debt so that it would be extinguished by its maturity through equal periodic payments thereon. In connection with this provision, attention was called to the fact that section 24 of the Federal Reserve Act authorized national banks to make first mortgage loans on real estate for not longer than ten years which provide for amortization payments sufficient to amortize 40% or more of the principal within a period of not more than ten years and the opinion was expressed that, while there were other points in
the draft of regulation which were not entirely acceptable to the Board, it was felt particularly that the regulation should be changed to provide that securities which did not have a public distribution as defined in the regulation would be marketable if provision were made for regular amortization of 50 percent or more of the debt within a period of ten years.

At the conclusion of the discussion, Mr. Paulger was requested to prepare a draft of letter to the Acting Comptroller of the Currency in accordance with the above opinion, for consideration by the Board.

At this point Messrs. Wyatt, Paulger, Smead, Dreibelbis and Vest 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 June 9, 1938, were approved unanimously.

Letter to "The Shoshone National Bank of Cody", Cody, Wyoming, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplementary application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee and registrar of stocks and bonds, grants you authority to act, when not in contravention of State or local law, as executor, administrator, guardian of estates, assignee, receiver, and committee of estates of lunatics, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation
"of a formal certificate covering such authorization, which
will be forwarded to you in due course."

Approved unanimously.

Letter to Honorable Harry B. Coffee, House of Representatives,

reading as follows:

"We have received your letter of June 2, 1938, inclos-
ing a letter dated May 18, 1938, from Mr. H. W. Kendall,
Kearney, Nebraska, in which he complains of the Federal
Reserve Bank's inability to clear items drawn on coopera-
tive credit associations in payment of Social Security
taxes.

"This matter was the subject of a letter written by
Mr. Kendall to Senator Norris on March 8, 1937, which was
first referred to the Social Security Board and later to
the Board of Governors of the Federal Reserve System. After
obtaining information from the Federal Reserve Bank of
Kansas City, the Board of Governors answered the letter
from Senator Norris on April 12, 1937.

"On the basis of the information obtained in connec-
tion with the letter from Mr. Kendall to Senator Norris, it
appears that the items in question are not checks and
cannot be handled by the Federal Reserve banks as checks. It
will be observed from section III of the inclosed copy
of the Board's Regulation J that Federal Reserve banks are
authorized to receive for collection checks drawn on member
banks and nonmember clearing banks and checks drawn on all
other nonmember banks which are collectible at par in funds
acceptable to the collecting Federal Reserve bank. The
regulation states that a check is generally defined as a
draft or order upon a bank purporting to be drawn upon a
deposit of funds for the payment at all events of a certain
sum of money to the order of a certain person therein named,
or to him or his order, or to bearer, and payable on de-
mand.

"The items in question do not constitute checks but
instead are assignments, nonnegotiable in character, of
amounts due to shareholders in cooperative credit associa-
tions. Furthermore, these cooperative credit associations
are not banks. Information obtained by the Federal Reserve
Bank of Kansas City from the Nebraska Superintendent of
"Banking indicates that the associations in question are not chartered as banks but operate under licenses issued under State law by the State Banking Department. The State Superintendent of Banking has advised that these associations do not have the right to allow their members to draw checks against funds held by the associations. The associations are under no compulsion to carry reserves as are commercial banks and apparently are not authorized to and in fact do not operate as banks of deposit. Under the circumstances, the assignments referred to in Mr. Kendall’s letter do not fall within the class of acceptable cash items described in Regulation J which may be cleared by the Federal Reserve banks.

"With reference to the method of handling assignments given in payment of Social Security taxes, the Omaha Office of the Collector of Internal Revenue advised that they were receiving only a few such assignments daily from all sources, including Social Security payments. Their practice in handling the assignments is to return them with the request that other exchange be supplied or that some bank be designated through which the assignment might be collected. It is also their practice to require payment at par or have the item returned.

"Some time ago the question of handling these assignments of cooperative credit associations in Nebraska was presented to the Federal Reserve Bank of Kansas City, which outlined a plan under which the Reserve bank would accept such assignments from Government departments or agencies for collection. This plan was discussed with the Omaha Office of the Collector of Internal Revenue but that office seemed to favor continuing their present practice in handling these assignments apparently because they feared that a change in the practice would involve additional work in effecting collection of the items.

"It is hoped that the above information will explain the situation with reference to the items in question."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: 

[Vice Chairman.]

Assistant Secretary.