

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 6, 1939, at 11:30 a.m.

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

Mr. Morrill, Secretary
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 meeting of the Board of Governors of the Federal Reserve System held on July 5, 1939, were approved unanimously.

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

"This refers to your letters of May 17, and May 20, 1939, and their enclosures, relating to an inquiry from Mr. R. D. McCook, President, American National Bank, San Bernardino, California, with respect to whether section 11(k) of the Federal Reserve Act and section 9(b) of the Board's Regulation F require that security be deposited to cover escrow funds which his bank's trust department deposits with its banking department.

"It is recognized that, as a matter of economy or convenience, national banks sometimes handle in their trust departments certain transactions which such banks could legally handle, in another department, without having been granted authority to exercise fiduciary powers under the provisions of section 11(k) of the Federal Reserve Act, and that in certain circumstances this may be true of so-called escrow accounts. Accordingly, it is possible that funds involved are not trust funds and, therefore, are not required to be secured when they are deposited in the banking department. However, as you know, it is the Board's view that funds of any account

7/6/39

-2-

"handled in the trust department of a national bank should be regarded as trust funds and, therefore, should be secured if they are deposited in the banking department awaiting investment or distribution, unless the facts and circumstances indicating the character of the particular transaction and the intention of the parties thereto are such as to clearly establish that the funds are not held by the bank in a fiduciary capacity within the meaning of the pertinent statutory and regulatory provisions. It is the Board's view that, in the absence of special circumstances, escrow accounts involving funds not held in a fiduciary capacity should be handled in some department of the bank other than the trust department in order to eliminate any possible misunderstanding.

"The report of examination of the trust department of American National Bank as of August 9, 1938, indicates that this matter was the subject of discussion between the examiner and Mr. McCook and other members of the bank's board of directors. It is evident that the examiner did not feel that the facts and circumstances known to him rebutted the presumption that the funds were such as should be secured and Mr. McCook has not submitted information with respect to specific transactions which would warrant the expression of a contrary opinion by the Board. In the circumstances, it is suggested that Mr. McCook may wish to discuss this matter further with the examiner at the time of the next examination and, if the examiner then has any question with respect to the status of funds of particular accounts, he can furnish all the pertinent information to the Comptroller of the Currency for his consideration and for submission to the Board if action by it appears desirable."

Approved unanimously.

Letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, prepared for the signature of Chairman Eccles, and reading as follows:

"We appreciate the recording and preparation of the earnings data as outlined in your letter of June 24. There is no objection to the publication of the table 'Number and Percentage Distribution of Insured Commercial Banks

7/6/39

-3-

"According to Rate of Net Earnings, and Rate of Net Profits, on Total Capital Accounts, 1938' attached to your letter in the forthcoming annual report of the Federal Deposit Insurance Corporation."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. S. Cooley
Chairman.