

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 27, 1938, at 11:30 a. m.

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

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

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Telegram dated July 26, 1938, to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, stating that the Board approves the establishment without change by the bank on July 23, 1938, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter dated July 26, 1938, to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Receipt is acknowledged of your letter of July 15, 1938, in regard to the purchase by the 'Princeton Bank and Trust Company', Princeton, New Jersey, of assets of the Princeton Savings Bank in amount of \$395,882.23, which was effected as of July 5, 1938, in order to permit that bank to go into voluntary liquidation in accordance with the suggestion of the State Banking Department and the Federal Deposit Insurance Corporation.

"It is noted that the transaction, which did not involve the assumption of any deposit or other liabilities, has been approved by the State Banking Department of New Jersey, and is regarded as beneficial to the member bank and to the community through the elimination

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"of a weak banking institution without impairing the liquidity or safety of the member bank.

"In view of the relatively small amount involved as compared to the total resources of the member bank, and your opinion that the transaction did not result in any change in the general character of the assets or broadening in the functions exercised by the member bank, the Board does not regard the purchase as coming within the scope of condition numbered 4 under which the bank was admitted to membership.

"It is assumed that your counsel will pass upon any legal aspects involved, and that a copy of the contract or agreement between the two institutions will be furnished the Board for its records."

Approved unanimously.

Telegram dated July 25, 1938, to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Retel July 22. Board extends to October 1, 1938, the time within which 'The Wyandotte Savings Bank', Wyandotte, Michigan, may make the charge-offs as required by condition of membership numbered 8."

Approved unanimously.

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

"Your letter July 22, 1938, re application 'Cowlitz Valley Bank', Kelso, Washington, for permission to retire \$6,000 capital debentures. In accordance with your recommendation, Board interposes no objection to retirement by the Cowlitz Valley Bank of \$3,000 of its capital debentures."

Approved unanimously.

Letter to "The First National Bank of Bradenton", Bradenton, Florida, reading as follows:

"This refers to the resolution adopted on June 29,

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"1938, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System.

"Since it may be necessary for you to file a certified copy of the Board's certificate with the State authorities in connection with the release of the securities which you have deposited with them, such a copy is inclosed herewith."

Approved unanimously.

Memorandum prepared by the Division of Examinations submitting memoranda with respect to discussions concerning the data submitted by representatives of the Securities and Exchange Commission regarding loans made to Richard Whitney and Company by six State member banks and two national banks located in the City of New York which the representatives of the Securities and Exchange Commission felt

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gave rise to questions regarding compliance by the banks with the spirit and purpose, if not the letter, of the Board's Regulation U. The memorandum recommended that, with respect to the six State member banks involved, the Federal Reserve Bank of New York be requested to conduct such investigation as may be necessary and suggested that the information now available to the Board be made available to those charged with the conduct of the proposed investigation at the New York bank, and that, with respect to the two national banks involved, Mr. Dreibelbis, Assistant General Counsel, and such other members of the Board's staff as the Board may wish to designate, be authorized to discuss the matter informally with appropriate representatives of the Comptroller of the Currency for the purpose of explaining the situation, and outlining the course of action taken by the Board with the hope that the Comptroller will follow a similar course.

The recommendations, together with the following letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, were approved unanimously with the understanding that Messrs. Dreibelbis and Cagle, Assistant Chief of the Division of Examinations would confer with representatives of the Comptroller of the Currency:

"In connection with its investigation of the operations of Richard Whitney and Company, the Securities and Exchange Commission has brought to the attention of the Board, informally, the matter of loans made to the Company by several New York banks which, on the basis of information in hand, has given rise to questions regarding

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"compliance with the spirit and purpose, if not the letter, of Regulation U. The banks referred to are the Corn Exchange Bank Trust Company, the Continental Bank & Trust Company, the New York Trust Company, the Chemical Bank & Trust Company, the Marine Midland Trust Company, and the Manufacturers Trust Company.

"It is considered necessary that full information be developed as soon as practicable regarding the loans made by these banks to Richard Whitney and Company and that such further investigation as may appear to be necessary or desirable with respect to other security loans made by such banks be conducted in order to determine compliance or noncompliance with the purpose and intent of the regulation. It is requested, therefore, that you conduct such investigations with a view to determining (1) whether reasonable methods were used in determining the market value of stocks, particularly non-listed stocks, and other assets pledged to secure purpose loans, (2) whether the banks involved were justified in accepting the purpose statements made in connection with some of the loans, (3) whether statements to the effect that the securities hypothecated were carried for the account of customers other than partners were obtained when necessary, and whether, when obtained, the bank was justified in accepting such statements, (4) whether, in all instances, the return of collateral upon the payment of loans or the substitution of stocks for bonds was permissible, in view of the condition of other outstanding loans, and (5) whether, in all other respects, it appears that due regard was given to the provisions and the purposes of Regulation U in making the loans directly in question or in making such loans to others.

"Please report your findings to the Board as soon as practicable, giving full details with respect to all loans made by the banks named to Richard Whitney and Company since the effective date of Regulation U, including any loans made prior to such effective date that became subject to the regulation on September 1, 1937, and with respect to any other security loans investigated.

"The Board's Division of Examinations holds copies of certain documents and records submitted by the Securities and Exchange Commission and has made such analysis of the transactions in question as was possible on the basis of the information submitted. It is suggested that

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"you and the examiner or examiners whom you may designate to conduct the proposed investigation might find it helpful to come to Washington for the purpose of reviewing such information and discussing the matter with members of the Board's staff."

Memorandum dated July 22, 1938, addressed to Mr. Foulk, Fiscal Agent, by Mr. Morrill, reading as follows:

"As you know, in the report submitted by Messrs. Cagle, Conkling, and Jones under date of December 18, 1937, covering their survey of the Offices of the Secretary and the Fiscal Agent, the suggestion was made that your file of paid vouchers be turned over to the General Files.

"The committee appointed by me to study the report recommended that the original vouchers be retained in numerical files in your custody for the period of one year, or, in the event an audit has not been made of such vouchers during any one year period, until such time as your books and accounts have been audited in such manner as may be determined by the Board. The recommendation contemplated that, at the close of each month following the expiration of such a period, you would regularly transfer to the custody of the files all original vouchers paid during the corresponding month of the preceding year.

"This recommendation was discussed with Mr. Grayson at the time of his last audit, and while he is of the opinion that the vouchers should be held at least under key control by the Fiscal Agent, he recognizes the propriety of the records of the Board being gathered at a central point in accordance with the decision previously reached by the Board.

"The Board approves the procedure recommended by the committee above referred to, it being understood that when the vouchers are transferred by you to the files section, you will be relieved of further responsibility for their custody, that such responsibility will rest with the files, and that the vouchers will be held in the files under lock and key and made available to authorized persons by the Chief and Assistant Chief File Clerks only."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Lewis
Chairman.