

A meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council was held in Washington on Tuesday, September 20, 1938, at 10:15 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel
Mr. Cagle, Assistant Chief of the Division of Examinations

Messrs. Thomas M. Steele, Winthrop W. Aldrich, Howard A. Loeb, Robert M. Hanes, Edward Ball, Edward E. Brown, Walter W. Smith, John Crosby, C. Q. Chandler, R. E. Harding and Paul S. Dick, Members of the Federal Advisory Council representing the First, Second, Third, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh and Twelfth Federal Reserve Districts

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

President Smith stated that in accordance with the Board's request there had been placed on the program for discussion by the Federal

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Advisory Council the report submitted by the Council at its meeting with the Board on May 17, 1938, with regard to the question "How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?", but that since Mr. L. B. Williams, the member of the Council representing the Fourth Federal Reserve District, who had prepared the report, had been unable to attend this meeting action on the report had been deferred until the next meeting.

President Smith also said that consideration had been given by the Council to the memorandum submitted to the Board by the Committee on Mortgage Investment Funds of the Pennsylvania Bankers Association which contained a proposal that the Board's Regulation F, Trust Powers of National Banks, be amended to provide for common trust funds composed principally of real estate mortgages and that it was the Council's recommendation that the Board adopt the amendment in principle. There ensued a discussion of the proposed amendment particularly with reference to the practice commonly known as self-dealing, and it was stated that, since the Pennsylvania law authorizes State banks to invest in mortgages in their own right for subsequent investment of trust funds, the question would have to be determined by the Board whether or not provision for such investment by national banks should be permitted by the amendment if adopted. Mr. Loeb referred to the comments made by the Federal Reserve Bank of Philadelphia in response to the Board's request for the

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views of the bank regarding the amendment and suggested that the comments be given careful consideration by the Board.

Mr. Ransom asked the specific question of the members of the Council whether they would favor a modification of the amendment proposed in the memorandum submitted by the Committee on Mortgage Investment Funds to permit a national bank to invest trust funds in mortgages owned by the bank and all of the members of the Council present, with the exception of Mr. Brown, indicated that they felt the practice of self-dealing was a dangerous one and that unless it could be properly safeguarded by the amended regulation it should be avoided entirely.

Mr. Brown stated that, while his bank would not exercise the authority if granted, he felt that any amendment to the regulation providing for the investment of common trust funds in mortgages should permit national banks the same rights as State banks and trust companies enjoy under the laws of the State with respect to investment of trust funds in mortgages owned by the bank.

Following Mr. Ransom's question Messrs. Smith, Brown and Harding left the room to attend a meeting at the Treasury.

Mr. Loeb stated that because of the annual convention of the American Bankers Association at Houston, Texas, on November 14-17, 1938, it had been suggested that, if agreeable to the Board, the next meeting of the Federal Advisory Council be held on November 28-29 instead of November 14-15, 1938. The members of the Board indicated that they

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would have no objection to the proposed change in the dates for the meeting.

Mr. Ransom stated that the Presidents of the twelve Federal reserve banks were in Washington for the purpose of holding a Presidents' Conference and that, while he did not have in mind anything that either the Presidents or the Board wished to present to the Council at this time, he would like to know whether the Council would be interested in meeting with the Board and the Presidents for an informal discussion. It was agreed that the Council would meet with the Board and the Presidents at 2:15 p.m. today.

Mr. Loeb stated that the Council had given consideration at its separate meeting to the proposal to form regional banks to lend to small businesses and that, while no formal resolution was adopted in connection with the matter, the Council would be glad to discuss it with the Board if it so desired. The matter was the subject of a brief discussion during which it was suggested that the subject was one in which the Presidents also were interested and it was agreed that it should be brought up again at the joint meeting this afternoon.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Thomas Ransom
Vice Chairman.