

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 16, 1938, at 10:00 a.m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Dreibelbis, Assistant General Counsel
Mr. Cagle, Assistant Chief of the Division
of Examinations

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, Messrs. Post, Hays and Young, Secretaries of the Federal Reserve Banks of Philadelphia, Cleveland and Chicago, respectively, Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary 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 September 13, by the Federal Reserve Banks of New York, Cleveland, Chicago, Kansas City and San Francisco on September 15, 1938, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Ransom stated that at the request of the Secretary of the Treasury he had attended another meeting at the Treasury at 4 o'clock yesterday afternoon at which there was further discussion of the situation

9/16/38

-2-

relating to the Bank of America National Trust and Savings Association, San Francisco, California, and that in addition to the persons who were at the meeting on September 13, there were present Messrs. Robert E. Healy, member of the Securities and Exchange Commission, Jesse Jones, Chairman of the Reconstruction Finance Corporation, Sam H. Husbands, Chief of the Examining Division of the Reconstruction Finance Corporation, Daniel W. Bell, Acting Director of the Budget, and Tom K. Smith, who the Secretary stated had become attached to the staff of the Secretary of the Treasury for the time being as an adviser in an emergency situation.

The Secretary advised, Mr. Ransom said, that in accordance with the decision reached on September 13, the Office of the Comptroller of the Currency had sent a telegram to the national bank examiner at Los Angeles demanding that the Bank of America discontinue the payment of dividends but that the directors at their meeting on September 13 had declared the usual semi-annual dividend. Mr. Ransom also said that the Secretary had stated that he was not willing to stop at this point but that the legal division of the Treasury was preparing some thirty or forty charges to be presented against certain officers and directors in the bank under section 30 of the Banking Act of 1933.

In this connection, Mr. Ransom said, the Secretary referred to information contained in reports of examination of the Bank of America (the last report having been delivered to the Comptroller of the Currency yesterday by air) relating to the large indebtedness of Mr. A. O.

9/16/38

-3-

Stewart, Chairman of the Federal Reserve Bank of San Francisco, and his interests to the Bank of America and his holdings of stock in Transamerica Corporation, and that the Secretary had expressed very vigorous objection to Mr. Stewart's serving as chairman of the Federal reserve bank because of the connection that the reserve bank would have with any proceeding under Section 30 of the Banking Act of 1933.

Mr. Ransom said that he had interrupted the Secretary to make it clear that the Federal Reserve Bank of San Francisco would have no part in a section 30 proceeding against an officer or director of a national bank unless the Board of Governors chose to have it do so and that, therefore, the question of the suitability of Mr. Stewart to serve in his present position of chairman of the Federal Reserve Bank of San Francisco on an honorarium basis without salary was not relevant to the present discussion. Mr. Ransom added that Mr. Oliphant had concurred in Mr. Ransom's opinion with respect to the part of the Federal Reserve Bank of San Francisco in a section 30 proceeding.

The Secretary of the Treasury then stated, Mr. Ransom said, that the Federal Reserve Bank of San Francisco was fiscal agent for the Treasury, that he did not want a fiscal agent with a man like Mr. Stewart at its head, and that he felt the Board should consider the suitability of Mr. Stewart to occupy his present position at the Federal reserve bank. Mr. Ransom said he had replied that if the Secretary had any matter to lay before the Board in relation to any officer of a Federal reserve bank

9/16/38

-4-

or any Federal reserve bank as fiscal agent for the Treasury the Board would consider it, in response to which the Secretary said he was doing that now.

Mr. Ransom added that in connection with a discussion of the procedure under section 30 he had again made it clear that the Board felt that it could not express any opinion in advance with respect to whether or not action should be taken under section 30, what the action should be, or any other opinion on the merits of the charges in advance of the certification of the facts to the Board. Upon inquiry from the Secretary as to whether Mr. Ransom objected to attending meetings at the Treasury at the request of the Secretary at which the question of action to be taken against the Bank of America was discussed, Mr. Ransom had replied that he would be willing to attend any conference dealing with the affairs of a member bank but felt he could not attend without making clear what he thought the position of the Board should be regarding its functions under section 30. To this the Secretary had replied that that was satisfactory to him and that he wanted to keep the Board fully advised.

Mr. Ransom then said he had inquired of Mr. Oliphant as to how long it might take to prepare the thirty or forty charges which it was proposed to present against certain officers and directors of the Bank of America and how much time would be involved in a section 30 proceeding, that Mr. Oliphant had admitted that it would be a matter of months,

9/16/38

-5-

that Mr. Ransom had then stated that since the Treasury felt that immediate action was necessary to protect the depositors of the national bank and the public interest he thought it necessary to direct attention to the time lag involved in a Section 30 procedure, and he raised the question as to whether or not consideration had been given to the fact that the Comptroller of the Currency would have the right to demand correction of any situation considered dangerous and, if correction were not made, that the Comptroller could then give consideration to the appointment of a conservator for the bank.

The Secretary promised, Mr. Ransom said, to furnish the Board with photostat copies of the sheets of the last report of examination of the national bank which related to the bank's condition and to Mr. Stewart's indebtedness.

After making the above report, Mr. Ransom requested that the Board consider what its position would be with respect to its representatives attending meetings at which action against the Bank of America is considered. Mr. Dreibelbis stated that, while it was impossible to say that a contrary view might not be taken and he would prefer to have more time in which to consider it further because of the possibility of any decision reached by the Board under section 30 being challenged in the courts, he felt that aside from its responsibility to make decisions under section 30 of the Banking Act of 1933 the Board had definite supervisory responsibilities both in relation to the national bank and to Transamerica Corporation as a holding company affiliate which could not be overlooked and it did appear that the Board, in its supervisory capacity, should be represented at the meetings, at the same time maintaining

9/16/38

-6-

an open mind with respect to any matter which might be presented relating to a proceeding under section 30. He added that the important thing was for the Board, in the event of the institution of proceedings under section 30 by the Comptroller of the Currency, to be able to grant a fair and impartial hearing and to make its decision solely upon the evidence adduced at the hearing.

All of the members of the Board present concurred in the opinion that the Board should be represented at any further meetings at the Treasury at which the matter was discussed, with the understanding that the Board's position in relation thereto would be made clear.

At the suggestion of Mr. Ransom, Mr. Cagle was requested to digest the information received by the Board by air mail today from the Federal Reserve Bank of San Francisco relating to the Bank of America, as well as the information to be received from the Treasury, and to be prepared to discuss it with the Board early next week.

In connection with the indebtedness of Mr. Stewart to the Bank of America and his stockholdings in Transamerica Corporation, Mr. Ransom stated that current information with respect thereto would be obtained for consideration by the Board at a later date.

At this point Messrs. Thurston, Dreibelbis and Cagle left the meeting.

The action stated with respect to each of the matters hereinafter referred to was taken by the Board.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 15, 1938, were approved unanimously.

9/16/38

-7-

Letter to Mr. Merritt, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of September 8, 1938, advising that at a meeting of the Board of Directors of the Federal Reserve Bank of Dallas held on September 8, 1938, section 8 of article IV of the by-laws of each branch of the Federal Reserve Bank of Dallas was amended, effective October 15, 1938, by adding a provision that in the discretion of the Board of Directors of the branch, one of its regular meetings during any calendar year may be omitted with the approval of the Board of Directors of the Head Office.

"You are advised that the Board of Governors approves the amendment to section 8 of article IV of the by-laws of each branch of the Federal Reserve Bank of Dallas as stated in your letter of September 8, 1938.

"It will be appreciated if you will forward to the Board of Governors one complete copy of the branch by-laws as amended."

Approved unanimously.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring your September 8 letter and inclosed proposed check collection circulars, Board has no objection to changes in procedure outlined therein. Since Presidents' Conference Standing Committee on Collections is considering several questions with respect to handling of checks which, if approved, will necessitate several changes in check collection circulars, and since present plans provide for submission of Committee's report in time for it to be acted upon at the next Presidents' Conference, which is expected to be in October, you may wish to defer issuing your circular until after the Presidents' Conference."

Approved unanimously.

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

"Reference is made to your letter of September 8, 1938, and inclosures relative to the status, under the provisions of section 8 of the Clayton Act, of Messrs. 'A. Shemanski'

9/16/38

-8-

"and 'P. E. Harris' who are serving as directors of 'Seattle-First National Bank' and 'Seattle Trust and Savings Bank', both of Seattle, Washington.

"Your letter of September 1, 1938, to Mr. M. A. Arnold, Chairman of the Board of Directors of Seattle-First National Bank indicates that you have advised him fully with respect to the matter, and there appears to be nothing further for the Board to add in this connection. As you have already advised Mr. Arnold, the Board gave careful consideration to the question of permitting the continuance for a further period after February 1, 1939, of relationships which were lawfully in existence on the date of enactment of the Banking Act of 1935, and sees no reason for extending the time fixed by Congress for the termination of such relationships."

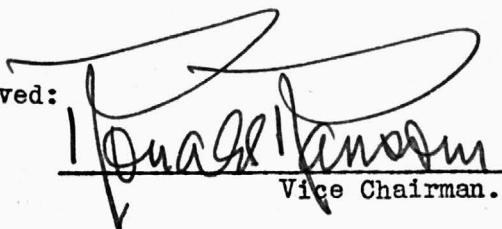
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.