

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 20, 1939, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman  
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

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 17, 1939 (2 meetings) were approved unanimously.

Memorandum dated March 16, 1939, from Mr. Snead, Chief of the Division of Bank Operations, submitting a letter dated March 11 from Mr. Rounds, Vice President of the Federal Reserve Bank of New York, which requested approval by the Board of changes in the personnel classification plan of the bank to provide for the discontinuance of the Bill Department, for the creation of a Bill Division in the Securities Department, and for a minor change in the description of work for the position of Bill Buyer. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

3/20/39

-2-

Letter to the board of directors of the "Maplewood Bank & Trust Company", Maplewood, Missouri, stating that, subject to conditions of membership numbered 1 to 4 and 6 contained in the Board's Regulation H and the following additional condition, 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 St. Louis:

- "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, furniture and fixtures and vaults and equipment."

The letter also contained the following special comments:

"It has been noted that the bank is authorized under its charter to exercise certain powers which it is not exercising at this time, such as the powers to execute surety bonds, guarantee special deposits and sell its debentures secured by mortgages. Attention is invited to the fact that, if the bank should hereafter desire to exercise powers not actually exercised at the time of admission to membership, it would be necessary under condition numbered 1 to obtain the Board's permission before exercising them. In this connection the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

3/20/39

-3-

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Maplewood Bank & Trust Company', Maplewood, Missouri, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Finance for the State of Missouri for his information.

"In answer to the question in the report as to whether the bank has sold any loans or other assets and the extent of such practices, if any (question 5 on page 10), the amount of the sales reported by the bank, \$27,500, is given and the comment made that 'releases of liability' were obtained on \$11,000 of the loans sold and not obtained on the remaining \$16,500. There is the implication, of course, that the bank has a liability on the unpaid balances on the loans on which no releases were obtained, but on page 1 of the report the examiner states that the institution has no contingent liabilities. It is requested, therefore, that you advise whether or not the bank has any liability, direct or contingent, on the loans in question. If a liability does exist it is assumed that it will be reflected in future reports of condition of the bank.

"It has been noted that the bank's name is given as 'Maplewood Bank & Trust Company' in the articles of agreement filed by the incorporators and as 'Maplewood Bank and Trust Company' in the certificate of incorporation issued by the State Commissioner of Finance. Since it appears that the Commissioner had no authority other than to approve or disapprove the incorporation of the bank pursuant to the articles of agreement, we shall consider the name given in the articles of agreement as the correct corporate name of the bank unless we receive advice that your counsel disagrees with this view."

Telegrams to Mr. Shortt, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue

3/20/39

-4-

limited voting permits to the "Old National Corporation", and "Investment and Securities Co.", both of Spokane, Washington, entitling such organizations to vote the stock which they own or control of "The Old National Bank and Union Trust Company of Spokane", Spokane, Washington, at any time prior to July 1, 1939, to act upon proposals (1) to increase the capital of such bank through the issuance and sale of preferred stock and the declaration of a dividend payable in common stock, (2) to amend the articles of association of such bank in accordance with a form transmitted to it by the Comptroller of the Currency, and (3) to take such other action as shall be necessary to effect such purposes, provided that all action taken shall be in accordance with a plan satisfactory to the Comptroller of the Currency.

Approved unanimously.

Letter to Mr. Peyton R. Evans, General Counsel, Farm Credit Administration, reading as follows:

"This refers to your letter of March 8, 1939, presenting the question whether notes given by credit unions to banks as evidence of loans made to them can be discounted with Federal Reserve banks. You enclosed with your letter a copy of a letter dated February 9, 1939, from Mr. Earl Rentfro, Assistant General Manager, Cuna Mutual Society, Raiffeisen House, Madison, Wisconsin, with reference to this question.

"While it is the usual practice of the Board of Governors to pass upon questions only upon the basis of a full and definite statement of the facts of an actual

3/20/39

-5-

"case, in this instance it is believed that certain general principles can be stated which may be of assistance to Mr. Rentfro with respect to this matter.

"Although the question presented in your letter is restricted to whether notes given by credit unions to banks can be discounted with Federal Reserve banks, it is assumed that you desire to be advised concerning any method by which such notes may be used as a basis for the extension of credit by Federal Reserve banks to member banks. Section 10(b) of the Federal Reserve Act, which section was first enacted in 1932 and has subsequently been amended, now authorizes advances by a Federal Reserve bank to a member bank on the latter's promissory note, for periods not exceeding four months and at rates not less than one-half of one percent higher than the discount rate for eligible paper, on any security which is satisfactory to the Federal Reserve bank. If a note given by a credit union to a member bank as evidence of a loan made to it by the bank should be considered by the Federal Reserve bank as satisfactory collateral for an advance to the member bank, such a note could be used as collateral security for an advance under section 10(b), and this would be true regardless of the use which the credit union made of the proceeds of the loan by the member bank.

"With reference to the question whether notes given by credit unions to member banks are eligible for discount with the Federal Reserve banks, it will be observed from the enclosed copy of the Board's Regulation A, that Federal Reserve banks are authorized by law to discount for member banks, under certain restrictions and limitations, commercial, agricultural and industrial paper. The fact that loans by credit unions to their members were made for provident or productive purposes would not in itself make the paper evidencing such loans eligible for discount by a Federal Reserve bank. However, if the proceeds of a loan made by a member bank to a credit union were actually used by the credit union to make loans for eligible purposes it would be possible for a Federal Reserve bank to discount for a member bank a note evidencing such a loan to the credit union if the note complied in other respects with the law and the regulation and was acceptable from a credit standpoint.

3/20/39

-6-

"Although it does not seem probable that the usual credit union would be engaged in a type of business which would cause its notes to a member bank to be eligible for discount, there may possibly be cases where the notes of the credit union would be eligible. In any particular case, of course, the question whether paper offered for discount meets the requirements as to eligibility and whether it is acceptable from a credit standpoint is one for the consideration of the Federal Reserve bank at the time the paper is offered, in the light of all of the circumstances of the case.

"In seeking to determine whether the notes of any particular credit union are eligible for discount, your attention is invited to two rulings of the Board of Governors which may have some bearing on the question. At page 1190 of the enclosed copy of the Federal Reserve Bulletin for December 1937, the Board published a ruling to the effect that a borrowing for the purpose of making a purchase of goods is a borrowing for a commercial purpose, whether the borrower intends to use the goods himself or to resell them. In this ruling the Board also stated that the note of a finance company given to a member bank, the proceeds of which are loaned to other borrowers who use the funds thus obtained to purchase goods for use or consumption, will be eligible for discount by a Federal Reserve bank if the note meets the applicable requirements of the regulation as to maturity and in other respects. Another ruling on this subject appears at page 86 of the February 1938 Federal Reserve Bulletin, a copy of which is also enclosed.

"It is hoped that this information will be of assistance to you in answering Mr. Rentfro's inquiry. However, if you should have any further questions, please feel free to communicate with us again."

Approved unanimously.

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

"Reference is made to your letter of March 3, 1939, with respect to section 11(m) of the Federal Reserve Act,

3/20/39

-7-

"which provides in part as follows:

' . . . loans secured by stock or bond collateral made by member banks . . . , but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank . . . '

"Although other provisions of section 11(m) authorize the Board of Governors to place certain limitations on the aggregate amount of member banks' loans secured by stock or bond collateral, action by the Board to impose such an aggregate limitation is not a prerequisite to the operation of the 10 per cent limitation quoted above.

"It is a settled principle of the law applicable to partnerships that each general partner is individually liable for the debts of the partnership. Accordingly, the Board agrees with the view expressed by counsel to your bank that, if a person is a general partner in an unlimited partnership and a State member bank already has outstanding to the partnership loans on stock or bond collateral in an amount equal to 10 per cent of the bank's unimpaired capital and surplus, the quoted provision forbids the bank to make any additional loan on such collateral to one of the general partners.

"It is assumed, of course, that the loans are not secured by Government obligations and hence do not get the benefit of the 25 per cent special loan limit specified in section 11(m) for loans on such securities."

Approved unanimously.

Letter to Honorable D. W. Bell, Acting Director, Bureau of the Budget, reading as follows:

"Acknowledgment is made of your letter to Chairman Eccles of March 3 enclosing a copy of a proposed report by the Secretary of Agriculture on S. 1057 and requesting an expression of views regarding the proposed legislation.

"The Board's views on legislation of this character

3/20/39

-8-

"were fully expressed in its statement on 'Proposals to Maintain Prices at Fixed Levels', which was recently released for publication. A copy of this statement is enclosed.

"With regard to the proposed report of the Secretary of Agriculture the Board has no comments or suggestions to make."

Approved unanimously.

Letter dated March 18, 1939, to Mr. Dwight L. Foley, Group Six, West Virginia Bankers' Association, Kingwood, West Virginia, reading as follows:

"Receipt is acknowledged of your letter of March 16, 1939, inquiring whether the Board could furnish a speaker to appear on the program of your annual meeting to be held in Fairmont, West Virginia, on Saturday, April 22, 1939.

"Mr. Leo H. Paulger, Chief of the Board's Division of Examinations, will, according to present indications, be available on that date, and the Board will be glad to ask him to appear before your group should you so desire. However, it will be appreciated if you will advise the Board as soon as the group reaches a decision in the matter in order that Mr. Paulger may know whether he should hold the above-mentioned date open.

"Your letter does not indicate the subject you wish discussed, and it is assumed that the speaker would be permitted to exercise his own discretion in this regard. Moreover, it is noted that your letter mentions the alternatives of an afternoon or evening program. As between an afternoon and evening meeting it is believed that any representative of the Board would find it more convenient to appear on an evening program.

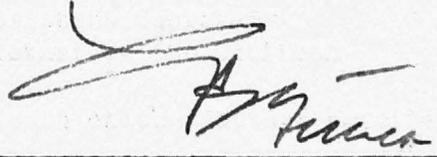
"There would be no cost to the association, inasmuch as the Board does not ask reimbursement for the expenses of its official representatives."

Approved unanimously.

3/20/39

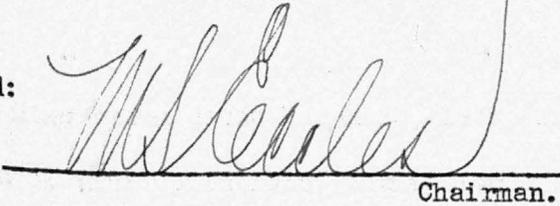
-9-

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.