A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 30, 1939, at 11:30 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

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 28, 1939, were approved unanimously.

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

"Reference is made to your letter of September 27, 1938, and the previous correspondence, with respect to the unauthorized exercise of trust powers by the G. W. Jones Exchange Bank, Marcellus, Michigan, and to your informal discussion of this matter with Mr. Cagle of the Board’s staff on November 4, 1938.

"As you know, this bank was admitted to membership March 4, 1918, subject to the following condition of membership:

'That except with the approval of the Federal Reserve Board there shall be no change in the general character of the assets of or broadening in the functions now exercised by you, such..."
as will tend to affect materially the standard now maintained and required as a condition of membership.'

Under date of November 12, 1927, the bank was granted limited trust powers by the State of Michigan, authorizing it to act as executor, administrator and guardian, but, so far as our records show, had not exercised such powers prior to acceptance of the guardianship listed in the report of examination made as of May 29, 1937.

The Board's letter of July 28, 1937, to you, called attention to the fact that the acceptance of that trust, without having first obtained the permission of the Board, was regarded as a violation of the membership condition quoted above. The view was taken, however, that the violation was apparently inadvertent, and the Board raised no objection to the bank's administering the account, but advised that if it desired to accept any additional trust accounts it should first make application to the Board for permission to exercise the fiduciary powers granted to it by the State authorities.

The report of examination made as of July 11, 1938, indicates that the guardianship in question had been disposed of and that two small estate accounts had been acquired without having first obtained the permission of the Board.

In your letter of September 27, 1938, you state that the bank is not desirous of exercising trust powers after these estates are closed, but that it feels that it may be advisable from time to time to act in a fiduciary capacity in connection with small estates in the community, and you recommend that the bank be permitted to exercise limited trust powers.

Further consideration has been given to this situation in the light of the information presented by you. In view of the limited fiduciary authority held by the bank under the State law, the limited field for trust business, the nominal amount of trust business so far received by the bank, and the fact that it apparently is not desirous of exercising trust powers other than occasionally as an accommodation to its customers, the Board feels that the matter of accepting the two small estate accounts is not of sufficient importance to warrant any further action by it at this time.
"However, if the bank desires to extend materially its fiduciary activities, it should make the necessary arrangements, including the maintenance of adequate books and records and competent personnel, and should also, under the above-quoted condition of membership, obtain the consent of the Board. In this connection the bank would be expected to accept the three standard conditions now being prescribed in connection with the admission to membership of banks exercising fiduciary powers. Please advise the bank accordingly.

"In view of the circumstances recited by you, it is suggested that you may prefer to either discuss this matter personally with the bank's president when a favorable opportunity arises, or to have your examiners do so at the time of the next examination, rather than to take it up by correspondence."

Approved unanimously.

Letter to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to Mr. Sargent's letter of December 1, 1938, transmitting an application of the 'Carbon Emery Bank', Price, Utah, for permission to act as trustee and guardian of estates.

"This bank, as you know, was admitted to membership on December 12, 1918, and is subject to the following condition of membership, among others:

'That except with the approval of the Federal Reserve Board, there shall be no change in the general character of your assets or broadening in the functions now exercised by you, such as will tend to affect materially the standard now maintained and required as a condition of membership.'

"It is understood that the bank was granted trust powers by the State Banking Commission of Utah on March 12, 1923.

"Your examination of this bank as of October 19, 1936, revealed that the bank had accepted, without prior approval by the Board, one small guardianship account arising through the U. S. Veterans Bureau, which delivers to the bank compensation to be distributed under court order for the benefit
"Of an incompetent or his dependents, and a few accounts, in connection with which it appears that the bank exercised but limited, if any, fiduciary powers, arising from the designation by the Industrial Commission of the State of Utah of the bank to hold certain funds and distribute them to the widows and children of deceased coal miners by monthly payments in accordance with instructions of the Commission. After due consideration, the Board advised you on March 12, 1937, that, in the circumstances, no objection would be raised to the bank continuing to handle the guardianship account and accounts of the kind then being handled for the Commission but that if the bank should desire to exercise trust powers in other instances it should first obtain the permission of the Board.

"It is understood that the bank has made this application since having its attention again called, during the examination as of September 7, 1938, by an examiner for your bank, to the above-quoted condition of membership in connection with the acceptance of one additional small guardianship account arising through the U. S. Veterans Bureau.

"It is understood that the amount of guardianship business which may be expected by the Carbon Emery Bank will be nominal and that the fiduciary powers and responsibilities involved are narrowly limited and defined; that the management and asset condition of the bank are generally satisfactory, and that although the bank desires to accept occasional accounts of the kinds above described it does not expect to enter the trust business actively and does not desire formally to establish a trust department under qualified management. In the circumstances, the Board does not feel that the bank's application for unrestricted permission to act as trustee and guardian of estates should be approved, but the Board interposes no objection, under the above-quoted condition of membership, to the bank's administering the State Industrial Commission accounts and the two U. S. Veterans Bureau guardianship accounts described above or to its acceptance of an occasional account of a similar nature which may be tendered to it.

"From the information available here, it appears doubtful whether the bank has complied with the requirements of Utah State law with respect to the pledge of
"collateral to secure trust funds deposited in its banking department, or can legally grant the preference to funds of the State Industrial Commission accounts which it is understood is provided for in the instruments under which they are handled, and it will be appreciated if you will determine the status of these matters and take such steps as may be necessary to correct any criticizable features which may be present and inform the Board of Governors in the premises."

Approved unanimously.

Letter to Honorable Brien McMahon, Assistant Attorney General of the United States, reading as follows:

"You will recall that in the latter part of November 1938 there was transmitted to you by the Securities and Exchange Commission certain material growing out of its investigation of the failure of Richard Whitney and Company, a member firm of the New York Stock Exchange, relating to possible Federal offenses involved in the failure.

"At that time you were advised that the Board of Governors of the Federal Reserve System was conducting a special inquiry at various New York banks, which at one time or another had extended credit to Richard Whitney and Company or to Richard Whitney, to ascertain whether there had been violation of the Board's Regulation U, relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. The inquiry, comprising special investigations of six State member banks of the Federal Reserve System by the examining division of the Federal Reserve Bank of New York, has now been completed.

"Similar investigations of two national banks also were conducted by national bank examiners at the direction of the Comptroller of the Currency. It is understood that these investigations have also been completed and that the results of the same will be reported to you by the office of the Comptroller of the Currency.

"The investigation of the State member banks covered an aggregate of some 1015 loans made or outstanding to Richard Whitney and Company or Richard Whitney over the
"period from May 1, 1936, the effective date of the Board's Regulation U, to the company's failure. Investigation of each loan also involved investigation of the collateral accepted, substitutions made therein, and withdrawals made therefrom. The examiner's reports, therefore, are quite voluminous and contain a large amount of data not pertinent to the subject matter of this letter.

"Summarizing them, it may be said that the possible violations in the aggregate are few and in general are of a technical nature, or are doubtful as to existence, as to proof, or both. Establishing a violation would in practically every case depend upon establishing with respect to the questioned loan one of the following:

"1. The possibility that signed statements that loans were not for the purpose of purchasing or carrying registered stocks may not have been 'accepted by the bank in good faith' as specified in section 3(a) of the regulation, or that loans treated for other reasons as not being subject to the regulation may actually have been subject.

"2. The possibility that the market value assigned to certain unregistered stocks may not have been 'determined by any reasonable method' as specified in the supplement to the regulation, or that the loan value assigned to collateral other than stocks may not have been 'determined by the bank in good faith' as specified in section 1 of the regulation.

"3. The possibility that signed statements that certain securities were carried for the account of customers other than partners may not have been 'accepted in good faith' as specified in the supplement to the regulation, or that such statements may not have been received as promptly as required.

"4. The possibility that certain withdrawals or substitutions of collateral, usually involving rather small amounts in relation to the size of the loan, may have conflicted with section 1 of the regulation.

"The various reports of the examiners covering the investigations of the State member banks have been analyzed by Mr. Frederic Solomon of the Board's legal staff and a copy of his memorandum discussing in some detail possible violations of the Board's Regulation U by the various banks is inclosed herewith, together with copies
of the Regulation as the same was in effect at the time of the various transactions discussed. Details of all questionable transactions referred to in the memorandum and set out more fully in the reports have, of course, been discussed with officers of the banks and it is understood that they now have a better understanding of the various technical requirements of the regulation and are endeavoring to comply fully with such requirements.

"Should your department desire any further information or explanations relating to the transactions involved in this matter, the Board, upon request, will be glad to make available all of the pertinent data which it has."

Approved unanimously.

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

"Thank you for your letter of January 20, 1939 regarding the inquiry of Mr. Ernest E. Radford, President of the First Federal Savings and Loan Association of Oklahoma, Oklahoma City, as to the applicability of the Clayton Act to one of the directors of the association.

"In view of the fact that the association is a Federal savings and loan association, the Clayton Act would not prohibit a director of a national bank from being a director of the association, for the reasons stated in section 2(b) of Regulation L and the footnote thereto. Accordingly, Mr. Radford's assumption that such a relationship would be prohibited is not correct, irrespective of whether the other 'local building and loan association' which he says the director is serving is a 'bank' within the meaning of the Clayton Act.

"You state that the copies of the correspondence which you inclosed were obtained from your Oklahoma City Branch, and it is possible that at that time your Oklahoma City Branch gave Mr. Radford the information which he requested. If such is the case, it would seem that no further reply to Mr. Radford's letter of January 10 is necessary. If not, it would seem to be desirable, in view of Mr. Radford's request that the reply be sent to
1/30/39

"him 'under personal cover', that your Oklahoma City Branch communicate the information to him."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

[Signature]

Chairman.

[Signature]

Secretary.