A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 22, 1938, at 10:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, 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
Mr. Vest, Assistant General Counsel
Mr. Cagle, Assistant Chief of the Division of Examinations

Reference was made to the following letter received under date of November 11, 1938, from Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, in reply to the Board's letter of November 9, 1938. Copies of the letter had been furnished to all members of the Board before this meeting:

"I am in receipt of your letter of November 9th on the subject of our bank examination department. Chairman Eccles has talked to me in accordance with the suggestion of the Board as stated in your letter. Our board of directors met yesterday and the matter was presented to them. Our board of directors has authorized me to advise the Board of Governors as follows:

"1. In view of the reservations expressed by the Board's representatives who made a survey of our examination department as to the ability of Mr. Peterson to assume

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"the duties of vice-president in charge of examinations, we will be very glad to have the Board send, as is suggested, one of its examiners to the bank to advise and assist in the development of the examination department. We want Mr. Peterson to have every fair chance to demonstrate his ability to handle the examination work. We hope the Board will send an examiner for the distinct purpose of advising with us and with Mr. Peterson, and of helping him to develop the department in such manner as would enable him successfully to carry on the work. It is, of course, the desire of our board of directors to have this department develop to a point of efficiency satisfactory to the Board of Governors, in accordance with the System's policies, under the general supervision of the Board's division of examinations at Washington. Inasmuch as Mr. Wood's extended time expires at the end of the year, we would be glad to have the examiner whom you are to loan to us for this development period come about the first of the year.

"2. I reported to the board of directors here quite fully the result of my conversation with Chairman Eccles. The board concurs in the thought I had following my conversation with him--a thought which I should have had earlier--that we have had here an unsatisfactory situation in that the officer in charge of examinations has also been in charge of bank relations. The Board is familiar with the conditions here which have made me feel, after I became familiar with the bank's affairs, that the relations of this bank with member banks is not very satisfactory. Our board of directors came to the same conclusion. We have been making a special effort to improve those relations. Mr. Wood has, of course, been largely active in the efforts to accomplish that purpose. During the year our man directly in charge of bank relations under Mr. Wood has reached the retirement age and retired on the first of October. We employed a new man for that position, a very promising young man who we think will work well into the position. I am asked, however, by the board of directors here to present to the Board of Governors the following considerations about Mr. Wood:

"He has been for years by far the most popular and influential man in the bank with the member banks. He is well known to them on account of his long service in this

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"district as a bank examiner prior to the time he came with the Federal Reserve Bank, as well as on account of his work and contact with the banks since he became vice-president of the bank here. He has the confidence of the bankers and is highly respected by them. He can be of great service to us in carrying on the bank relations work. We hope the Board will approve of our request, which we hereby present, for an extension of time for one year for Mr. Wood, permitting him to continue as vice-president of the bank for another year in charge of bank relations, having no connection with the examination department. We would ask Mr. Wood to continue his work in that field at a substantially reduced salary. We think it would be helpful to continue him during this period as vice-president of the bank. Not only would Mr. Wood's services be valuable to the bank in this position during the year, but he would be able to give much assistance to the young man who is now engaged in the bank relations work in developing his contacts with the member banks in the district. The board of directors here realizes the attitude of the Board toward extensions of time beyond the age of sixty-five, but nevertheless feels justified in making this request in Mr. Wood's case on account of the distinct service which we think he could render to the bank in connection with this very important work. We would expect, if this request is granted, to adjust salaries on such basis as would not make the cost for the year of the combined bank relations and examination executive supervision greater than it has heretofore been.

"I should very much appreciate it if you would present this matter to the Board at your earliest convenience, and we shall be glad to have as prompt decision on the matter as can be made."

After discussion, it was decided that the examiner sent from the Board's Division of Examinations to assist temporarily in the supervision of the examination department of the St. Louis bank should be at the bank at least thirty days before the termination of Mr. Wood's service as Vice President in charge of examinations and that, for the reasons previously discussed and of which the Federal Reserve

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Bank of St. Louis was fully advised, the Board should not approve the retention of Mr. Wood as Vice President of the bank in charge of bank relations after the expiration of this calendar year.

> Mr. Szymczak moved that the Secretary be requested to prepare for consideration by the Board a draft of letter to Chairman Nardin advising him in accordance with the above decision.

Carried unanimously.

Before this meeting there had been circulated among the members of the Board a memorandum dated October 12, 1938, from Mr. Cherry, Assistant Counsel, summarizing the replies received from the Federal reserve banks to the Board's letter of September 3, 1938, with respect to the desirability of amending Regulation O, Loans to Executive Officers of Member Banks, to exclude inactive officers of member banks from the definition of "executive officer" contained in the regulation. During a review of the circumstances which led to a consideration by the Board of an amendment to the regulation, reference was made again to the fact that Section 22(g) of the Federal Reserve Act, which limits loans by member banks to executive officers, constituted another field in which there is discrimination between member and nonmember banks, and a possible deterrent to membership in the System. In this connection reference was made to the fact that there were a number of other discriminations in Federal banking law against member banks and it was suggested that this whole matter be brought to the attention of Congress

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for such action as it sees fit.

> At the conclusion of the discussion the staff was requested to study the problem with a view to seeing whether an amendment to Regulation O can be formulated which would provide a satisfactory solution as to inactive officers in the light of the legislative history and purposes of Section 22(g) of the Federal Reserve Act and if so to submit to the Board such an amendment with a statement of the reasons.

There was then presented a memorandum prepared by Mr. Cagle under date of August 1, 1938, summarizing the comments and conclusions reached by the Division of Examinations on the basis of the surveys made by the Division of the bank examination departments of the respective Federal reserve banks. The memorandum had been circulated among the members of the Board and had been placed on the docket for consideration at this meeting of the action to be taken by the Board with respect thereto.

> It was agreed that a copy of the memorandum should be furnished to each member of the Board and that the Division of Examinations should be requested to review the individual reports and to prepare for consideration by the Board a draft of a letter to each Federal reserve bank stating the actions which it is felt should be taken to place the examination department of the bank in a position to discharge its responsibility effectively.

At this point Messrs. Wyatt, Paulger, Smead, Dreibelbis, Vest, and Cagle left the meeting.

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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 November 9, 1938, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on November 14, 16, 17, and 19, 1938, were approved and the actions recorded therein were ratified unanimously.

Telegram dated November 21, 1938, to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Retel. Board approves designations of the three branch employees listed as assistant examiners for the examination mentioned."

Approved unanimously.

Letter dated November 21, 1938, to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"Receipt is acknowledged of your letter of October 28, 1938, forwarding the request of The Bank of Glade Spring, Glade Spring, Virginia, for permission to purchase certain additional stock of the Holston Agricultural Credit Corporation. It is noted that the Holston Agricultural Credit Corporation was organized under the laws of the State of Virginia and that all of its capital stock is now owned by The Bank of Glade Spring.

"The Board, in its ruling published on page 449 of the Federal Reserve Bulletin for 1933, to which reference has been made by your counsel, and in other instances, has ruled that, inasmuch as section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, subjects State member banks to the same limitations and conditions

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"with respect to the purchase of stock of other corporations as are applicable to national banks under paragraph seventh of section 5136 of the Revised Statutes of the United States, State member banks are not permitted to invest in any stocks except stock of the limited types of corporations in which national banks are allowed to invest. A contrary view would result in a discrimination between State member banks and national banks in this regard and would thus be inconsistent with the intention of Congress in enacting the provision of section 9 relating to the purchase of stock by State member banks. With reference to the suggestion of your counsel that section 23A of the Federal Reserve Act may be considered as authority for the purchase of the stock in question, it may be stated that the Board has taken the position that this section does not authorize a State member bank to purchase stock of an affiliate, and for your information and that of your counsel there is inclosed herewith a copy of the ruling which the Board made some time ago on this subject.

"The Board, however, has given careful consideration to the request of The Bank of Glade Spring and to the views of your counsel expressed in connection therewith, but, since there is no authority in the Federal law for a national bank to invest in the stock of an agricultural credit corporation incorporated under State law, it is the view of the Board that The Bank of Glade Spring, a State member bank, may not lawfully purchase additional stock in the Holston Agricultural Credit Corporation.

"In communicating the Board's views in this matter to the member bank, it is requested that you advise the bank that the Board recognizes that the purpose of its request is to serve the agricultural credit needs of its community and that legal considerations require the position which is taken above. It is assumed that you will also assure the member bank of the desire of the Federal Reserve bank to assist it as far as possible in making credit available to the community."

Approved unanimously.

Letter to Mr. W. B. Oglesby, Cashier, The State National Bank, Texarkana, Arkansas, reading as follows:

"It is regretted that you have not received an earlier

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"reply to your letter of July 26, 1938, inquiring whether your bank must deposit security in its trust department to secure certain funds deposited in its savings department but, as indicated by our letter of August 5, 1938, consideration of related matters has necessitated the delay.

"Without undertaking to construe the will from which you quote, it is assumed that the funds in question were received by your bank as trustee under a will expressly requiring that the funds be invested by deposit in the bank's savings department. Section 11(k) of the Federal Reserve Act and section 9(b) of Regulation F require that trust funds awaiting investment or distribution which are used by a national bank in the conduct of its business be secured by the deposit of securities in the trust department of the bank. However, the Board is of the opinion that trust funds invested by a national bank by deposit in its own savings department are not required to be secured because they are not funds awaiting investment or distribution and that, accordingly, security is not required when a national bank deposits trust funds in its own savings department in compliance with terms of a trust instrument or court order expressly requiring the bank to so invest the funds.

"Copies of this correspondence are being furnished to the Federal Reserve Bank of St. Louis, and, if you have any further questions, it will be appreciated if you will take them up with that institution in order that it may answer them if it is in a position to do so or refer them to the Board with such information as may be needed by it."

Approved unanimously.

Memorandum dated November 19, 1938, from Mr. Smead, Chief of the Division of Bank Operations, recommending that, for the reasons stated in the memorandum, the sum of $200 be added to the 1938 budget for the Division to cover traveling expenses during the remainder of the current year.

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.

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