A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 19, 1939, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
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. Paulger, Chief of the Division of Examinations
Mr. Sneed, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Vest, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Cagle, Assistant Chief of the Division of Examinations
Mr. Williams, Assistant Counsel
Mr. Baumann, Assistant Counsel

There were presented telegrams to Messrs. Kimball and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard and Hale, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on May 16, by the Federal Reserve Banks of New York and Chicago on May 18, 1939, and by the Federal Reserve
Banks of Philadelphia and Atlanta today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Before this meeting a revised draft of a letter to the Chairman of the Senate Committee on Banking and Currency in response to his routine request for an expression of opinion of the Board of Governors as to the merits of the Brown Bill (S. 2045), which would transfer to the Federal Deposit Insurance Corporation all Federal bank-examining functions, had been circulated among the members of the Board. In connection with this matter it was stated for the information of the members of the Board that reports on the bill had been submitted to the Senate Committee on Banking and Currency by the Secretary of the Treasury and the Comptroller of the Currency, that the Board had received no information with respect to the submission of a report by the Federal Deposit Insurance Corporation, and that as yet no hearings on the bill had been scheduled. Mr. Ransom stated that, in view of the Board's recommendation to Congress that, before major banking legislation is enacted, the whole field of money and banking be studied, it was his suggestion that the Board make no report on the bill at this time with the understanding that if at any time in the future it should appear to the Board to be desirable that a statement be submitted, a report in the form of the draft considered at this meeting would be sent.
Mr. Ransom's suggestion was approved unanimously.

There was then presented a revised draft of report, prepared in accordance with the action taken at the meeting of the Board on May 9, 1939, to the Chairman of the Senate Committee on Banking and Currency on S. 2035, a bill introduced by Senator Gillette to authorize the establishment of certain branch offices in communities which have no banking facilities. At Mr. Ransom's request the revised draft had been circulated among the members of the Board with the suggestion that if the report were approved by the Board it should be discussed with the Comptroller of the Currency before being sent to the Committee on Banking and Currency. The revised letter read as follows:

"This is in response to your letter of April 4, 1939, requesting the views of the Board of Governors of the Federal Reserve System with respect to the merits of the proposed legislation contained in S. 2035, 'A bill to authorize the establishment of certain branch offices in communities which have no banking facilities'.

"As indicated in the statement which the Board submitted to your Committee under date of April 8, 1939, the Board feels that it is desirable that a broad survey be made by Congress to determine what amendments should be made to the existing laws relating to monetary and banking policies and the machinery for putting these policies into effect and that piece-meal legislation in this field is a slow, cumbersome and unsatisfactory process. However, legislation along the general lines of that proposed in S. 2035 relates to a particular banking problem which can be dealt with separately without involving a consideration of the broad questions of policy raised in the Board's recent Annual Report.

"Such legislation could be enacted without making any departure from the fundamental policy underlying
"Existing Federal legislation on this subject, which permits national banks and State member banks of the Federal Reserve System to establish branches only to the extent permitted by the laws of the States in which they are located, thus leaving it to each State to decide for itself whether or not it desires to permit branch banking and, if so, to what extent.

"The provisions of section 5155 of the Revised Statutes, which apply to the establishment of branches by national banks and which section 9 of the Federal Reserve Act makes applicable to the establishment of out-of-town branches by State member banks of the Federal Reserve System, require national banks desiring to establish branches to have a certain minimum amount of capital which in many instances is in excess of that required by State laws and in excess of the actual needs of the banks, although the laws of many States permit State banks to establish and operate branches with much less capital. This results in unfair discrimination against national banks and State member banks of the Federal Reserve System and tends to drive banks out of the National Banking System and to prevent them from joining the Federal Reserve System.

"There are State banks which are prevented from joining the Federal Reserve System by the fact that they have branches lawfully established and in lawful operation under the laws of the States in which they are located and, under the provisions of section 9 of the Federal Reserve Act, they cannot become members of the Federal Reserve System without either relinquishing such branches or increasing their capital to an amount in excess of their actual needs. As pointed out in the recent Annual Report of the Comptroller of the Currency, a number of national banks have surrendered their national charters and reorganized as non-member State banks because they could lawfully establish branches under the State laws but could not do so under the existing provisions of the National Bank Act without increasing their capital to amounts in excess of their actual needs.

"This situation would be partially corrected by the enactment of S. 2035; but the Board believes that the existing discrimination between member banks of the Federal Reserve System and nonmember banks in this respect should be eliminated completely. This could be done by amending
"subsections (c) and (d) of section 5155 of the Revised Statutes so as to simplify their rather complex provisions, eliminate the minimum capital requirements thereof, and provide that national banks shall be permitted to establish and operate branches only to the extent permitted to State banks under the laws of the States in which they are located and only after obtaining the approval of the Comptroller of the Currency, which approval shall be granted only after a consideration of the adequacy of the bank’s capital and the other factors which the Federal Deposit Insurance Corporation is required to consider before permitting the establishment of branches by nonmember insured banks under the provisions of subsections (g) and (v) of section 12B of the Federal Reserve Act. If section 5155 of the Revised Statutes were amended in this manner, the same requirements would automatically become applicable to the establishment of out-of-town branches by State member banks of the Federal Reserve System; because section 9 of the Federal Reserve Act forbids the establishment of branches by State member banks except on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks, except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, must be obtained by a State member bank. A draft of such an amendment to section 5155 of the Revised Statutes is enclosed herewith for the consideration of your Committee."

Approved unanimously, with the understanding that Mr. Ransom would discuss the letter with the Comptroller of the Currency and that, if the latter had no views regarding this report which he wanted brought to the attention of the Board, it would be sent promptly to the Chairman of the Senate Committee on Banking and Currency.

It was also understood that after the letter was sent, Mr. Davis would call on Senator Gillette, who is not a member of the Senate Committee on Banking and Currency, and hand him a copy of the report for his confidential information.
Reference was made to a memorandum dated May 5, 1939, from Mr. Wingfield presenting a draft of regulation, with respect to purchases of securities or other property by any member bank from any of its directors or from any firm of which any of its directors is a member, which the Board is authorized to issue under the provisions of Section 22(d) of the Federal Reserve Act. The draft of regulation had been prepared by the legal division in accordance with the request made at the meeting of the Board on December 20, 1938. The memorandum, which had been circulated among the members of the Board, read in part as follows:

"It might be urged that if the Board does not have outstanding a regulation under section 22(d), and some case should develop where a member bank suffered a considerable loss as a result of purchases of property from its directors, the Board would be subject to censure for not having promulgated a regulation relating to disclosures of the facts involved in such transactions. On the other hand, the statute is permissive and does not require the issuance of such a regulation. It may also be noted that this statute was enacted in 1918, and apparently no case has yet developed which has indicated the need of the issuance of a regulation by the Board. These facts, together with the fact that banks are now subject to numerous regulations, were considered at a conference of the staff. In all the circumstances, it is the view of the staff that it is not desirable to issue a regulation under section 22(d) at this time; but the attached draft is submitted for consideration pursuant to the Board's request.

Attention is called to the fact that, in view of the position of the staff that no regulation is desirable at this time, the attached draft of regulation contains the minimum number of requirements which it would seem necessary to include in a regulation pursuant to the provisions of the statute, if the Board should decide to issue any regulation."
"If, upon further consideration of the matter, the Board should be in any way disposed to issue a regulation at this time, it is suggested that, before it does so, it obtain the views of the Federal Reserve banks as to the necessity or desirability of issuing such a regulation."

Since it appeared that there was no need for the adoption of the regulation at this time, the matter was laid on the table.

Mr. Draper referred to the consideration given by the Board at the meeting on May 9, 1939, to the question whether a report should be submitted to the Chairman of the Senate Committee on Banking and Currency on bill S. 2343, introduced by Senator Mead to provide for the insurance of loans to business. Mr. Draper reviewed discussions which he had had with respect to the bill and expressed the opinion that inasmuch as there is a feeling among some small business men that the Board is opposed to legislation which would improve the facilities for providing credit to small business and since the bill in its present form might be a means of preventing the enactment of objectionable legislation in this field, it might be advisable to make a report on the bill along the lines of a draft which had been prepared by the staff and copies of which were sent to the members of the Board yesterday afternoon. The draft of report was discussed and certain changes were suggested therein.

At the conclusion of the discussion, Mr. Draper was requested, in consultation with Messrs. Wyatt and Goldenweiser, to
revise the draft along the lines suggested during the discussion, and to submit the revised draft for consideration by the members of the Board, including the Chairman who will return to his office on Monday, May 22.

Prior to this meeting, at Mr. Ransom's request, there had been brought to the attention of the members of the Board a memorandum dated May 11, 1939, from Mr. Vest to which was attached a copy of Section 6 of the Treasury and Post Office Appropriation Act (approved May 6, 1939) which, beginning July 1, 1939, restricts the franking of mail by departments and establishments of the Government in certain respects and may affect the free distribution of the Federal Reserve Bulletin or other pamphlets or documents issued by the Board for which specific requests are not received by the Board. Mr. Davis suggested that, inasmuch as it is not entirely clear what the effect of the new law will be with respect to the distribution of the Bulletin, a letter be prepared for transmission to the Post Office Department which would set forth, in the light of the reasons underlying the new law, why it should be liberally interpreted in so far as it applies to the Federal Reserve Bulletin and other material issued by the Board.

Mr. Davis was requested to prepare, in consultation with Mr. Vest, such a letter for consideration by the Board.

Under date of May 2, 1939, Mr. Goldenweiser prepared a memorandum, which had been drawn to the attention of the members of the
Board and which suggested that consideration be given by the Board to the desirability of reducing the maximum rates of interest prescribed by the Board's Regulation Q which may be paid by member banks on time and savings deposits. The memorandum suggested, for reasons stated therein, that the Board consider a schedule of rates which would make two important changes in the rates now prescribed in Regulation Q: (1) the interest rate permitted to be paid on time deposits payable in less than 90 days would be reduced to 1/2 of 1% and (2) member banks would be authorized to pay higher rates on time deposits with definite maturities of a year or more than on other time and savings deposits. The memorandum also pointed out how the regulation could be amended to encourage the establishment of longer term deposits; stated that if action were taken by the Board it would be necessary for the Federal Deposit Insurance Corporation to establish the same rates and adopt substantially similar regulations; and discussed the general questions to be considered in reducing the rates at this time, the relation of the revised rates to the interest rate level, the effect of the changed rates on bank earnings and the banks' competitive position, and the relation of the new rates to postal savings deposits.

During the discussion that ensued Mr. Davis suggested that before any action is taken by the Board with respect to this matter, the Board and the Federal Deposit Insurance Corporation should arrange to hold hearings at which member banks and other interested parties would be afforded an opportunity to express their opinion regarding a change in the
existing rates. The suggestion was also made that before such hearings could be held it would be necessary for the Board (1) to confer with the Federal Deposit Insurance Corporation for the purpose of determining whether the Corporation would be willing to reduce the maximum rates prescribed by it for nonmember insured banks, and (2) possibly to confer with the Post Office Department with respect to the effect of a reduction of the maximum rates of interest on the operations of the postal savings system.

At the conclusion of the discussion, Mr. McKee was requested to discuss the matter with the Chairman of the Federal Deposit Insurance Corporation, and, if necessary, with the postal savings authorities, and submit a report to the Board.

There was also presented a memorandum dated May 5, 1939, from Mr. Baumann transmitting a letter dated April 4, 1939, from President Day of the Federal Reserve Bank of San Francisco, reporting information developed by the bank with respect to the action taken by Transamerica Corporation to divorce Bankamerica Company and Bancamerica-Blair Corporation, securities companies, in compliance with the requirements of Section 5144 of the Revised Statutes and the agreement executed by Transamerica Corporation pursuant thereto. The memorandum stated that while no ruling by the Board had been requested, and, upon the basis of the information contained in the Board's files, it was Mr. Baumann's opinion that there is no such evidence of a violation of the pertinent
requirements of the statute as would warrant action by the Board at this time, although the financial and other relationships of the Pacific Coast Mortgage Company (which purchased from Transamerica Corporation the stock which it held in Bancamerica-Blair Corporation and from the Western States Corporation the stock which it held of Bankamerica Company) and its stockholders and management with Transamerica Corporation and organizations controlled or dominated by it are such that the matter should be followed closely. The memorandum also stated that in the circumstances it was recommended that the letter from Mr. Day be filed without action.

Mr. Baumann's recommendation was approved unanimously.

At this point Messrs. Thurston, Wyatt, Paulger, Smead, Goldenweiser, Vest, Wingfield, Leonard, Cagle, Williams and Baumann 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 May 10, 1939, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on May 11, 12, 15 and 16, 1939, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated May 15, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, referring to the action
taken by the Board on May 11, 1939, appointing Mr. Haskell P. Wald on a permanent basis as an economic assistant in the Division subject to his passing satisfactorily the usual physical examination and stating that it had been reported by Dr. Barr, the Board's examining physician, that Mr. Wald had a somewhat high and irregular pulse which would probably cause an insurance company to add about 10% to his premium on an ordinary life insurance basis. The memorandum referred to previous action by the Board approving the appointment of applicants whose premiums on an ordinary life insurance basis would have been raised and recommended that, inasmuch as there was no reason to believe that Mr. Wald's usefulness to the Board would be impaired nor that the condition of his health would constitute an unusual hazard for the insurance fund, he be accepted as a member of the Board's staff.

Approved unanimously.

Memorandum dated May 15, 1939, from Mr. Bethea, Assistant Secretary, recommending that, for the reasons stated in the memorandum, the salary of George R. Kay, junior operator, office devices, be increased from the rate of $1,500 to $1,620 per annum, effective as of June 1, 1939.

Approved unanimously.

Memorandum dated May 18, 1939, from Mr. Bethea, Assistant Secretary, recommending that, for the reasons stated in the memorandum,
Robert C. Petrey be appointed on a temporary basis for a period of not to exceed four months as a page in the Office of the Secretary, with salary at the rate of $90.00 per month, effective as of the date upon which he enters upon the performance of his duties.

Approved unanimously.

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

"Referring to your letter of May 11, 1939, the Board of Governors approves the payment of a salary at the rate of $6,500 per annum, for the period from June 1 to December 31, 1939, to Mr. Allan M. Black, Manager, Planning Department."

Approved unanimously.

Telegram dated May 17, 1939, to Mr. Merritt, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"Board approves payment of salary at rate of $5,000 per annum, for period May 11 to December 31, 1939, to W. H. Holloway, General Auditor."

Approved unanimously.

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

"In accordance with the recommendation in your letter of May 11 on the subject, the Board extends to July 1, 1940, the time within which 'The Summit Trust Company', Summit, New Jersey, may dispose of its holdings of the stock of the Summit Title and Mortgage Guaranty Company, as required by a condition of membership, numbered 18,
"applicable to the member bank. The Board also extends to July 1, 1940, the permission previously granted to act as trustee in connection with the participation bonds or other obligations of the mortgage company which were outstanding at the time of the bank's admission to membership, notwithstanding the general provisions of condition of membership numbered 19.

These extensions are granted upon the understanding that the orderly liquidation of the mortgage company which has been in process is to be continued.

Approved unanimously.

Letter to "The First National Bank of Columbia", Columbia, Kentucky, reading as follows:

"This refers to the resolution adopted on December 27, 1937, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.
Letter to Mr. Bryan, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"This will acknowledge receipt of your letter of May 15 with which you enclosed reports on Form 464, requested in the Board's letter R-439 of April 3, 1939.

"We wish to thank you for the copies of your correspondence with Mr. K. W. Berry, President of the Whitney National Bank of New Orleans. You have correctly stated the purposes of the Board's inquiry in your letter to Mr. Berry. As you know, there has been practically no information on this subject available, and while it was our impression that the banks were making a considerable volume of loans with maturities in excess of one year, we had no statistical information to support such impression. The reports received so far indicate that the banks have been making term loans to a much greater extent than most of us, at least, imagined, and I am sure that when the reports are in and tabulated they will give us some very valuable information.

"In nine of the ten other districts for which reports have been received, all of the weekly reporting member banks submitted reports. In one district seven reports are still outstanding. The seven banks, however, are all relatively small and so far as we know have not objected in any way to furnishing the report. We gave a great deal of consideration to the preparation of Form 464 and discussed it with several people before sending it out. At one time we had a question in it relating to loans of the type Mr. Berry has in mind, i.e., loans which on their face mature in less than one year but which, it is well understood between the bank and the customer, will run for several years. There is, no doubt, a large volume of such paper in the portfolio of the banks. As you point out, however, it would be very difficult to get reasonably accurate figures on the amount of such paper held by the banks. After fully considering the point we decided not to attempt to secure such information at this time. I assure you, however, that we shall keep constantly before us the fact that the figures obtained in response to our inquiry do not by any means represent the total of long term paper held by weekly reporting member banks.

"It is believed that this study will prove to be well worthwhile and it is hoped that you will be able to
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"prevail upon Mr. Berry to submit the report when you see him. The Board will not, however, in this instance insist upon the submission of the report."

Approved unanimously.

Letter dated May 17, 1939, to Mr. Frank W. Simmonds, Senior Deputy Manager, The American Bankers Association, New York, New York, reading as follows:

"This refers to your letter of May 11 requesting earnings and expense figures of State bank members of the Federal Reserve System for the calendar year 1938, by States and by size of banks, corresponding to the data heretofore made available to your Association covering the calendar years 1935-1937.

The Board will be glad to make the desired data for the year 1938 available to your representative under the same conditions as the corresponding data for the year 1937 were made available last year. As heretofore, the desired data have been recapitulated on the Board’s form F.R. 107. It is suggested that your representative arrange direct with Mr. E. L. Smead, Chief of the Division of Bank Operations, for copying the desired figures from the recapitulation sheets."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Vice Chairman.