

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

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 26, 1938, were approved unanimously.

Memorandum dated August 29, 1938, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated August 19 from Mr. Rounds, Vice President of the Federal Reserve Bank of New York, which requested approval by the Board of changes in the personnel classification plan of the bank to provide for the creation of the new position of "Assistant Chief" in the Foreign Accounts Division and the Foreign Exchange Division, respectively, of the Foreign Department of the bank. The memorandum recommended that, in view of the circumstances set forth in Mr. Rounds' letter, the proposed changes be approved.

Approved unanimously.

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Letter to the board of directors of "The Patchogue Citizens Bank & Trust Company", Patchogue, New York, 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 New York:

- "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 shall revise its capital structure substantially in the manner proposed by the board of directors at a meeting held on June 9, 1938, and as outlined in a letter from the bank dated June 10, 1938, addressed to the Federal Reserve Bank of New York.
- "9. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$253,849 as shown in the report of examination of such bank as of April 27, 1938, made by an examiner for the Federal Reserve Bank of New York, an itemized list of which will be furnished you by the Federal Reserve Bank of New York, and in addition shall establish a valuation reserve of not less than \$67,000 against the bank's advance to the Aidit Corporation.

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- "10. As soon as practicable, such bank shall dispose of any shares of its own stock held in its investment account and likewise dispose of any loans which may be secured in whole or in part by its own stock, or obtain the substitution of other adequate security for each such loan."

The letter also contained the following special comments:

"Recent reports of examination of the bank have indicated a lack of harmony among the board of directors and have referred to the lack of cooperation by certain of the members of the board with the executive management of the bank in the working out of many of the institution's problem cases. While whole-hearted cooperation among those charged with the responsibility for the operation of any bank is important, it is essential where a bank is faced with serious problems and where skill and constant attention of the executive management and the active and loyal support of the directors are necessary to avert substantial losses and to salvage values. It will be expected, therefore, that each member of the board and each officer of the bank will recognize the grave responsibilities of his position and cooperate to the fullest extent in the discharge thereof for the good of the bank."

Approved unanimously, together with a letter to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Patchogue Citizens Bank & Trust Company', Patchogue, New York, 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 for the State of New York for his information.

"It has been noted from the report of examination as of April 27, 1938, that the bank does not have an officially

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"designated trust officer. It is assumed that you will suggest to the directors of the bank that they take the necessary action to correct this situation as soon as possible.

"It has been noted from the presentation memorandum accompanying the application that, in the event the bank completes its membership, you will call attention to the necessity of transferring from savings deposits certain accounts which do not conform to the provisions of the Board's Regulation Q.

"You will observe that condition of membership numbered 9 contains the statement that your bank will furnish the applicant bank with an itemized list of the estimated losses to be eliminated. This statement was deemed advisable in view of the fact that, as recommended by your bank, the condition does not require the applicant bank to eliminate the amount of \$30,000 which the examiner in his report sets up as a loss because of mortgages sold by the bank to its own trust department.

"You are authorized on behalf of the Board, and without reference of the matter to the Board, to waive compliance by the bank with the requirements of condition of membership numbered 6 under the same terms and conditions as are contained in the Board's letter of July 17, 1935, to Mr. Case."

The following letter to Mr. Gidney,
Vice President of the Federal Reserve
Bank of New York, in connection with
the above matter, was also approved
unanimously:

"Reference is made to your letter of July 25, 1938, citing further instances of the lack of cooperation between certain of the directors and the president of 'The Patchogue Citizens Bank & Trust Company', Patchogue, New York, the application for membership of which has today been approved by the Board, and in which you suggest that, if consistent with the Board's policy in matters of this kind, a condition of membership be prescribed to the effect that at the close of the current year the present chairman of the bank be not reelected to that position.

"While the Board has no fixed policy in a matter of

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"this nature, each case being considered on the basis of all the circumstances involved, it is felt that the matter might best be handled by the Federal Reserve bank and the State Banking Department. Accordingly, the suggested condition has not been prescribed. It will be noted, however, that a comment has been made in the letter to the bank to the effect that full cooperation between the directors and the executive management will be expected and it is assumed that your office will follow the situation closely with the view to taking any action in connection therewith that you may deem appropriate in view of the circumstances."

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of August 9, 1938, relating to the Board's letter of August 3, 1938, containing a determination by the Board with respect to Laurel Land and Investment Company, Uniontown, Pennsylvania, which results in it not being a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"The inquiry received from Mr. Breakwell, cashier of the subsidiary bank, did not indicate that he had written to you also and, since it appeared from the available information that the determination was justified, the Board, in accordance with its practice in other cases, made the determination and transmitted advice thereof through your bank in order that you might have an opportunity to call to the Board's attention any facts which, in your opinion, would warrant reconsideration of the matter.

"The facts with respect to the character of the subsidiary bank's management, to which you direct attention, have been reviewed carefully in the light of the information that all of the stock of the Laurel Land and Investment Company is owned by the bank's president and a small group apparently connected closely with him. It is noted, however, that the bank had been reported as being completely dominated by its president, the criticized officer, before the Laurel Land and Investment Company acquired a large portion of its stock. Moreover, it is not apparent that use of the company was essential in

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"the acquisition of a controlling interest in the bank by the president and his associates or that the situation differs materially from that which would exist if the bank's stock were owned by them directly instead of through the company. It is also noted that, as a practical matter, the holding company affiliate relationship might be terminated at the next election of directors of the bank or that, without awaiting such election, the company might terminate the relationship by disposing of a very few shares of the bank's stock.

"In these circumstances, and in view of the fact that the company does not own any stock of, or manage or control, any bank other than The Second National Bank of Masontown and apparently group banking is not involved in any manner, the Board believes that its previous determination should stand and, therefore, it will be appreciated if you will transmit to Mr. Breakwell its letter of August 3, 1938, unless in the meantime additional facts of a substantial character should come to your attention which in the opinion of yourself and your counsel would justify reconsideration of the Board's decision.

"For the Board's files, it will be appreciated if you will furnish to it copies of your correspondence with Mr. Breakwell concerning this matter."

Approved unanimously.

Telegram to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring your wire August 29 relating to proposed amendment to Regulation F, suggest that if possible expression of your views and views of State authorities be transmitted to Board not later than September 20."

Approved unanimously.

Letter dated August 29, 1938, to Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of your letter of August 20, 1938, enclosing a summary of the extensions of time

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"granted by the Chicago Stock Exchange from July 18 to August 18, 1938 under the provisions of the Board's Regulation T.

"In your letter you refer to a comment made by Mr. Kenneth L. Smith, Acting Secretary of the Exchange, in his letter to you regarding this summary. The Board agrees with Mr. Smith's view that the customer's absence from the city on the last day of the period within which action is to be taken is not such an exceptional circumstance as would, taken by itself, warrant the extension of the period. Even absence from the city during the whole of the period may in some cases be insufficient ground for the extension.

"It would, of course, be impossible for the Board to outline all of the cases in which extensions might be warranted. Each case presents a different problem to be viewed in the light of all the circumstances and the purposes of the regulation's provisions. It is principally for this reason that authority to grant extensions of time has been given to the appropriate committees of the national securities exchanges.

"The Board appreciates being furnished these periodical summaries of extensions of time granted by the Chicago Stock Exchange and is pleased to note the constructive interest which the Exchange takes in the problems involved."

Approved unanimously.

Letter dated August 29, 1938, to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Receipt is acknowledged of your letter of August 22, 1938, stating that the San Francisco Stock Exchange plans to introduce semi-weekly settlements of stock transactions beginning September 1, 1938.

"It is the opinion of the Board that the new method of settlement will not affect the application of Regulation T to the relations between creditors and their customers, and that it will not alter the time within which margin must be obtained for margin transactions or settlements completed in special cash accounts, although it is possible that there may be greater need for extensions of time in the case of some cash transactions.

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"It cannot be said in advance of experience, however, that the new method will not make amendments of the regulation eventually desirable. Your letter refers to the auditing difficulty which may result from the altered settlements. Advice would be appreciated, therefore, as to how great this difficulty turns out to be in practice and as to whether any change in the regulation for this or any other reason connected with the new method of settlement would in your opinion be desirable."

Approved unanimously.

Letter to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, reading as follows:

"Your letter of August 18, 1938, advising that the next meeting of the Federal Advisory Council will be held in Washington on September 19 and 20, 1938, and requesting a list of the topics which the Board desires the Council to discuss at that time, has been brought to the attention of the Board of Governors.

"Recently the Committee on Mortgage Investment Funds of the Pennsylvania Bankers Association, Trust Company Section, submitted a memorandum to the Board proposing the adoption of an amendment to Regulation F, Trust Powers of National Banks, to provide for common trust funds composed principally of real estate mortgages. Thirteen copies of a printed pamphlet containing the memorandum are being sent to you under separate cover. In addition to the matter referred to in my letter of August 3, 1938, the Board would appreciate it if the Council at its next meeting with the Board would submit a recommendation as to the advisability of adopting such an amendment and any comments or suggestions that the Council might wish to make relative to the details of the proposed amendment."

Approved unanimously.

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

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"The Board has considered and concurs in the recommendation of the board of directors of your bank, contained in your letter of August 9, that the Spokane Branch be disestablished, and that the reserve accounts of the three member banks located in the city of Spokane be transferred to the Seattle Branch. Please advise the Board the date the branch is to be disestablished as soon as the date is fixed by your board of directors.

"The Board will be glad to consider any recommendation you may wish to make regarding the transfer of some member banks in the southeastern section of Washington and the adjacent section of Idaho from the Seattle Branch to the Portland Branch. The suggestion that appointments to fill forthcoming vacancies on branch directorates might be made from eastern Washington, so that banks formerly in the Spokane area would have representation on the boards at Seattle and Portland, will be taken into consideration when future appointments are made by the Board.

"Should the member banks in the city of Spokane, subsequent to the disestablishment of the Spokane Branch, request that the reserve city designation of Spokane be terminated, the Board will be glad to give consideration to the request."

Approved unanimously.

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

"Receipt is acknowledged of your letter of August 23, 1938, regarding the applicability of section 8 of the Clayton Act to Mr. T. C. Frost and Mr. J. H. Frost, who are directors of the Frost National Bank of San Antonio, Texas, and of the San Antonio Joint Stock Land Bank.

"When section 8 was amended by the Banking Act of 1935, it was changed so that a director of a member bank is now prohibited from serving another bank only if the latter is 'organized under the National Bank Act or organized under the laws of any State or of the District of Columbia'. This wording does not cover a bank organized under any Federal statute other than the National

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"Bank Act. In other words, it does not prohibit a director of a member bank from serving as a director of a Federal Reserve bank, a Joint Stock Land bank or any other bank organized under a Federal statute, except the National Bank Act. This point is explained in footnote 3, on page 6 of Regulation L.

"Accordingly, section 8 of the Clayton Act does not prohibit Messrs. T. C. and J. H. Frost from serving at the same time as directors of the national bank and the Joint Stock Land bank named above."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary

Approved:

Ronald Pearson
Vice Chairman.