

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 30, 1938, at 2:30 p. m.

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

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. Paulger, Chief of the Division of
Examinations
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Dreibelbis, Assistant General Counsel

It was stated that a further substantial number of telegrams had been received protesting the closing of the Spokane Branch of the Federal Reserve Bank of San Francisco and suggesting that an opportunity had not been afforded to interested parties to present facts in support of the retention of the branch and that the branch should not be closed without an opportunity for a hearing. It was also stated that, while President Day of the Federal Reserve Bank of San Francisco had issued a statement to the press (a copy of which has been placed in the Board's files) to the effect that action had been taken only after studies extending over a considerable period of time had been made and careful consideration had been given to the matter by the board of directors of the bank and the Board of Governors and that the services rendered

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by the branch did not justify the expense involved, it was believed that it might be well to advise interested parties that an opportunity would be afforded them by the Federal Reserve Bank of San Francisco to present facts and information in support of the reopening of the branch. In this connection, telegrams received from Senator Bone and Representative Leavy were read and Messrs. Davis and Bethea advised the Board of telephone conversations which they had had yesterday and today with Senator Schwellenbach.

At the conclusion of the discussion the following telegram to Senator Bone was approved with the understanding that similar telegrams would be sent to Senator Schwellenbach, Mr. Leavy and others:

"Your telegram of September 29, together with representations made by Senator Schwellenbach and others, has been brought to attention of Board of Governors and Board has directed that your telegram be dispatched immediately to Federal Reserve Bank of San Francisco for consideration by directors of that bank. Since all arrangements have been made for closing branch today, including the sending of notices to member banks throughout the country, it is not now practicable to cancel such arrangements. The Board has, however, asked the Federal Reserve Bank of San Francisco to hold a hearing at as early a date as can be arranged on the question as to whether the Spokane Branch should be reopened."

Mr. Ransom stated that in view of the action taken by the Board with respect to the Spokane branch he would appreciate it if consideration were given to the closing of the Savannah Agency of the Federal Reserve Bank of Atlanta since he did not see any justification for maintaining the agency in the light of the decision reached in connection with the Spokane branch, and that he would appreciate it if Mr.

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Szymczak would give the matter consideration and report his recommendations to the Board at an early date. Mr. Szymczak stated that he would be glad to look into the matter and make a recommendation to the Board.

There were then presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Kimball, Post, Hays and Young, Secretaries of the Federal Reserve Banks of New York, 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 27, by the Federal Reserve Banks of New York, Cleveland, Chicago and Kansas City on September 29, 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 Mr. Gilbert T. Stephenson, Director of the Equitable Trust Company, Wilmington, Delaware, who is doing some special work for the American Bankers Association in trusts, would be in Washington during the week of November 7 and he (Mr. Ransom) wished to suggest that the members of the Board invite Mr. Stephenson and Mr. Sidney F. Taliaferro, Vice President and Trust Officer of the Riggs National Bank, Washington, D. C. and a member of the executive committee of the Trust Division of the American Bankers Association, to

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have luncheon with the members of the Board on November 7.

It was understood that Mr. Ransom would extend invitations to Messrs. Stephenson and Taliaferro in accordance with his suggestion, and the payment by the Board of the cost of the two lunches was authorized.

Mr. Ransom reported that Chairman Eccles had advised him over the telephone that he had received the resignation of A. O. Stewart as a Class C director and as Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco, and that his letter of resignation was in the following form:

"A matter has arisen that I think should be made known to you and the reason it was not made known to you sooner was due to an over-sight on my part.

"For more than ten years I was the owner of a large block of Transamerica stock. In October, 1937, I received a dividend on this stock of 5,700 shares of Bank of America stock registered in my name and which, because of limited market conditions, I have continued to hold up to and including the present time. Technically the holding of this stock, even though acquired as a dividend, perhaps disqualifies me as a director of the Federal Reserve Bank of San Francisco and, if so, I hereby tender my resignation as a director and as Chairman of the board of directors of the Federal Reserve Bank of San Francisco, same to be accepted at your pleasure together with my apologies for not calling the matter to your attention at an earlier date.

"I have enjoyed my association with the Board of Governors and with the Federal Reserve Bank here in San Francisco, and I consider each of you my personal friend. I shall ever cherish the friendship that I feel each of you holds for me."

Chairman Eccles, Mr. Ransom said, asked him to state to the other members of the Board that he recommended the acceptance of Mr. Stewart's

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resignation.

Upon motion by Mr. Davis, the Board, by unanimous vote, accepted Mr. Stewart's resignation effective October 1, 1938, and the following telegram to Mr. Stewart was approved unanimously:

"Board has accepted your resignation, tendered by your letter of September 27, as Class C director and as Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco, effective October 1, 1938. Board appreciates the services you have rendered to the System and its members appreciate the sentiments expressed in your letter."

In connection with the above matter the following press statement was also approved with the understanding that Assistant Secretary Bethea would advise President Day of the Board's action:

"The Board of Governors has accepted, effective as of October 1, 1938, the resignation of A. O. Stewart as a Class C Director and as Chairman of the Board and Federal Reserve Agent of the Federal Reserve Bank of San Francisco. In submitting his resignation to Chairman Eccles, who transmitted it to the Board and recommended approval, Mr. Stewart stated that by reason of an acquisition of bank stock by dividend he was no longer technically qualified under the law to continue to serve."

At this point Mr. Cagle, Assistant Chief of the Division of Examinations, joined the meeting.

Mr. Ransom stated for the information of the other members of the Board that yesterday afternoon he had received an invitation from the Secretary of the Treasury to attend a meeting at the Treasury this morning at 11:00 o'clock for the purpose of discussing a matter which had arisen in connection with The Anglo California National Bank of

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San Francisco. The meeting was attended, Mr. Ransom said, by members of the staff of the Treasury, Mr. Preston Delano, who has been appointed by the President as Comptroller of the Currency but who had not yet assumed office; Mr. Folger, Chief National Bank Examiner, Mr. L. H. Sedlacek, National Bank Examiner, Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, Mr. Sam Husbands, Chief of the Examining Division of the Reconstruction Finance Corporation, Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation and Mr. Tom K. Smith, Special Assistant to the Secretary of the Treasury.

The Secretary advised, Mr. Ransom stated, that the last report of examination of The Anglo California National Bank of San Francisco, which had been completed recently, confirmed disclosures in earlier reports of examination that the bank was in a serious condition and that the question before the Treasury was whether a letter of warning should be addressed to the directors of the bank in accordance with the provisions of Section 30 of the Federal Reserve Act or, if lesser action than that should be taken, what that action was to be. During the course of the meeting, Mr. Ransom said, Messrs. Crowley and Smith stated that negotiations had been under way for some time looking to a recapitalization and other changes in the bank which it was thought might bring about the desired results more expeditiously and that they would favor continuing these negotiations to see what could be achieved. They suggested in this connection that a special meeting of the board

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of directors of the bank should be called at which representatives of the Comptroller of the Currency and the Reconstruction Finance Corporation would be present, and at which the plan of recapitalization of the bank would be presented and the directors advised that it would be supported by the Comptroller of the Currency and the Reconstruction Finance Corporation. Mr. Ransom added that during the discussion of this suggestion he stated to the Secretary in response to his inquiry that, while he could express no opinion with respect to the facts which were new to him, he felt that a wise course of procedure was to follow the suggestion presented by Messrs. Crowley and Smith. While no decision was reached in the matter, Mr. Ransom said, it was his understanding that the Secretary would interpose no objection if the Comptroller of the Currency adopted the suggested course.

At this point Messrs. Thurston, Wyatt, Paulger, Smead, 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 28, 1938, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 29, 1938, were approved and the actions recorded therein were ratified unanimously.

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Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"In accordance with the request contained in your letter of September 16, the Board approves the appointments of William R. King and Robert C. Masters, at present assistant examiners, as examiners for the Federal Reserve Bank of Boston and of Thomas H. McGovern, Jr. and Robert A. Duffy as assistant examiners. Please advise us of the effective dates.

"The Board also approves the designations as assistant examiners of the following employees, such designations being in order that they may lend clerical assistance to your regular examiners:

Blunt, Erving M.	Harvey, Robert B.
Knott, Harold C.	Lind, Oscar W.
MacKenzie, Duncan P.	Radford, Richard H.
Sawyer, Dana D.	Sawyer, Frank A.

"Approval of the above designations is given with the understanding of course that none of the employees listed will be transferred permanently to examining work without the Board's approval.

"As requested in your letter, the name of Lester Killian has been removed from the list of employees whose designations as assistant examiners have been approved by the Board."

Approved unanimously.

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

"This refers to your letter of September 14th in which you ask whether a member bank is required to submit reports of a 'holding company affiliate', on the Board's Form F. R. 220 in the case of State bank members and the Comptroller of the Currency's Form 2130-E in the case of national banks, covering an organization which the Board has determined is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

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"We have discussed this matter informally with the Comptroller's office and they agree with us that no reports need be submitted on Form 2130-E or published in accordance with Form 2130-E-1 covering organizations which the Board of Governors has determined are not 'holding company affiliates' except for the purpose of section 23A of the Federal Reserve Act. Such organizations should, however, be listed in Schedule 'O'. Of course, if an organization is also an 'affiliate' (other than a 'holding company affiliate') within the meaning of section 2(b) of the Banking Act of 1933, the Board's determination under section 2(c) would not of itself exempt the organization from filing reports as an 'affiliate'."

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 16, 1938 regarding the question whether Holbrook, Mitchell and Richardson, Inc., San Francisco, California, is subject to Regulation T as a 'broker or dealer who transacts a business in securities through the medium' of any member of a national securities exchange.

"As you know, the Board's letter (X-9880; Reg. T-54) of April 28, 1937, stated that the general question of whether or not a particular broker or dealer transacts a business in securities through the medium of a member must turn upon all the relevant facts involved in that particular situation. It has not seemed feasible to attempt to specify any conditions or factual situations which would prevent a person from being a broker or dealer who transacts a business in securities through the medium of a member.

"The letter of April 28, 1937, stated, however, that the mere failure to handle any business in registered securities would not, in itself, be sufficient to keep a person from being a broker or dealer who transacts a business in securities through the medium of a member. This was because the relevant language of the Act does not refer to transacting a business in registered securities but to transacting a business in securities.

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"Similarly, it is the view of the Board that the fact that a firm does not carry any so-called margin accounts would not, in itself, be sufficient to keep the firm from being a broker or dealer who transacts a business in securities through the medium of a member, because the Act does not refer to transacting a margin business in securities but to transacting a business in securities.

"If, as seems somewhat likely, the facts are such that Holbrook, Mitchell and Richardson, Inc., is a broker or dealer who transacts a business in securities through the medium of a member, it would, of course, be subject to the provisions of section 7(a) of Regulation T which relate to arranging for loans by others.

"It is assumed that the corporation is aware that the restrictions on the use of unregistered securities do not amount to an absolute prohibition against any such securities appearing in the collateral for any loans made or arranged by persons who are subject to Regulation T.

"The prohibition, of course, is merely against allowing loan value to unregistered securities in connection with such loans when the loans are for the purpose of purchasing or carrying securities. Such securities may properly appear as collateral if the loan is not for the purpose of purchasing or carrying securities. They also are permissible even when the loan is for the purpose of purchasing or carrying securities, provided the unregistered securities are used merely for the protection of the lender and not to meet any requirement of the regulation."

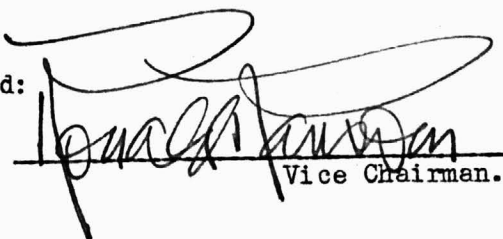
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.