

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, December 21, 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. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, Assistant General Counsel

Before the meeting there had been furnished to each member of the Board a memorandum prepared in the Division of Bank Operations summarizing advices received from all Federal reserve banks except Boston and Dallas of action proposed to be taken by the respective boards of directors at the first meetings in January 1939 with respect to changes in salaries of officers of the banks. Chairman Eccles expressed the opinion that, in view of the difficulty which the Board has had each year in passing on salaries fixed by the boards of directors of the various Federal reserve banks for officers of the banks, a much more satisfactory procedure would be one similar to that followed by the Board under which changes in salaries of officers of Federal reserve banks would be considered only in individual cases at times

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When the circumstances merited changes in existing salaries. Chairman Eccles also suggested that it would be helpful to the Board if some basis for classification of salaries of officers of the Federal reserve banks could be worked out for the Board's guidance in passing upon them.

These suggestions were discussed and it was voted unanimously that the Secretary should prepare a letter to the Chairman of each Federal reserve bank stating that at its meeting today the Board deferred consideration of the proposed changes in salaries of officers of Federal reserve banks for the year 1939, with the understanding that during the year the President of each Federal reserve bank will be requested to come to Washington for a review of the entire question of salaries at the bank, the letter to refer to the adoption by the Board of the practice of considering a change in the salary of a member of its staff only at a time when conditions justify the proposed change, pointing out that the procedure has worked very satisfactorily, and stating that in the future the Board will follow a similar policy in considering changes in salaries of officers of Federal reserve banks.

Mr. Szymczak and Mr. Smead were requested to explore the possibility of determining upon a plan of classification of the salaries of officers of the Federal reserve banks which might be used by the Board as a guide in passing upon salaries proposed by the boards of directors of the respective banks and to submit a recommendation with respect thereto.

The list of salary changes received from the Federal Reserve Bank of Atlanta indicated that the directors proposed to appoint H. C.

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Frazer, former manager of the Havana Agency of the bank, as assistant manager of the New Orleans branch with salary at the rate of \$6,500 per annum, effective January 1, 1939.

It was agreed that the Federal Reserve Bank of Atlanta should be advised that the Board would be willing to approve the salary proposed for Mr. Frazer in the new position.

Consideration was given to memoranda prepared by Messrs. Wyatt and Chase of the Legal Division under date of December 8, 1938, in connection with a letter received under date of November 23, 1938, from Theodore Francis Green, Chairman of the board of the Morris Plan Company of Rhode Island, with respect to the applicability of the Clayton Act to that company, the letter suggesting that (a) the Act is not applicable on the ground that the company is not a "bank", and (b) that if the Act is applicable the Board's Regulation L should be amended so as to exempt the company and others whose powers are similarly limited. Mr. Chase's memorandum reviewed the rulings of the Board with respect to the first point which showed (1) that the Board had held that the Morris Plan Company of Rhode Island is a bank within the meaning of Section 4 and Section 22(g) of the Federal Reserve Act, (2) that a number of other companies very similar to this company are banks within the meaning of the Clayton Act, and (3) that these rulings are consistent with other rulings of the Board and the decisions of the courts. With respect to the second point the memoranda suggested that, since the Board

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had announced its intention of asking Congress to reconsider the Clayton Act, it might be thought to be inappropriate for the Board to further amend Regulation L pending such reconsideration. Mr. Morrill said that Senator Green had delivered his letter personally with the statement that if the Board were disposed to act favorably upon his request he would not ask for a hearing but that if after reviewing the question it was disposed to act unfavorably he would desire to be heard orally before final action is taken.

The Secretary was requested to advise Mr. Green that the Board will be pleased to discuss the matter with him at a convenient time.

At the Presidents' Conference on October 24-25, 1938, it was the consensus of the Presidents that the Federal reserve banks should comply with the request of the Federal Housing Administration for credit reports with respect to sponsors of building projects involving mortgages to be insured by the Federal Housing Administration, but that charges should be made for such service in the amount of the actual expenses involved in furnishing the reports, the minimum charge for any report to be \$1.00. Under date of November 25, 1938, the Administrator of the Federal Housing Administration addressed a letter to the Board outlining the reason for the Administration's requests of the Federal reserve banks and the manner in which the information furnished by the banks would supplement the information obtained from

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other sources by the Administration. The file had been circulated among the members of the Board and the question had been raised whether it would not be a more satisfactory policy for the Federal reserve banks to disregard inconsequential out-of-pocket expenses incurred in response to the requests of the Federal Housing Administration rather than to adopt the policy of making a minimum charge of \$1.00.

Upon motion by Mr. Davis, Mr. Smead was requested to prepare a letter to all Federal reserve banks transmitting a copy of the letter from the Federal Housing Administrator referred to above and advising that the Board believes that the banks should not follow the policy of making a minimum charge of \$1.00, that it would be preferable for the banks to disregard inconsequential expenses incurred in complying with the requests from the Federal Housing Administration, but that, when there is substantial expense the banks should seek reimbursement on the basis of actual out-of-pocket expenses.

There were then presented further recommendations of the Personnel Committee with respect to the designation of a Chairman and Federal Reserve Agent at a Federal reserve bank, the appointment of Deputy Chairmen at Federal reserve banks, and the appointment of directors at branches of Federal reserve banks and the following unanimous actions were taken:

Francis Biddle was appointed Deputy Chairman of the Federal Reserve Bank of Philadelphia for the year 1939.

G. S. Harris was appointed a director of the Charlotte branch of the Federal Reserve Bank of Richmond for a term of three years beginning January 1, 1939.

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J. F. Porter was appointed Deputy Chairman of the Federal Reserve Bank of Atlanta for the year 1939.

Oscar Johnston was appointed Deputy Chairman of the Federal Reserve Bank of St. Louis for the year 1939.

Subject to confirmation of his willingness to accept, Alex Cunningham, Vice President and Treasurer, Western Life Insurance Company, Helena, Montana, was appointed a director of the Helena branch of the Federal Reserve Bank of Minneapolis for a term of two years beginning January 1, 1939.

R. B. Caldwell, Class C director of the Federal Reserve Bank of Kansas City whose term expires on December 31, 1940, was designated as Chairman and Federal Reserve Agent for the year 1939 and his compensation as Chairman and Federal Reserve Agent was fixed on the uniform basis for the same position at all Federal reserve banks, i. e., at 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. It was understood that advice of Mr. Caldwell's designation would be withheld pending further consideration of the appointment of a Class C director of the Federal Reserve Bank of Kansas City for the term of three years beginning January 1, 1939.

J. B. Grant was appointed a director of the Denver branch of the Federal Reserve Bank of Kansas City for a term of three years beginning January 1, 1939.

Jay Taylor was appointed Deputy Chairman of the Federal Reserve Bank of Dallas for the year 1939.

H. Renfert was appointed a director of the Houston branch of the Federal Reserve Bank of Dallas for a term of three years beginning January 1, 1939.

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

Mr. McKee stated that in response to the Board's wire of December 6, 1938, to President Day of the Federal Reserve Bank of San Francisco, requesting full information and the opinion of President Day and counsel

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for the Federal Reserve Bank of San Francisco with respect to compliance of Transamerica Corporation with the provisions of law relating to divorcement of securities companies, the Board had received a letter from First Vice President Clerk which did not give the desired information and did not indicate that President Day or counsel for the bank had considered the matter.

Upon motion by Mr. McKee, the following telegram to Mr. Day was approved unanimously:

"Board considers that Clerk's letter December 17 regarding divorcement of securities companies by Transamerica Corporation is not an adequate response to Board's wire of December 6. Board requests that you personally, together with bank's counsel, review Board's wire of December 6, have such investigation made and obtain such information as you and your counsel consider necessary in order to reach a conclusion as to whether or not Transamerica Corporation has complied with the requirements of the law relating to divestment of ownership, control, interest in or participation in management or direction of securities companies, and advise Board fully as to your opinion and that of your counsel together with all facts developed, in accordance with the request contained in that wire."

At this point Messrs. Wyatt, 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 December 20, 1938, were approved unanimously.

Memorandum dated December 19, 1938, from Mr. Parry, Chief of

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the Division of Security Loans, recommending that, for the reason stated in the memorandum, Mrs. Florence C. O'Hare, Secretary to Mr. Parry, be granted (in addition to the balance of her accumulated and accrued annual leave through December 31, 1938, and her accrued sick leave through December 31, 1938) advance sick leave in the amount of thirty days from January 13, 1939 through February 11, 1939; advance annual leave of fifteen days and five hours from February 13, 1939 through March 4, 1939; and leave without pay for twenty-five days from March 6, 1939 through March 31, 1939.

Approved unanimously.

Letter to the board of directors of the "Gary Trust and Savings Bank", Gary, Indiana, stating that, subject to conditions of membership numbered 1 to 4 and 6 contained in the Board's Regulation H and the following additional conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$14,689.01, as

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"shown in the report of examination of such bank as of November 21, 1938, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"The report of examination for membership contains numerous criticisms of the operations and supervision of the trust department which the examiner reports were fully discussed with the president and cashier of the bank. Acceptance of trust business entails serious responsibilities, and if the Gary Trust and Savings Bank becomes a member bank, it will be expected to take the necessary steps to give the trust department proper attention and bring the trust activities into conformity with approved practices.

"It is understood that the bank operates an insurance department and engages to a minor degree in real estate management by acting as rental agent and manager of real estate for clients. It is assumed, however, that these activities are largely incidental to the institution's banking and trust business and will not be permitted to assume undue importance in relation to its other activities."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Gary Trust and Savings Bank', Gary, Indiana, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Director, Department of Financial Institutions for the State of Indiana for his information.

"It is understood that the laws of the State of

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"Indiana prohibit the bank from pledging its assets as securities for trust funds deposited in its banking department and that trust funds so deposited are preferred claims in event of liquidation of the bank. Standard condition of membership numbered 6, however, has been prescribed in order that its provision may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization previously granted by the Board with which you are familiar.

"It has been noted that, although on pages 18 and E-1 of the report of examination Mr. O'Donnell, one of the directors, is reported to be a dealer in local securities, on page 17 of the report with respect to relations under section 32 of the Banking Act of 1933, it is stated that no director of the bank is primarily engaged in the issue, flotation, underwriting, public sale, or distribution of stocks, bonds, or other similar securities. It is assumed that you have satisfied yourself that, if the bank is admitted to membership, Mr. O'Donnell's services as a director will not be in conflict with the provisions of section 32.

"It has been noted also that the bank operates an insurance department and a rental department and that all of the assets and liabilities of such departments were not properly reflected on the bank's books. You are familiar with the Board's position in this respect and it is expected that you will see that the assets and liabilities of such departments are properly shown in future reports of condition and published statements.

"It has been observed further that the papers submitted with the bank's application did not include a copy of a certificate from the State authorities authorizing it to commence business. If such a certificate was required at the time of the organization of the bank in 1907, it will be appreciated if you will forward a copy to complete the Board's records."

Letter to Mr. C. L. Cobb, President, The Peoples Trust Company,
Rock Hill, South Carolina, reading as follows:

"This refers to your request for a determination

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"by the Board with respect to your company which will result in such company not being a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"The Board understands that The Peoples National Bank of Rock Hill has 2000 shares of stock outstanding; that of such shares your company owns or controls 657-1/2 shares directly and 160-1/2 shares indirectly; that at the last election of directors of the bank 1042 shares were voted and shares owned or controlled by your company constituted a majority of those voted; that your company is engaged primarily in the insurance and real estate business; that your company owns 105 shares of its own stock and 2 shares of the stock of White Trust Company; and that your company does not own or control any stock of, or manage or control, any other bank, banking association, savings bank, or trust company.

"In view of these facts, the Board has determined that your company 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, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and, accordingly, your company is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"However, the Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts and if the facts should at any time differ from those stated above to an extent which would indicate that your company might be deemed to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies, this matter again should be submitted to the Board."

Approved unanimously for transmission through the Federal Reserve Bank of Richmond.

Letter to Mr. W. O. Steel, President, Iowa Trust and Savings Bank, Centerville, Iowa, reading as follows:

"The office of the Comptroller of the Currency recently

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"requested a ruling by the Board with respect to the question whether your bank is a holding company affiliate of The First National Bank of Centerville, Centerville, Iowa, and The First National Bank of Eldon, Eldon, Iowa. In this connection, the Federal Reserve Bank of Chicago was requested to obtain certain further information and has forwarded to us copies of your letter dated November 7, 1938, and that of Valentine and Valentine, your bank's attorneys, dated November 19, 1938.

"It is understood that your bank, as executor of the estate of J. A. Bradley, holds and has held for some years 420 of the 500 outstanding shares of stock of The First National Bank of Centerville, 121 of the 250 outstanding shares of stock of The First National Bank of Eldon, and 450 of the 500 outstanding shares of its own stock; that the shares of stock of The First National Bank of Eldon so held by your bank were voted at the last election of directors of the bank and constituted more than 50 per cent of the shares voted at such election; that your bank does not own or control any shares of stock of any bank in its individual capacity and does not manage or control any bank other than those mentioned above.

"Acting as executor, your bank holds the shares of stock of the banks in question without incentive or opportunity for private profit. However, while it appears that the bank is accountable to a court for action taken by it as executor and may upon occasion seek the court's prior approval of contemplated action, it does not appear from the available information that the general supervision which the court may exercise is inconsistent with the exercise by the bank of control over the shares of stock and the determination of the manner in which such shares are voted.

"Upon the basis of the foregoing, the Board is of the opinion that your bank is a holding company affiliate of The First National Bank of Centerville and The First National Bank of Eldon within the meaning of the following portion of the definition contained in section 2(c) of the Banking Act of 1933, as amended:

'(c) The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization -

'(1) Which owns or controls, directly or indirectly, either a majority of the shares of

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"capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of any one bank at the preceding election, or controls in any manner the election of a majority of the directors of any one bank;"

"However, the last paragraph of such section reads in part as follows:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) * * * any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"In view of the facts recited above, the Board has determined that your bank 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, within the meaning of the statutory provisions last quoted and, accordingly, your bank is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts and if the facts should at any time differ from those set out above to an extent which would indicate that your bank might be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, the matter should again be submitted to the Board."

Approved unanimously, together with a letter to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to our letter of November 4, 1938, and yours of November 22, 1938, relating to the holding company affiliate status of Iowa Trust and Savings Bank, Centerville, Iowa.

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"There is inclosed herewith our letter of this date addressed to Mr. W. O. Steel, president of such bank, advising him concerning this matter. Unless you have further information which you believe should be brought to the Board's attention before doing so, it will be appreciated if you will forward such letter to Mr. Steel and advise us accordingly. A copy of the letter is inclosed for your files.

"It is assumed that you have advised Valentine and Valentine, the bank's attorneys, concerning the question respecting the applicability of the Clayton Act which was mentioned in their letter of November 19, 1938 to you."

Thereupon the meeting adjourned.

Chester Moriel
Secretary.

Approved:

W. O. Steel
Chairman.