

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 28, 1939, at 2:30 p. 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. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Wingfield, Assistant General Counsel
Mr. Piser, Senior Economist in the Division of Research and Statistics
Mr. Edmiston, Senior Economist in the Division of Research and Statistics

Mr. McKee stated that Messrs. Wiggins, Chairman of the Legislative Committee, and Needham, Counsel, for the American Bankers Association, called on him this afternoon and left a draft of a proposed amendment to Section 22(g) of the Federal Reserve Act relating to loans to executive officers of member banks on which they would like to have any comments that the Board of Governors might desire to make. The draft of amendment was read and discussed briefly.

It was understood that after Mr. Wyatt had had an opportunity to study the proposed

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amendment he would confer with Mr. McKee concerning it and that Mr. McKee would submit a recommendation to the Board as to the action to be taken. In this connection it was suggested that the Board might take the position that it would not oppose an amendment which would retain the desirable features of the present law and incorporate therein a change to permit a further extension, under such existing limitations as may be thought to be desirable, of loans to executive officers which were made prior to June 16, 1933.

Mr. McKee also reported the substance of his conversation with the representatives of the American Bankers Association with respect to their consideration of an amendment to Section 8 of the Clayton Act relating to interlocking bank directorates.

Mr. Ransom stated that in accordance with the action taken at the meeting of the Board yesterday he had talked with the Comptroller of the Currency over the telephone with respect to the report to be made by the Board on the trust indenture bill, (S-477), and that the Comptroller of the Currency had stated that it would meet his wishes if he could have a copy of the report after it was submitted. Mr. Ransom reported also that a conference was held by members of the Board and its staff in the Board's offices this morning with Commissioner Eicher and Mr. Burke of the legal division of the Securities and Exchange Commission, that a revision of the draft of report, prepared by Mr. Wyatt following the meeting of the Board yesterday, was read during the conference, and that the draft, together with the

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procedure contemplated under the trust indenture bill was the subject of discussion. Mr. Ransom and Mr. Morrill outlined the principal points covered by the discussion at the conference including the question whether the draft of report was applicable not only to the bill which accompanied the request for a report but also to the confidential committee print No. 2 which had been received by counsel. It was agreed, Mr. Ransom said, that Commissioner Eicher would confer with the other members of the Securities and Exchange Commission this afternoon and advise Mr. Morrill not later than 3:30 p.m. of any comments that the Commission might have to make with respect to the draft of report.

During the discussion which followed Mr. Morrill was called from the meeting and upon his return stated that he had just talked over the telephone with Mr. Burke of the Securities and Exchange Commission who stated that he had prepared a memorandum commenting upon the draft of report prepared by the Board, copies of which were being sent to the Board by messenger, that the memorandum would be presented to the Commission at a meeting which was about to convene and that Mr. Burke would advise Mr. Morrill of the disposition made of the matter by the Commission.

There ensued a discussion of the question whether the draft of report should be changed to relate to the confidential committee print No. 2 of the bill and Mr. Wyatt repeated a statement which he had made at the conference this morning with the representatives of

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the Securities and Exchange Commission that the substance of the draft was applicable to the confidential print as well as to the bill which accompanied the request of the Senate Committee on Banking and Currency for a report. Mr. McKee suggested that, since the request for a report was received before the confidential print was prepared, the report should relate to the copy of the bill which accompanied the request of the Committee.

During the discussion Mr. Morrill received four copies of the memorandum prepared by Mr. Burke relating to the draft of report and the memorandum was read.

There was further discussion of the report in the light of Mr. Burke's memorandum and of the question whether the report should refer to the confidential committee print No. 2.

Mr. Goldenweiser suggested that the Board might make a brief report to the effect that the bill would be a deterrent to new capital issues and action on the bill should be deferred until the recovery movement had progressed further.

The suggestion was also made that Chairman Eccles talk to Senator Wagner, Chairman of the Senate Committee on Banking and Currency, on the telephone and ascertain whether he desired the Board to report on the confidential reprint rather than the bill which accompanied the request for a report, and this suggestion was agreed to.

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Consideration was then given to the problems presented in connection with a determination by the Treasury of the securities to be offered by it in exchange as of March 15, 1939, for Treasury notes maturing on June 15, 1939, and statements were made by Mr. Edmiston with respect to the possible cash position and cash requirements of the Treasury until the end of the next fiscal year and by Mr. Piser relating to possible issues that might be offered by the Treasury.

During the discussion above referred to Chairman Eccles left the meeting and upon his return stated that he had talked with Senator Wagner over the telephone who had advised that he desired a report from the Board relating particularly to the confidential committee print No. 2 of the trust indenture bill and that it would be satisfactory to him if the report were submitted not later than Monday, March 6, 1939.

Mr. Wingfield was requested to prepare a revised draft of report for consideration by the Board.

Following the meeting it was learned that the memorandum received from Mr. Burke during the meeting was cleared by the Securities and Exchange Commission before it reached the Board.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Parry,

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Wingfield, Piser and Edmiston left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 27, 1939, were approved unanimously.

Memorandum dated February 23, 1939, from Mr. Morrill recommending that, for the reason stated in the memorandum, Miss Mary Callie Wickline be appointed substitute nurse in charge of the first aid room in the Board's building, with salary at the rate of \$5.00 for each calendar day worked, including Sundays and holidays falling between days worked.

Approved unanimously.

Memorandum dated February 25, 1939, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated February 17, 1939, from Mr. Day, President of the Federal Reserve Bank of San Francisco, which requested approval by the Board of changes in the personnel classification plans of the San Francisco bank and its Portland and Seattle Branches to provide at the head office for the creation of the new positions of "Assistant Head of Department" in the Custodian Department and "Supervisor of Accounts" in the Fiscal

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Department, for discontinuance of the position of "Supervisor of New Issues" in the Fiscal Department, and for changes in the distribution of work of two other positions; for the change in title or distribution of work of two positions at the Portland Branch; and at the Seattle Branch for the creation of the new positions of "Head of Department", "Assistant Head of Department", "Collateral Custodian" and "Custodian Clerk", in the Custodian Department; and for changes in the title or distribution of work of five other positions at the branch. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

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

"This refers to your letter of February 9, 1939, requesting that the Board rule that Goodland State Bank, Goodland, Kansas, is eligible for admission to membership without an increase in its capital from \$30,000 to \$50,000, such an increase being required if the population of Goodland exceeds 3,000.

"Upon the basis of your opinion that the population of Goodland does not now exceed 3,000, and the opinions and information furnished in support thereof, the Board is of the opinion that the bank may be admitted to membership at this time without increasing its capital. However, if the census to be taken this year pursuant to State law should be completed before the bank is actually admitted to membership, the population of Goodland as shown in such census would, of course, have to be taken into consideration in acting upon the application."

Approved unanimously.

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

"This refers to your letter of February 6, 1939, with regard to the request of the Farmers State Bank of Wallace, Wallace, Nebraska, for permission to reduce its capital debentures held by the Reconstruction Finance Corporation in order that it may effect a saving on the interest paid on its capital debentures. It appears that the amount of the common capital stock of the Farmers State Bank of Wallace, together with the amount of its capital debentures held by the Reconstruction Finance Corporation, aggregates \$25,000. Since this is the minimum amount of capital which the State Bank would be required to have in order to become a member of the System, your counsel has advised you that you might not properly approve the proposed reduction.

"The advice you have received from your counsel is in accordance with the provisions of the Federal Reserve Act. However, in at least one case in which comparable circumstances were involved, the Board has taken the position that it would not object to the proposed reduction, subject to certain requirements which would assure that the common capital stock of the bank would be increased in an equivalent amount within a reasonable time. In that case, the Board required that, at the time of each reduction of the bank's capital debentures out of earnings, there must be set aside in a reserve fund, for the sole purpose of declaring stock dividends, an amount equivalent to the amount of the reduction; and such stock dividends must be declared when the reserve fund equals 10 per cent of the amount of the bank's capital stock and debentures prior to the reduction. The Board further stated that the setting aside of such reserves should, of course, be authorized by appropriate action of the bank's board of directors.

"If the Farmers State Bank of Wallace desires to submit an application for permission to reduce its capital debentures, with the understanding that it will be subject to requirements similar to those described above, and you would be willing to recommend the reduction from the standpoint of the Bank's condition and adequacy of

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"its capital funds in relation to its deposits, it is suggested that you submit the request to the Board for consideration, with your recommendation in the premises."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morier
Secretary.

Approved:

W. S. ...
Chairman.