

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 8, 1939, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman, (latter part of meeting)  
 Mr. Ransom, Vice Chairman  
 Mr. Szymczak  
 Mr. McKee  
 Mr. Davis  
 Mr. Draper

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. Dreibelbis, Assistant General Counsel  
 Mr. Williams, Assistant Counsel  
 Mr. Owens, Assistant Counsel

Mr. Ransom referred to the discussion at the meeting of the Board on March 6, 1939, and the newspaper reports this morning relating to the reorganization bills now before Congress, including the bill (S-1706) introduced in the Senate by Senator Byrd on March 6, 1939, and, at Mr. Ransom's request, Mr. Williams reported that he had talked on the telephone with Senator Byrnes this morning and that the latter had advised that he had not introduced in the Senate a companion measure to the House reorganization bill (H.R. 4425) but had stated outside the Senate that if the bill passed the House he would take steps to obtain consideration of it in the Senate.

There was further discussion of the questions whether (1)

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the Board should attempt to obtain an amendment exempting it from the reorganization provisions of the bill and (2) it should seek a change in the bill to make it clear that the Board is not subject to the Budget and Accounting Act of 1921. The opinion was concurred in that Counsel should continue to watch developments in the situation in order that the Board might be fully informed regarding the provisions of the bill.

During the discussion of this matter Mr. Goldenweiser, Director of the Division of Research and Statistics, entered the room. At the conclusion of the discussion, Mr. Williams withdrew and Mr. Eccles and Mr. Smead, Chief of the Division of Bank Operations, joined the meeting.

Mr. McKee referred to the action taken in the meeting of February 28, 1939, with respect to the amendment, submitted to him by representatives of the American Bankers Association, to section 22(g) of the Federal Reserve Act relating to loans to executive officers of member banks, and recommended that the representatives of the Association be advised that, in the absence of some development which might require further consideration of the matter, the Board would not object to an amendment to section 22(g) which would remove the requirement that existing loans to officers of member banks which were made prior to June 16, 1933, be liquidated not later than

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June 16, 1939, and would permit the orderly liquidation of such loans.

Mr. McKee also stated that representatives of the American Bankers Association had submitted to him a draft of an amendment to section 8 of the Clayton Act which would permit an officer, director, or employee of an insured bank to serve as officer, director or employee of not more than one other bank and that it was his recommendation that the representatives be advised that the Board would not favor such an amendment.

It was agreed unanimously that Messrs. McKee and Ransom should advise the representatives of the American Bankers Association informally as recommended by Mr. McKee.

There was presented a draft of letter which would be sent to the Chairmen of the Banking and Currency Committees of the Senate and House of Representatives recommending that, for the reasons stated in the draft, the second paragraph of section 16 of the Federal Reserve Act be amended so as to make permanent the authority, which expires on June 30, 1939, for the pledge of direct obligations of the United States as collateral security for Federal Reserve notes.

Upon inquiry, Mr. Smead stated that, while none of the Federal Reserve banks is pledging Government securities at the present time and under existing conditions there was no need for such action,

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it was not possible to say that such a need would not arise in the future and that he felt it was desirable that the authority be made permanent, particularly in view of the possibility of gold exports in the future and the little likelihood of any substantial increase in the amount of eligible paper in the portfolios of Federal Reserve banks which could be used as collateral security for Federal Reserve notes.

During the ensuing discussion Mr. McKee suggested that certain changes should be made in the draft of letter and by unanimous vote the matter was referred to Messrs. Eccles and McKee with power to act.

Chairman Eccles stated, for the information of the other members of the Board, that his office had received a request from Senator Pittman, who is Chairman of the Special Senate Silver Committee, that he (Chairman Eccles) testify at hearings to be held by the committee next week, presumably on the silver program.

At this point Messrs. Thurston, Wyatt, Dreibelbis, Goldenweiser and Sneed 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 meetings of the Board of Governors of the Federal Reserve System held on March 6 and 7, 1939, were approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

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"Reference is made to your letter of February 23, 1939, recommending that condition of membership numbered 20, which was prescribed in connection with the admission of The Plaza Bank of St. Louis to membership, be modified by waiving the requirement for annual depreciation charges of not less than 10 per cent. The condition now reads as follows:

- '20. The bank shall make adequate provision for depreciation in furniture and fixtures to be acquired from the Guaranty-Plaza Trust Company, in amounts which in any one year shall be not less than 10 per cent of the value at which such furniture and fixtures are acquired.'

"It is understood that The Plaza Bank of St. Louis acquired from the Guaranty-Plaza Trust Company at a value of \$77,100 furniture and fixtures which had cost the predecessor institution \$119,600; that subsequent purchases by The Plaza Bank of St. Louis have aggregated \$9,400; and that the entire furniture and fixtures account has been reduced to \$42,200 through depreciation charge-offs. It is also understood that the account includes some items of fixed character, such as vault construction; that the predecessor institution acquired practically all of its furniture and fixtures in connection with various mergers and The Plaza Bank of St. Louis does not have available definite information as to the original cost of the various items; and that by reason of the nature of the account the Bureau of Internal Revenue has permitted for tax purposes an annual deduction of only 6-2/3 per cent for depreciation.

"In view of all the circumstances, and in accordance with your recommendation, the Board waives that part of the condition of membership requiring that the provision made for depreciation be at a rate of not less than 10 per cent per annum. It is understood, however, that under the amended condition you will insist that annual depreciation charge-offs be made to the maximum extent permitted as a deduction by the Bureau of Internal Revenue.

"Please furnish the Board, for its files, with a copy of your letter to the bank advising of the action which has been taken in this matter."

Approved unanimously.

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Letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to the report of examination of the Citizens State Bank, Marianna, Florida, as of December 17, 1938, and to the supplementary information submitted in connection therewith, particularly your letter of February 6, 1939, transmitting a copy of a letter dated February 2, 1939, addressed to Mr. W. H. Nobles, President of the Citizens State Bank, by Federal Reserve Agent Neely warning Mr. Nobles against unsafe and unsound practices in conducting the business of the bank, such warning being issued pursuant to the provisions of Section 30 of the Banking Act of 1933.

"It appears that credit advances were made to or for the benefit of Brandon Mill and Elevator Company and W. B. Pender, customers of the bank, in amounts which, in the aggregate, exceeded \$150,000 and that certain of such advances were secured, or purported to have been secured, by pledges of warehouse receipts calling for peanuts; that the combined capital and surplus of the bank was \$45,000 and a total of the advances which were actually made to or for the benefit of each of these customers largely exceeded advances which the bank was permitted to make under the laws of the State of Florida to any one borrower even though secured by commodities; that the borrowers caused certain notes to be executed by employees or persons closely identified with the actual borrowers; that such nominal or purported borrowers had no substantial financial responsibility and President Nobles was familiar with the facts at the time the funds were advanced; that the warehouses issuing receipts for the stored peanuts were not independent warehouses but were warehouses, owned, controlled or dominated by the actual beneficiaries of the credit extended; that all, or a very large percentage of the obligations were rediscounted by the Federal Reserve Bank of Atlanta without any disclosure of the facts as to the actual borrowers or of the dependent nature of the storage of the pledged commodities; and that the facts as regards these matters were discovered by the Federal Reserve bank upon an investigation made to determine the solvency and responsibility of the several notemakers. In the investigation information was also developed that the quantities

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"of peanuts actually in storage in the warehouses which issued the receipts were substantially less than the quantities called for by the outstanding warehouse receipts.

"It further appears that the Brandon Mill and Elevator Company was also borrowing considerable funds from other banks, of which circumstance the Citizens State Bank was apparently not aware, and that the State bank may sustain substantial loss in its advances. It is noted that the examiner expects the Pender indebtedness to work out without difficulty.

"Your examiner expresses the opinion that the difficulties being experienced by the bank are the result of President Nobles' desire to increase the business of his bank and his reluctance to see any funds borrowed from other sources by the Brandon interests. It is observed President Nobles has expressed to Federal Reserve Agent Neely his assurance that in the future he 'will not get caught in this way again'. The transactions indicate not only an inadequate checking by President Nobles of the various aspects of the credit extended but an inclination to extend to customers of the bank credit facilities beyond prudent and legal limits, all of which have exposed the stockholders, and possibly depositors, to undue risk of loss.

"As you know, the condition of this bank has been the cause of some concern in the past and the Board in its letter of March 25, 1935, to Assistant Federal Reserve Agent Clark, expressed the view that a strengthening of the bank's capital was desirable in view of certain unsatisfactory features of the bank's asset condition. The bank, however, was not disposed to sell additional stock and contended that adequate increase could be obtained through earnings and in submitting the report of examination as of December 28, 1936, Mr. Clark stated that a remarkable improvement had taken place in the condition of the bank within the two or three years previous and that President Nobles deserved credit for the progress made by the bank.

"The examination as of December 17, 1938, reflected an adjusted capital of \$54,300, which was 9.9 per cent of deposits of \$546,100. This, however, is before any allowance for possible loss in the Brandon line or for possible loss in the \$10,000 judgment rendered against the bank, which, if upheld, would apparently result in

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"a loss of approximately \$4,000 after allowance for off-sets. In view of such possible losses and the substantial portion of the capital account represented by bank premises and other real estate, it would seem that means for strengthening the bank's capital position should be considered. Your views in this connection will be appreciated.

"It is observed from the information transmitted with your letter of February 11, 1939, that President Newton concurred in your recommendation that no action be taken by the Board of Governors at this time and that it is your intention to participate with the State authorities in the next examination of the bank which will probably be made in June 1939. It will be appreciated if you will continue to keep the Board advised of any developments in connection with the situation of the bank."

Approved unanimously.

Letter dated March 7, 1939, to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of February 14, 1939, stating that Vice President Lofborn of The State Bank of Geneva, Geneva, Illinois, has been elected president to succeed Mr. Oscar Nelson whose resignation was effective December 31, 1938.

"It is noted that you have carefully checked the qualifications of Mr. Lofborn with the Assistant Chief Examiner of the Office of Auditor of Public Accounts of Illinois, who lives in Geneva, and that he is confident Mr. Lofborn is a conservative banker and that no loans or extensions of credit in any form will be made to Mr. Oscar Nelson and his interests as long as Mr. Lofborn is president of the bank.

"It is observed from the comments of your examiner who conducted a review of the bank's assets as of November 19, 1938, that he has serious reservations as to the ability of Mr. Lofborn to manage the bank properly, although recognizing him to be a conscientious individual. He stated that Mr. Lofborn had been brought into the bank by Mr. Nelson and recently had been made vice president and that

"Mr. Lofborn has been connected with Mr. Nelson in various ways for many years and, in fact, in



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"discussing the matter with Nelson, Nelson said this: "Lofborn will think as I think". Nelson himself is fully aware of the fact that if he is to leave entirely, he needs a stronger executive than Lofborn, for there are too many assets in the bank which need the supervision of one who has more initiative and is more aggressive than the new vice president.'

"In discussing President Lofborn's qualifications with the representative of the Auditor of Public Accounts you undoubtedly had in mind the comments of your examiner. However, in view of the criticisms which have been directed in recent years toward Mr. Nelson's management of the bank, which were mentioned in the Board's letter addressed to you on October 31, 1938, and the indication that Mr. Nelson expects that his judgment will guide President Lofborn, it is apparent that President Lofborn's management of the bank should have your close and continued scrutiny until such time as his ability to manage the bank's affairs properly is clearly demonstrated.

"The chief problem of the new management and the directors is the improvement in the asset condition of the bank and particularly the reduction of the Oscar Nelson lines to reasonable limits with the individual items maintained on a sound credit basis.

"The management of the bank has been subject to criticism for a long time and the resignation of President Nelson is a preliminary step in effecting the desired improvement in the bank's condition. Equally important, if not more so, is the necessity for the bank to obtain management thoroughly competent to achieve the necessary results, and it is apparent that there is some question that this has been accomplished. It is assumed that you will continue, in cooperation with the State banking authorities, to follow the situation closely, and it will be appreciated if you will keep the Board advised as to developments."

Approved unanimously.

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

"This refers to your letter of December 17, 1938, with regard to a possible violation of the provisions of

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"section 11(m) of the Federal Reserve Act by The Fidelity Savings Bank of Antigo, Antigo, Wisconsin, by reason of loans made to Mr. C. N. Melgaard, secured by stocks, in an amount in excess of 10 per cent of the bank's capital and surplus.

"You called attention to the fact that the greater part of the original loan was made to enable Mr. Melgaard to remove from the bank a line of credit upon which Mr. Melgaard was a guarantor. However, it appears from reports of examination of the bank that Mr. Melgaard was not the only guarantor of the line of credit, and it is possible, therefore, that even the greater part of the original loan may merely represent a decision by Mr. Melgaard to purchase the property securing the loan upon which he was one of the endorsers. Since this original transaction, Mr. Melgaard has obtained other loans from the bank, secured by stock collateral, which bring his total loans above the 10 per cent limit referred to in the law. It appears, therefore, that The Fidelity Savings Bank of Antigo has exceeded the limitations contained in section 11(m) in making these loans to Mr. Melgaard.

"It is understood that you feel, as a practical matter, that these are sound loans, and it is not the purpose of this letter to suggest that you insist that the bank immediately reduce the loans. However, it is suggested that the matter be surveyed with the member bank at the time of the next examination in order that it may avoid other violations of section 11(m) and correct this violation as soon as it is practicable."

Approved unanimously.

Letter dated March 7, 1939, to Mr. C. B. Upham, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of February 16, 1939, requesting a ruling on the question whether a loan made by a national bank to the wife of an executive officer of the bank on the security of a first mortgage on a newly constructed residence property is in violation of the provisions of section 22(g) of the Federal Reserve Act.

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"We have given careful consideration to the information contained in your letter, but some of the facts surrounding the transaction are not clear. It is not stated whether the proceeds of the loan were used by the husband in his business or applied to the purchase price of the property or were devoted to some other purpose. It is noted that it is understood that the loan was made in good faith and not with the intent to evade the provisions of section 22(g) of the Federal Reserve Act. On the other hand, it is stated that the wife has no separate estate or income, that the property was conveyed to her a short time prior to the loan and that the payment of the debt depends upon the earning ability of the executive officer. These facts indicate that the loan may have been obtained through the medium of the wife in order to evade the restrictions of section 22(g), and it is difficult to reconcile them with the understanding stated. Since neither the note nor the mortgage is signed by the executive officer, it is assumed that neither the officer nor his property is in any way liable on account of the loan, directly or indirectly, but this does not clearly appear.

"In the circumstances, in the absence of information clearing up the points mentioned above and as to such other facts as may be pertinent, the Board feels that it is not in a position to attempt to express an opinion with reference to the question presented."

Approved unanimously.

Memorandum dated March 6, 1939, from Mr. Smead, Chief of the Division of Bank Operations, recommending that Form F.R. 105e, Publisher's Copy of Report of Condition of State Bank Members, be amended in the manner indicated on the copy of the form attached to the memorandum. The memorandum stated that no change in substance was proposed and that the changes were designed merely to facilitate the single, joint publication of condition reports rendered by State bank

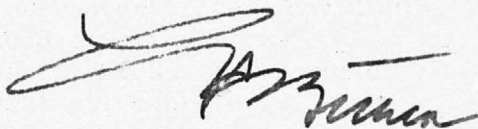
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members to their respective Federal Reserve banks and State banking departments.

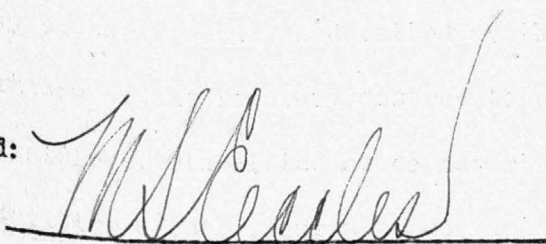
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.