

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, March 16, 1939, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper

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 meetings of the Board of Governors of the Federal Reserve System held on March 14 (3 meetings) and 15, 1939, were approved unanimously.

Memorandum dated March 10, 1939, from Mr. Paulger, Chief of the Division of Examinations, recommending that, for the reason stated in the memorandum, Assistant Federal Reserve Examiner John J. Connell be promoted to the position of Federal Reserve Examiner, with salary at the rate of \$3,800 per annum, effective as of March 16, 1939.

In accordance with the above recommendation Mr. Connell was appointed an examiner to examine Federal Reserve banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System and was designated as a Federal Reserve Examiner, with salary at the rate of \$3,800 per annum, effective as of March 16, 1939.

3/16/39

-2-

Letter to Mr. Caldwell, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of March 7, 1939, requesting to be advised whether persons now serving as Assistant Federal Reserve Agent, Alternate Assistant Federal Reserve Agent, and Federal Reserve Agent's Representatives at your bank and branches, who were appointed by your predecessor, should be formally appointed by you and approved by the Board of Governors.

"As stated in the Board's letter X-9856, dated April 2, 1937, persons appointed to these positions are regarded as employees and may occupy such positions until their appointments are terminated by appropriate authority. In view of this provision and since the persons now occupying these positions are serving with your authority, formal reappointment by you will not be necessary."

Approved unanimously.

Letter to Honorable Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"As requested in your letter of March 6, 1939, the Board of Governors of the Federal Reserve System hereby grants written consent, in accordance with the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to examine the Integrity Trust Company, Philadelphia, Pennsylvania, jointly with examiners for the Federal Reserve Bank of Philadelphia at the time of their next regular examination.

"In making the request you express concern over the bad asset condition of the bank and the unfavorable trend evidenced by the report of examination as of May 2, 1938, the latest examination made by examiners for the Federal Reserve Bank.

"As you doubtless know, the problem presented by the condition of the bank is one of long standing. In 1931 the situation became so acute that certain Philadelphia banks, later referred to in this letter as the 'associated banks', agreed to make deposits with the trust company up

3/16/39

-3-

"to the amount of \$48,000,000, which was then the approximate amount of the total deposits of the institution. Under the agreement the associated banks did deposit \$12,000,000 in the trust company. In the early part of 1934 a readjustment was made of the capital position of the trust company, the Reconstruction Finance Corporation purchasing \$4,000,000 of first preferred stock and the associated banks converted \$3,000,000 of their \$12,000,000 deposits into second preferred stock. At the same time the associated banks agreed that, so long as the Reconstruction Finance Corporation owned any first preferred stock the associated banks would not, without the prior written consent of the Reconstruction Finance Corporation, withdraw any part of the \$9,000,000 which they had on deposit in the institution. The \$9,000,000 has remained on deposit with the trust company and represented approximately 25 per cent of total deposits at the end of the past year.

"The associated banks likewise took action to strengthen the management and the present president of the bank is the former manager of the Reconstruction Finance Corporation Loan Agency in Philadelphia, who was placed in the bank as executive vice president and later made president. Representatives of the associated banks serving on the board of directors of the trust company or as advisers in unofficial capacities, are said to dominate the major policies of the institution. The present management is reported to have done good work in reorganizing the institution's activities and in placing operations on an economical basis in view of the character of the business transacted and the character of the assets being administered.

"As you state, the trust company is confronted with a serious real estate problem, and it appears that real estate conditions in Philadelphia are not conducive to a rapid workout of the situation. If the trust company is to continue operations as an independent unit, some major capital reorganization plan should be worked out, as you indicate. It may be, however, that some merger or absorption program, rather than a recapitalization of the trust company, may be found to be in the best interests of the banking situation, your Corporation, and all concerned. We understand that officers of the Federal Reserve Bank have initiated or participated in informal discussions with representatives of the trust company and of the associated banks as to future possibilities and as to possible solutions to the problem.

3/16/39

-4-

"I need not assure you that both the Board of Governors and the Federal Reserve Bank of Philadelphia will be glad to cooperate with your Corporation in working towards the satisfactory solution of the existing situation."

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

"Inclosed for your information is a copy of a letter dated March 6 from Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, expressing concern over the condition of the Integrity Trust Company, Philadelphia, Pennsylvania, and requesting permission for the Federal Deposit Insurance Corporation to make an examination of the trust company jointly with your examiners at the time of the next regular examination.

"Inclosed also is a copy of the Board's reply granting such permission. You will note that in the reply Mr. Crowley was assured of the cooperation of the Board and the Federal Reserve Bank of Philadelphia in attempting to work out a solution of the problem which the bank presents.

"It will be appreciated if you will keep the Board advised as to developments in the situation."

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

"This refers to your letter of February 21 in which you inquire whether certain loans and investments of the Walker Bank and Trust Company, Salt Lake City, Utah, should have been shown in its December 31, 1938 condition report against asset item 9, 'Investments and other assets indirectly representing bank premises or other real estate'.

"It appears from your letter and the accompanying statement that loans and investments as shown in the bank's December 31, 1938 condition report included a \$25,000 loan to and a \$60,000 investment in the capital stock of the M. H. Walker Realty Company; that the stock in the realty company owned by the member bank amounts to about 9 per cent of the company's outstanding capital stock;

3/16/39

-5-

"that the realty company owns and controls a 16 story commercial building of which the bank occupies, under lease, part of the ground and mezzanine floors; and that the company's assets consist almost entirely of the commercial building referred to and of other real estate. Information contained in examination reports of the subject member bank on file at the Board's offices indicates that the M. H. Walker Realty Company was at one time an affiliate of the member bank under the terms of Section 2(b) of the Banking Act of 1933, by reason of the fact that four of its six directors were also directors of the member bank, the affiliation having been terminated on January 10, 1936 by the resignation of one of the directors who was also a director of the member bank. The information contained in the examination reports also indicates that the principal stockholders of the realty company are some of the principal stockholders of the subject member bank.

"Although there appears to be a rather close association between the interests that control the subject member bank and those that control the realty company, the amount of the member bank's investment in the realty company, \$85,000, is a relatively small percentage of the total assets of that company. In the circumstances, it is not believed that such loans and investments should be shown in condition reports on form F. R. 105 against item 9 of assets."

Approved unanimously.

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

"The Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have agreed upon certain general principles for handling possible violations of Regulation U, the Board's regulation relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange. These principles are as follows:

1. Obtain compliance as far as possible by persuasion, and do not burden a bank with legal proceedings unless it shows that it is not amenable to other methods of correction.

3/16/39

-6-

"2. Avoid as far as possible any necessity for investigation of banks by the Securities and Exchange Commission, which has certain broad enforcement powers under the Securities Exchange Act of 1934.

3. Arrange for examiners and bank supervisory authorities to follow, in general, the same procedure as in violations of other banking laws such as those relating to interest on deposits or purchase of securities.

4. Arrange for examiners to report to the Comptroller, the Federal Deposit Insurance Corporation and the Federal Reserve banks, as the case may be, with these agencies feeling free to present questions to the Board for interpretation whenever they feel the need to do so.

5. Arrange that when a case reaches a point where legal proceedings should be instituted, the Federal Reserve bank, in the case of a State member bank, will report directly to the Board for the Board to refer the case to the Securities and Exchange Commission or the Attorney General, depending upon whether civil (injunction) or criminal action is desirable; and the Comptroller or the Federal Deposit Insurance Corporation, in the case of a national or insured nonmember bank, will report directly to the Securities and Exchange Commission or the Attorney General, in accordance with their own judgment as to whether civil or criminal action is desirable, and will send a copy of the report to the Board for its information. Arrange that the Board, for purposes of general information, will from time to time advise the Comptroller of any cases which the Board or the Federal Deposit Insurance Corporation has referred to the Securities and Exchange Commission or the Attorney General and which have not already been brought to the attention of the Comptroller, and likewise will advise the Federal Deposit Insurance Corporation of any such cases which the Board or the Comptroller may have so referred and which have not already been brought to the attention of the Federal Deposit Insurance Corporation.

3/16/39

-7-

"6. Encourage close informal cooperation between all the agencies and their staffs.

"It will be appreciated if you will follow these general principles in connection with possible violations of the regulation; and for your further information in this respect there are set forth below the relevant portions of a letter which the Board has previously addressed to the Comptroller of the Currency regarding such a possible violation:

'Reference is made to Deputy Comptroller _____'s letter of _____, regarding questions with respect to Regulation U which were raised by the June 6, 1938 examination of the _____ National Bank, _____.

'It is understood that the bank made a loan on September 2, 1937, for the purchase of stocks registered on a national securities exchange, and that while the stocks serving as collateral for the loan then had a market value of only \$20,178, the loan was in the amount of \$10,000. At that time the regulation gave stocks a maximum loan value of 45 per cent of their market value. Accordingly, the \$10,000 loan exceeded such maximum loan value by \$920.

'Effective November 1, 1937, the loan value of stocks for the purposes of Regulation U was changed to 60 per cent of current market value. The market value of the collateral in question on November 1, however, is not indicated.

'At the time of the examination on June 6, 1938, the stocks had a market value of \$13,193.

'Questions are presented as to whether the loan became conforming as the result of the change in loan values, as to the effect of the decline in the market value of the collateral to \$13,193, and as to the "reduction necessary or the amount of the additional collateral required to correct" the violation if there was a violation.

'From the facts as stated it appears that when the loan was made on September 2 it violated Regulation U because the loan exceeded the maximum loan value of the collateral; and this violation was not corrected by the November

3/16/39

-8-

"'l change in loan values. Broadly stated, Regulation U deals with the making of loans and with the subsequent withdrawals and substitutions of collateral but it does not require a bank, in the event of declines in the market value of collateral, to reduce any loan, obtain additional collateral for any outstanding loan, or call any outstanding loan. The prohibition of the regulation is directed in the first instance against making a loan in excess of the maximum loan value of the collateral, and strictly as a matter of construction of the regulation, the unlawful making of a loan would not be made lawful by a subsequent change in loan value of the collateral, by a subsequent reduction in the amount of the loan, or by the pledge of additional collateral.

'With respect to the obtaining of compliance with the regulation, or more explicitly what should be done by the supervisory authority in the event of a possible violation, you will recall that some time ago representatives of your office, the Federal Deposit Insurance Corporation and the Board discussed the matter of procedure with respect to such possible violations, with a view to securing uniformity, and that the consensus of the discussion was outlined in the Board's letter to you * * * . In general, this procedure contemplated that such possible violations would be handled in the same manner as possible violations of other banking laws and that compliance would be obtained so far as possible by persuasion, particularly where the violation appeared to the examiner to be inadvertent as distinguished from a willful disregard of the law and regulation.

'In the circumstances of the instant case, particularly in view of the small amount involved, it is questionable what good purpose would be served by requiring either a reduction in the amount of the loan or the pledge of additional collateral. The important consideration, assuming that the violation was not willful, would

3/16/39

-9-

"seem to be that the bank understand clearly the provisions of the law and regulations so that such violations will not occur in the future. On the other hand, in different circumstances, particularly if this or other violations of Regulation U should seem to be indicative of a willful intent to disregard statutory restrictions, more drastic measures might be required."

Approved unanimously.

Letter to Mr. H. C. McCollom, New York, New York, reading as follows:

"Your letter of March 14, 1939 inclosing a copy of a statement dated February 16, 1939 regarding the Barkley Bill (S. 477) which you sent to the members of the subcommittee of the Senate Committee on Banking and Currency, has been received and the inclosed statement has been read with much interest. Your courtesy in furnishing the Board with a copy of your statement is greatly appreciated.

"In response to a request from the Chairman of the Senate Committee on Banking and Currency, the Board has sent a letter to him containing an expression of the Board's views regarding the Barkley Bill; but I regret that I am unable to send you a copy of that letter because the Board feels that it should not publish or release the letter until it has been published or released by the Committee on Banking and Currency or the Chairman of that Committee."

Approved unanimously.

Letter dated March 15, 1939, to the Presidents of all Federal Reserve banks, reading as follows:

"It is the Board's policy to furnish each member with one complimentary copy of the Federal Reserve Bulletin each month and additional copies only upon payment of the regular subscription fee of \$2.00 per annum.

"The Board is in receipt of a recommendation from the Federal Reserve Bank of San Francisco recommending

3/16/39

-10-

"that a complimentary copy of the Federal Reserve Bulletin be furnished each month to out-of-town branch offices of member banks in the Twelfth District, with a maximum of fifty copies to the branches of any one bank.

"While the Board is inclined to look favorably upon this recommendation, it realizes that conditions in other districts may indicate the advisability of some other method of determining which branches of member banks will receive the Bulletin should the Board revise its policy. To assist the Board in making a decision, it will be appreciated if you will submit your recommendation in this matter."

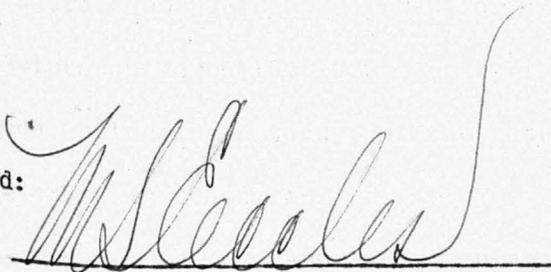
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.