

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 20, 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. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel

Mr. Eccles stated that, in accordance with the informal request of the members of the Board, he had talked with E. S. Burke over the telephone for the purpose of advising him that the members of the Board would be very pleased if he would accept reappointment as Class "C" director and designation as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Cleveland; and that Mr. Burke referred to the fact that he had accepted redesignation as Chairman and Federal Reserve Agent with considerable reluctance at the beginning of this year, and stated that he felt he would not be in a position to devote the necessary time during the coming year and that before Chairman

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Eccles called he had reached the decision that he would not be able to accept reappointment as a Class "C" director for another term or designation as Chairman and Federal Reserve Agent for the coming year.

In view of the report it was agreed that the Personnel Committee should make a recommendation to the Board with respect to the selection of a successor to Mr. Burke.

Consideration was then given to recommendations of the Personnel Committee with respect to the designation of Chairmen and Federal Reserve Agents, the appointment of Deputy Chairmen, the appointment of Class C directors, and the appointment of directors at branches, of Federal reserve banks. The following unanimous actions were taken:

F. H. Curtiss was appointed a Class C director of the Federal Reserve Bank of Boston for a term of three years beginning January 1, 1939, and designated as Chairman and Federal Reserve Agent for the year 1939, his compensation as Chairman and Federal Reserve Agent being fixed on the uniform basis fixed for the same position at all Federal reserve banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

H. S. Dennison was appointed Deputy Chairman of the Federal Reserve Bank of Boston for the year 1939.

Beardsley Ruml was appointed a Class C director of the Federal Reserve Bank of New York for a term of three years beginning January 1, 1939, and Deputy Chairman at the bank for the year 1939.

Owen D. Young was designated Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York for the year 1939 and his compensation as Chairman and Federal Reserve Agent was fixed on the uniform basis fixed for the same position at all Federal reserve banks, i.e., the same amount as the aggregate of the fees payable

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during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

M. B. Folsom was appointed a director of the Buffalo Branch of the Federal Reserve Bank of New York for a term of three years beginning January 1, 1939.

T. B. McCabe, Class C director of the Federal Reserve Bank of Philadelphia whose term expires on December 31, 1939, was designated Chairman and Federal Reserve Agent for the year 1939 and his compensation as Chairman and Federal Reserve Agent was fixed on the uniform basis fixed for the same position at all Federal reserve banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

G. C. Brainard was appointed Deputy Chairman of the Federal Reserve Bank of Cleveland for the year 1939.

Alexander Thomson was appointed a director of the Cincinnati Branch of the Federal Reserve Bank of Cleveland for a term of two years beginning January 1, 1939.

G. T. Ladd was appointed a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland for a term of two years beginning January 1, 1939.

Robert Lassiter was designated Chairman and Federal Reserve Agent at the Federal Reserve Bank of Richmond for the year 1939 and his compensation as Chairman and Federal Reserve Agent was fixed on the uniform basis fixed for the same position at all Federal reserve banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

W. G. Wysor was appointed Deputy Chairman of the Federal Reserve Bank of Richmond for the year 1939.

W. F. Thomas was appointed a director of the Baltimore Branch of the Federal Reserve Bank of Richmond for a term of three years beginning January 1, 1939.

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F. H. Neely was appointed a Class C director of the Federal Reserve Bank of Atlanta for a term of three years beginning January 1, 1939, and designated as Chairman and Federal Reserve Agent for the year 1939, his compensation as Chairman and Federal Reserve Agent being fixed on the uniform basis fixed for the same position at all Federal reserve banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

Donald Comer was appointed a director of the Birmingham Branch of the Federal Reserve Bank of Atlanta for a term of three years beginning January 1, 1939.

R. H. Gamble was appointed a director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta for a term of three years beginning January 1, 1939.

Alexander Fitz Hugh was appointed a director of the New Orleans Branch of the Federal Reserve Bank of Atlanta for a term of three years beginning January 1, 1939.

C. B. Austin was appointed a director of the Nashville Branch of the Federal Reserve Bank of Atlanta for a term of three years beginning January 1, 1939.

R. E. Wood was appointed a Class C director of the Federal Reserve Bank of Chicago for a term of three years beginning January 1, 1939, and Deputy Chairman at the bank for the year 1939.

L. W. Watkins was appointed a director of the Detroit Branch of the Federal Reserve Bank of Chicago for a term of three years beginning January 1, 1939.

W. T. Nardin was designated Chairman and Federal Reserve Agent at the Federal Reserve Bank of St. Louis for the year 1939 and his compensation as Chairman and Federal Reserve Agent was fixed on the uniform basis fixed for the same position at all Federal reserve banks, i.e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

H. H. Tucker was appointed a director of the Little Rock Branch of

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the Federal Reserve Bank of St. Louis for a term of three years beginning January 1, 1939.

J. B. Hill was appointed a director of the Louisville Branch of the Federal Reserve Bank of St. Louis for a term of three years beginning January 1, 1939.

J. H. Sherard was appointed a director of the Memphis Branch of the Federal Reserve Bank of St. Louis for a term of three years beginning January 1, 1939.

W. C. Coffey was appointed Deputy Chairman of the Federal Reserve Bank of Minneapolis for the year 1939.

Clarence Roberts was appointed a director of the Oklahoma City branch of the Federal Reserve Bank of Kansas City for a term of three years beginning January 1, 1939.

R. E. Campbell was appointed a director of the Omaha Branch of the Federal Reserve Bank of Kansas City for a term of three years beginning January 1, 1939.

J. H. Merritt was appointed a Class C director of the Federal Reserve Bank of Dallas for a term of three years beginning January 1, 1939, and designated as Chairman and Federal Reserve Agent for the year 1939, his compensation as Chairman and Federal Reserve Agent being fixed on the uniform basis fixed for the same position at all Federal reserve banks, i. e., the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee and other committees of the board of directors.

F. M. Hayner was appointed a director of the El Paso Branch of the Federal Reserve Bank of Dallas for a term of three years beginning January 1, 1939.

St. George Holden was appointed Deputy Chairman of the Federal Reserve Bank of San Francisco for the year 1939.

W. S. Rosecrans was appointed a director of the Los Angeles Branch of the Federal Reserve Bank of San Francisco for a term of two years beginning January 1, 1939.

A. E. Engbretsen was appointed a director of the Portland Branch of

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the Federal Reserve Bank of San Francisco for a term of two years beginning January 1, 1939.

John Thomas was appointed a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco for a term of two years beginning January 1, 1939.

Fred Nelsen was appointed a director of the Seattle Branch of the Federal Reserve Bank of San Francisco for a term of two years beginning January 1, 1939.

Reference was made to a memorandum dated December 6, 1938, which had been prepared by Mr. Wyatt following the discussion at the meeting of the Board with the Federal Advisory Council on November 29, 1938, of the recommendation of the Council that the Board attempt classification and simplification of its regulations. The memorandum pointed out that eight of the regulations had not been revised or reprinted since the enactment of the Banking Act of 1935, that four of the regulations had been amended without reprinting, that one had been changed in effect without formal amendment, that Regulation G, Rediscount of Notes Secured by Adjusted Service Certificates, appeared to be obsolete since the veterans certificates had been retired, and that the Board had never issued a regulation covering the sale of property to member banks by directors and their interests as authorized by a provision of Section 22(d) of the Federal Reserve Act. The memorandum also set forth the following conclusions:

1. It would be worthwhile at this time to publish a comprehensive index to all of the regulations in a pamphlet uniform in size with the regulations.

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2. When a regulation is amended, the entire regulation should be reprinted as soon as possible in order to avoid confusion.
3. Any general revision of the regulations should be postponed until after further banking legislation is obtained or until it appears that further banking legislation will be postponed indefinitely.
4. At the first convenient opportunity after the subject of further banking legislation is out of the way, consideration should be given to a revision of all of the regulations in a style and with a system of numbering to conform to that used by the Codification Board with its forthcoming codification of all of the Federal regulations.
5. The Board should continue to publish each regulation in a separate pamphlet in order to facilitate keeping them up to date without too great expense.

The memorandum had been circulated among the members of the Board.

There was a discussion of actions that might be taken by the Board in connection with this matter at the conclusion of which it was voted unanimously that (1) Counsel's Office be requested to prepare a comprehensive index of all of the regulations in pamphlet form uniform in size with the regulations, (2) When a regulation is amended, the entire regulation be reprinted as soon as possible in order to avoid confusion, (3) Any general revision of the regulations be postponed until after further banking legislation is obtained or until it appears that further banking legislation will be postponed indefinitely, (4) At the first convenient opportunity after the subject of further banking legislation is out of the way, consideration be given to a revision of all of the regulations in a style

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and with a system of numbering to conform to that used by the Codification Board with its forthcoming codification of all of the Federal regulations, (5) The Board continue to publish each regulation as a separate pamphlet in order to facilitate keeping them up to date without too great expense, (6) Mr. Wyatt be requested to confer with the Veterans Bureau to determine whether or not there would be any objection on the part of the Bureau to the repeal of Regulation G, and (7) Counsel's Office be requested to prepare a draft of regulation with respect to the sale of property to member banks by directors and their interests.

Before this meeting there had been circulated among the members of the Board a letter dated November 25, 1938, from Mr. Upham, Deputy Comptroller of the Currency, submitting a request of the employees of the Federal Reserve Issue and Redemption Division of the Office of the Comptroller for reinstatement in the Retirement System of the Federal reserve banks. There had also been circulated a draft of reply to Mr. Upham's letter stating that under the rules and regulations of the Retirement System the reinstatement of these employees would require action by the Retirement System's Board of Trustees, and that, therefore, the request was being referred to the Chairman of the Executive Committee of the Retirement System for submission to the Board of Trustees.

Reference was made to the circumstances under which the employees of the Federal Reserve Issue and Redemption Division of the



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Comptroller's Office were transferred from the Board's pay roll to the pay roll of the Comptroller of the Currency in November 1936, and to the considerations which prompted the discontinuance of the employees as members of the Retirement System. It was stated that, while the Board continues to pay the expenses of the Issue and Redemption Division of the Comptroller's Office, the employees are not employees of the Board or the Federal reserve banks, and the opinion was expressed that, inasmuch as the situation had not changed from that existing at the time of the transfer of the employees to the pay roll of the Comptroller, it did not appear that the Board would be justified in taking action to restore the employees to membership in the Retirement System. It was also pointed out that all of the employees at the time of transfer either withdrew their contributions or were granted deferred retirement allowances, that the withdrawn contributions would have to be restored with interest, that as of January 1, 1939, it would cost the Board approximately \$16,000.00 to restore pension rights forfeited by the eighteen employees who withdrew their contributions as of December 1, 1936, that regular contributions with interest from December 1, 1936, to January 1, 1939, for the benefit of the twenty-two employees who were former members of the Retirement System would cost approximately \$4,500.00 additional, and that it was understood that the salaries of nearly all of these employees were increased on January 1, 1938, in view of the termination of their membership in the Retirement System.

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At the conclusion of a discussion, Mr. Smead was requested to prepare a draft of letter to Mr. Upham advising him of the Board's decision not to apply for reinstatement of the employees of the Issue and Redemption Division as members of the Retirement System and the reasons for this action.

Mr. Cagle joined the meeting at this point.

There was read a draft of letter to William O. Douglas, Chairman of the Securities and Exchange Commission which was in the following form:

"This acknowledges receipt of your letter of December 8, 1938, to Chairman Eccles, inclosing a copy of an order issued by the Securities and Exchange Commission instituting a proceeding to determine whether the registration of the capital stock of Transamerica Corporation should be suspended or withdrawn from the New York, Los Angeles, and San Francisco Stock Exchanges. In connection with the proceeding, you request that the original application for voting permit and the supplements thereto, and the report as of June 30, 1938, filed with the Board by Transamerica Corporation be made available to representatives of the Commission.

"The Board will be glad to comply with your request and the application, supplements thereto, and report will be made available to representatives of the Commission in the Board's offices with the understanding, of course, that they are made available for the Commission's confidential information only and the data obtained therefrom will not be introduced in the proceeding referred to above or otherwise published. Accordingly, Mr. Leo H. Paulger, Chief of the Board's Division of Examinations, has been instructed to make the report, the application and the supplements thereto available to your representatives and to provide adequate working space for them while they are reviewing the data contained therein, and it is suggested that your representatives contact Mr. Paulger at their convenience. This procedure is considered necessary

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"because the June 30, 1938 report and the original application and supplements thereto filed by Transamerica Corporation are now, and because of their voluminous nature for some time will be, under analysis and review by members of the Board's staff regularly assigned to that work in accordance with the Board's policy of reviewing annually each holding company affiliate which has a general voting permit."

In connection with the letter, it was stated that the legal division had investigated the question of the Board's authority to make available to the Securities and Exchange Commission the information referred to in the letter and that in the opinion of counsel the Board had the right under the law to make the records available. Counsel called attention also to the authorization contained in the provisions of the voting permit application filed by Transamerica Corporation authorizing the interchange of reports of examination and other information among duly constituted authorities. Inquiry was made whether the information referred to would be of material help to the Commission if furnished for the confidential information of the Commission only and it was stated that the attorney for the Securities and Exchange Commission who was handling the matter had advised the Board's counsel that there would be no objection to such a limitation.

At the conclusion of the discussion,  
the letter was approved unanimously.

Mr. Szymczak stated that he had prepared a memorandum with respect to the proposed transfer of thirteen counties in western Missouri from the Eighth to the Tenth Federal reserve district and that he had requested that the memorandum be circulated among the members of the

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Board and that the matter be placed on the docket for consideration at a meeting in January.

Mr. Szymczak also stated that following the recent hearing conducted by President Day and Vice President Clerk of the Federal Reserve Bank of San Francisco at Spokane with respect to the reopening of the Spokane Branch of the San Francisco bank the matter was given further consideration by the board of directors of the Federal Reserve Bank and under date of October 31, 1938, a transcript of the proceedings of the hearing was sent to the Board with the recommendation of the board of directors that the branch be not reopened. Mr. Szymczak stated that the entire matter had been reviewed carefully by the Division of Bank Operations and by himself, and that it was felt that the branch should not be reopened.

At the conclusion of a discussion, Mr. Szymczak moved that, for the reasons stated in a memorandum which he had prepared for the Board's files, no action be taken by the Board at this time with respect to the reopening of the branch and that the Federal Reserve Bank of San Francisco be advised accordingly.

Carried unanimously.

Reference was then made to a memorandum dated December 6, 1938, from Mr. Ransom which referred to the recommendations submitted by the Federal Advisory Council at its meeting with the Board on November 29, 1938. The memorandum had been circulated among the members

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of the Board in response to a suggestion contained therein that at a subsequent meeting the Board consider the advisability of asking the Council for specific and definite replies on the important points raised by member banks in response to the inquiries addressed to them by members of the Federal Advisory Council on the subject of "How can the Federal Reserve System Increase the Value and Scope of its Services to Member Banks in Practicable and Desirable Ways". Mr. Ransom stated that he wished to suggest at this time that the Secretary be requested to prepare a draft of letter to the Advisory Council, for consideration of the Board, which would ask for an expression of the Council's views with respect to the matters referred to in the letter.

Mr. Ransom's suggestion was approved unanimously.

At this point Messrs. Wyatt, Paulger, Smead, Goldenweiser, Dreibelbis, Vest 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 December 19, 1938, were approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

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"Reference is made to the data forwarded with Mr. Sheehan's letter of November 15, 1938, relative to the report of examination of the 'Wyoming County Bank and Trust Company', Warsaw, New York, as of July 9, 1938.

"The report reflects an unsatisfactory situation and while it has been noted that the bank has made provision for estimated losses, it does not appear that a definite program has been formulated to correct the weakness in the situation - that of management and control.

"Two years ago the application of the Wyoming Bank and Trust Company for membership in the System was submitted as part of a program for strengthening the banking situation in Warsaw and vicinity through the consolidation of several banking institutions in which President Humphrey and his interests held a substantial investment. In its letter of December 24, 1936 to President Harrison advising of the approval of the bank's application for membership, the Board stated that its approval of the application had been based largely upon the fact that the largest bank in the group was a national bank and therefore a member of the System and that the proposed consolidation was considered to be a constructive step in improving the situation then existing. The Board also stated that it believed the affairs of the bank should be followed closely and that it was expected the Reserve bank would do so. In the letter specific reference was made to the fact that the board of directors of the bank appeared to be decidedly weak and made up exclusively of officers but that it was understood the bank proposed to obtain the services of at least two outside directors. In this connection, the Board expressed the opinion that the strongest directors possible should be selected from men who were free from any domination by the bank's controlling interest. While the board of directors has since been strengthened by the addition of two new directors, said by your examiner to be representative business men, it is observed that five of the seven members of the board are also officers of the bank, leaving the two outside directors very much in the minority.

"In view of the circumstances in which the bank was admitted to membership it is particularly incumbent upon the management to clearly demonstrate its ability to effect correction of the unsatisfactory features of the bank's condition. It will be appreciated if you will keep

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"the Board advised of the developments in connection with your efforts and those of the New York State Banking Department to effect improvements in the condition of the bank and its management. In this connection, it will be appreciated if you will forward a copy of the reply by the bank to the letter dated August 23, 1938, of the State Banking Department with respect to the report of examination."

Approved unanimously.

Letter to "The First National Bank and Trust Company of Rochester",  
Rochester, New York, reading as follows:

"This refers to the resolution adopted on October 6, 1938, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System.

"Since it may be necessary for you to file a certified copy of the Board's certificate with the State authorities

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"in connection with the release of the securities which you have deposited with them, such a copy is inclosed herewith."

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of November 28, 1938, regarding the question whether funds collected by the Fidelity Savings State Bank, Topeka, Kansas, from the obligors on real estate mortgage loans insured under Title II of the Federal Housing Act, for the purposes of paying taxes, insurance, etc. should be considered as demand deposits.

"As you know, in a ruling published at page 572 of the 1922 Federal Reserve Bulletin the Board laid down the general principle that all funds received by a member bank in the course of its commercial or fiduciary business must be treated as deposit liabilities, unless the funds are received as trust funds and are kept segregated from the general assets of the bank.

"Accordingly, unless funds collected from the obligors on real estate mortgages insured under Title II of the Federal Housing Act, for the purposes of paying taxes, insurance, etc., are received as trust funds and are kept segregated from the general assets of the member bank, they should be reported as demand deposits in condition reports, reports of examination, and reports of deposit liabilities for reserve purposes."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading as follows:

"It is noted from the minutes of the meeting of the Conference of Presidents on October 24-25, 1938, that the majority of those present agreed that the Conference should adhere to the position taken by it at its meeting on September



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"20, 1938, on proposed steps to prevent the abuse by member banks of the currency sorting facilities of the Federal Reserve banks. The action of the Presidents' Conference, at its meeting on September 20, as recorded in the minutes of the meeting, was as follows:

'It was the sense of the Conference that through the efforts of the individual Federal reserve banks any undue abuse of their currency sorting facilities has been already minimized and that each bank should continue to solicit the cooperation of its member banks in eliminating or modifying such practices as result in unreasonable demands upon, or unwarranted expense to, the Federal reserve banks. The majority of those present expressed the opinion, based upon the experience of their banks in negotiating with member banks respecting this problem, that the adoption of any arbitrary rule, such as that contemplated in the motion offered to the meeting, would be inadvisable, as tending to antagonize member banks, and would be unnecessary in view of the progress already made and the further progress which might reasonably be expected to be made through the efforts of the various Federal reserve banks. It was also the opinion of some of those present that there might be valid objections on legal grounds to a rule which prohibited member banks from depositing currency, in their discretion, with Federal reserve banks.'

"The Board has carefully reviewed this subject and the progress that has been made so far as set forth by the Committee on Free Services in its report dated June 8, 1938. It appears from the data shown in the Committee's report and in the letters received from the Federal Reserve banks in response to the Board's letter R-319 of October 7, 1938, that some Federal Reserve banks have been much more successful than others in reducing to a minimum the existing abuse by individual member banks of the currency facilities of the Federal Reserve banks, and particularly the practice resorted to by some member banks of depositing currency in the evening and drawing out currency needed the next

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"morning, thus using the Federal Reserve bank as a sorting agency for their currency.

"The Board feels that the Federal Reserve banks should continue their efforts toward an elimination of abuses of their currency facilities by individual member banks. The results of the currency studies made by the Committee on Free Services appear to have been very helpful, and the Board would appreciate it if the Committee would again review this subject not later than the spring of 1940."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. S. ...  
Chairman.