

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 16, 1939, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
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:

Letter to Mr. W. P. Jones, Vice President of the First National Bank, Hattiesburg, Mississippi, reading as follows:

"This refers to your letter of May 5, 1939, addressed to Governor Ransom, with respect to the payment before maturity of a certificate of deposit issued by your bank to Mrs. Hannah Smith of Mt. Olive, Mississippi, in the amount of \$5,150 to mature January 1, 1940.

"It is understood that Mrs. Smith has requested the payment of her certificate by the transfer of the amount thereof to a bank located in the town in which she resides, which is some forty miles distant from the town in which your bank is located; and that such transfer is desired in order to relieve Mrs. Smith, who is a woman of advanced age, from the physical hardships incident to traveling from her home to your bank in order to look after her affairs. It is noted that Mrs. Smith has executed an application for the transfer of the certificate of deposit in the manner described, stating the reasons for which the transfer is requested, and that this application has been approved by the President and by the Vice President and Cashier of your bank.

"While it is not entirely clear from the facts stated that the case is one in which there exists an emergency of the kind contemplated by section 4 of the Board's Regulation Q, in all the circumstances the Board of Governors will not object to the payment of the certificate of deposit prior to its maturity in the manner described. In

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"accordance with your request, the certificate enclosed with your letter is returned herewith.

"If you should have any further inquiries regarding this matter or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of Atlanta, which will be glad to consider your inquiries."

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, prepared in accordance with the action taken at the meeting of the Board on May 9, 1939, and reading as follows:

"Reference is made to your letter of April 28, 1939, enclosing an excerpt from the minutes of the meeting of the board of directors of your bank held on April 27, 1939, with respect to advances by your bank to member and nonmember banks and others on the security of Government obligations in the event of political developments abroad resulting in disturbances in our markets.

"The Board notes that your directors voted to establish, if and when the Board of Governors may request a review of rates due to the disturbances referred to above, a rate of 4 per cent on advances to individuals, partnerships and corporations, including nonmember banks, on direct obligations of the United States, with a margin of not to exceed 10 per cent of the par value of such obligations offered as collateral.

"As you know, when this matter was discussed by the Presidents of the Federal Reserve banks with the Board in Washington on April 18, 1939, it was agreed, as stated in the Board's letter of April 27, 1939, that it would be desirable, in the event of the outbreak of hostilities abroad, for the Federal Reserve banks to be prepared to make advances at the discount rate on United States Government obligations at par to all member and nonmember banks. The Board has been informed by all of the other Federal Reserve banks, with the exception of one from which advice has not yet been received, that they would be willing to carry out such a policy. The Board feels that the adoption of a uniform policy by all of the Federal Reserve banks in this connection would be highly

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"desirable for the reasons outlined at the meeting of the Board with the Presidents on April 18, and it will appreciate it, therefore, if your directors will discuss the matter further at their next meeting and advise the Board of the results of such consideration."

Approved unanimously.

Letter to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"Further reference is made to your letter of April 21, 1939, with respect to advances by your bank to non-member banks on the security of direct obligations of the United States in the event of political developments abroad resulting in disturbances to the markets in this country.

"The Board of Governors has noted the action of your directors in this connection and assumes from your letter that in the event such advances were made either to member or nonmember banks, they would be on the basis of the par value of the Government securities offered as collateral."

Approved unanimously.

Letter to Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Further reference is made to your letter of April 22, 1939, with respect to advances by your bank to nonmember banks and others on the security of direct obligations of the United States. The Board of Governors has noted the action of your directors in this connection and assumes from your letter that in the event such advances were made either to member or nonmember banks, they would be on the basis of the par value of the Government securities offered as collateral.

"It is also noted that the rate of 3 per cent fixed on advances to individuals, partnerships and corporations other than nonmember banks and the rate of 1 1/2 per cent on advances to nonmember banks are to become effective,



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"after approval by the Board of Governors, if, as, and when the President or Vice President of the Federal Reserve Bank of Minneapolis deems it advisable to put these rates into effect. It is understood that this action of your directors was taken in order that the Federal Reserve Bank of Minneapolis might be in a position to proceed in accordance with the policy discussed at the meeting of the Presidents with the members of the Board of Governors on April 18, 1939, when it was agreed that in the event of political developments abroad resulting in disturbances in our markets the Federal Reserve banks should stand ready to make advances at the discount rate on United States Government obligations at par to all member and nonmember banks, and that the rates would be made effective in the event of such disturbances. While your letter states that the rates would become effective when the President or Vice President of the bank deems it advisable it is assumed that it was intended that the necessary action in this connection would be taken by the President or First Vice President.

"The Board of Governors is taking no action at this time on the rates fixed by your directors but should disturbances of the kind referred to actually develop, immediate action will be taken by the Board and you will be advised accordingly."

Approved unanimously.

Letter to Honorable M. M. Logan, United States Senate, reading as follows:

"Reference is made to your letter of May 9, 1939, enclosing a letter dated May 4, 1939, (with three attachments), from Mr. Barry Bingham, Louisville, Kentucky, suggesting that that portion of Kentucky now included in the Fourth Federal Reserve District be transferred to the Eighth Federal Reserve District. In transmitting Mr. Bingham's letter to the Board, you request advice as to what steps would be necessary to carry his suggestions into effect.

"Section 2 of the Federal Reserve Act, as amended, contains the following provision with respect to the establishment of Federal Reserve districts:

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"1. ESTABLISHMENT OF RESERVE CITIES AND DISTRICTS

Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as 'The Reserve Bank Organization Committee,' shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Board of Governors of the Federal Reserve System when organized: Provided, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Board of Governors of the Federal Reserve System, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

"As indicated by the above quotation from the Federal Reserve Act, the boundaries of the twelve Federal Reserve districts were originally fixed by the Organization Committee prior to the establishment of the Federal Reserve banks. The Board of Governors of the Federal Reserve System is, of course, authorized by the Federal Reserve Act to change the boundaries of the Federal Reserve districts and a number of such changes have been made.

"With regard to the method of determining the boundaries of the Federal Reserve districts, it is thought that the following excerpt from the report of the Organization Committee may be of interest to you:

"Among the many factors which governed the Committee in determining the respective districts and the selection of the cities which have been chosen were:

"First: The ability of the member banks within the district to provide the minimum capital

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"of \$4,000,000 required for the Federal Reserve bank, on the basis of six per cent of the capital stock and surplus of member banks within the district.

"Second: The mercantile, industrial and financial connections existing in each district and the relations between the various portions of the district and the city selected for the location of the Federal Reserve Bank.

"Third: The probable ability of the Federal Reserve Bank in each district, after organization and after the provisions of the Federal Reserve Act shall have gone into effect, to meet the legitimate demands of business, whether normal, or abnormal, in accordance with the spirit and provisions of the Federal Reserve Act.

"Fourth: The fair and equitable division of the available capital for the Federal Reserve banks among the districts created.

"Fifth: The general geographical situation of the district; transportation lines, and the facilities for speedy communication between the Federal Reserve bank and all portions of the district.

"Sixth: The population, area and prevalent business activities of the district, whether agricultural, manufacturing, mining or commercial, its record of growth and development in the past and its prospects for the future.

"In determining the several districts, the Committee has endeavored to follow state lines as closely as practicable, and wherever it has been found necessary to deviate, the division has been along lines which are believed to be most convenient and advantageous for the district affected.

"While no set procedure has been established in connection with requests for changes in the boundary lines of Federal Reserve districts, it is suggested that if there is a strong sentiment among the member banks in Eastern Kentucky to be transferred from the jurisdiction of the Fourth to the Eighth Federal Reserve District, they submit a petition to this effect to the Board of Governors of the Federal



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"Reserve System, Washington, D. C. The petition should, of course, set forth in detail the reasons why the suggested change is thought desirable.

"The Board of Governors will be glad to give consideration to any such petition which may be filed with it in the light of the facts presented by the petition."

Approved unanimously.

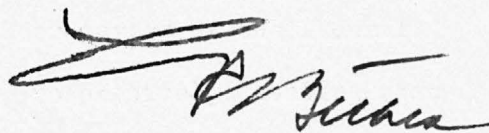
Letter to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, reading as follows:

"Your letter of April 28, 1939, in which you request a list of the topics which the Board of Governors desires the Federal Advisory Council to discuss at its next meeting on June 5 and 6, 1939, has been brought to the attention of the Board.

"Aside from such consideration as the Council may wish to give to the suggestion contained in the letter addressed to you under date of March 31, 1939, with respect to the answers submitted by the Council at its last meeting with the Board to the questions relating to the services of the Federal Reserve System to its member banks, the Board has nothing to suggest at this time for discussion by the Council."

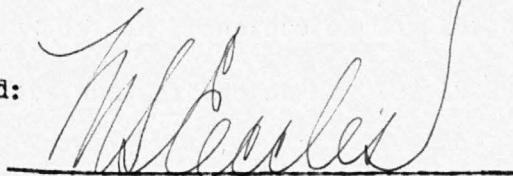
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.