

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 7, 1939, at 11:00 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Davis, Vice President of the Federal Reserve Bank of Philadelphia, Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Powell, Secretaries of the Federal Reserve Banks of Chicago and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. West, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, Dallas and San Francisco on July 6, 1939, and by the Federal Reserve Banks of Boston and Philadelphia today,

7/7/39

-2-

of the rates of discount and purchase in their existing schedules.

Approved unanimously.

In connection with the above matter reference was made to the fact that the discount rates now in effect at the Federal Reserve banks seem to be out of line with current money market rates for short-term funds and it was suggested that, while member banks were not borrowing substantial amounts from the Federal Reserve banks, it might be desirable to give special consideration to the question whether any of the existing rates, including the rates on 10(b) loans, should be reduced.

This suggestion was discussed and Mr. Goldenweiser was requested to study the matter and submit a report to the Board which would discuss particularly the questions (1) whether or not there should be a differential between the rates in effect at the Federal Reserve Bank of New York and at other Federal Reserve banks, (2) whether there should be a reduction of the prevailing level of discount rates, and (3) whether the System would be in a more or in a less advantageous position in the future, if it becomes necessary to increase discount rates, if the rates in effect at the Federal Reserve banks had been reduced to a lower level than that which now exists.

Further reference was made to the letter received under date of June 23, 1939, from President Schaller of the Federal Reserve Bank of Chicago, in regard to the action of the directors of the Chicago bank in voting to establish, when and if the Board of Governors may

7/7/39

-3-

request a review of rates due to disturbance in our markets resulting from political developments abroad, a rate of 4% on advances to individuals, partnerships and corporations, including nonmember banks, on the security of direct obligations of the United States, with a margin of not to exceed 10% of the par value of such obligations offered as collateral. Mr. Szymczak said that when he was in Chicago last week this matter had come up during a conversation which he had had with President Schaller and that President Schaller had stated that he would appreciate receiving a reply to his letter in order that he might be prepared to present the matter for further consideration at the next meeting of the board of directors of the Federal Reserve Bank of Chicago if that should be the Board's desire.

Mr. Szymczak moved that the Secretary be requested to prepare, for consideration by the Board, a draft of reply to Mr. Schaller's letter stating that the Board would appreciate it if the matter could be given further consideration at the next meeting of the board of directors.

Carried unanimously.

During the discussion of the above matter Mr. Wingfield, Assistant General Counsel, joined the meeting.

There was then presented a draft of letter to Senator Wagner, Chairman of the Committee on Banking and Currency of the Senate, replying to his letter of June 19, 1939, requesting the opinion of the Board as to the merits of Senate bill 2098, "To amend the Federal Home

7/7/39

-4-

"Loan Bank Act, Home Owners' Loan Act of 1933, Title 4 of the National Housing Act, and for other purposes". The draft of reply had been circulated among the members of the Board.

Mr. McKee stated that, while he was in agreement with the substance of the report, he questioned whether it should be filed in the absence of any indication that the bill in question would be given active consideration by the Senate Committee on Banking and Currency.

During the ensuing discussion Chairman Eccles stated that, in view of the fact that extensive hearings had been held on the companion bill in the House of Representatives and that the Senate bill might be taken up and disposed of without hearings before the Senate Committee and without an opportunity for the Board to make its position known, he would like to discuss with Senator Wagner the possibility of the bill being considered by his committee at this session of Congress and that, in the event there was any likelihood that active consideration would be given to the bill, he would prefer to file the proposed report with the Senate Committee.

It was agreed unanimously that Chairman Eccles should discuss the matter with Senator Wagner and, if it appeared that consideration was to be given to the bill by the committee at this session of Congress, the proposed report would be dispatched by the Secretary.

Mr. Cagle, Assistant Chief of the Division of Examinations, entered the meeting at this point.

7/7/39

-5-

Mr. Morrill read a telegram addressed by L. M. Giannini, President of Bank of America National Trust and Savings Association, to Chairman Eccles under date of June 30, 1939, in regard to the resumption on July 10, 1939, of the public hearings relating to the affairs of Transamerica Corporation and the Bank of America National Trust and Savings Association which were begun by the Securities and Exchange Commission in Washington in January of this year and suspended on March 28, 1939. Mr. Morrill also read a draft of reply to the telegram. Mr. Clayton stated that he had been advised by the office of the Comptroller of the Currency that that office had received a similar telegram but had not reached a decision as to the nature of the reply to be made.

Mr. McKee stated that it would be his suggestion that the Secretary be requested to advise Mr. Giannini that the telegram had been received and had been brought to the attention of the members of the Board. Chairman Eccles suggested the possibility that since the telegram had been addressed to him he might reply to it as a personal matter and that he would like to consider the advisability of handling it in that manner.

It was agreed unanimously that, in the event it was felt by Chairman Eccles that the matter should be handled as a request addressed to the Board of Governors, the Secretary would address a letter to Mr. Giannini advising that the telegram had been received and had been drawn to the attention of the members of the Board.

7/7/39

-6-

Mr. McKee referred to the news item appearing in the American Banker of July 1, 1939, with respect to the resumption at San Francisco of the hearings conducted by the Securities and Exchange Commission relating to the affairs of Transamerica Corporation and raised for decision by the Board the question whether arrangements should be made to have a representative of the Federal Reserve System attend the hearings. He said in this connection that Messrs. Wingfield and Cagle had attended the hearings held in Washington and that it was felt desirable that the Board and its staff be kept advised of further developments in order that the Board might be familiar with the situation and be prepared to take any action that might be called for in the circumstances. Messrs. Wingfield and Cagle expressed the opinion that a representative should be present at the hearings. All of the members of the Board present were in agreement with this opinion and Mr. McKee inquired whether the Board desired to have an officer or employee of the Federal Reserve Bank of San Francisco cover the hearings, or whether a member of the Board's staff should go to San Francisco for the purpose.

Upon motion by Mr. Szymczak, it was agreed unanimously that Mr. McKee should discuss the matter with President Day of the Federal Reserve Bank of San Francisco over the telephone and, in consultation with Messrs. Wingfield and Cagle, determine who should represent the System at the hearings and the nature of the reports that should be made by the representative.

7/7/39

-7-

There was also presented a draft of reply to a letter dated June 20, 1939, from Senator Wagner, Chairman of the Committee on Banking and Currency of the Senate, requesting an opinion of the Board of Governors as to the merits of Senate bill 2606, "A bill amending the Federal Reserve Act; declaring a monetary policy; establishing and instructing a monetary agency, and for other purposes". The report had been circulated among the members of the Board and Mr. McKee had raised a question as to whether the report should be sent.

It was agreed unanimously that inasmuch as there appeared to be little likelihood that the bill would receive active consideration at the present session of Congress the report should not be sent.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Dreibelbis, Wingfield and Cagle 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 July 6, 1939, were approved unanimously.

Memorandum dated June 29, 1939, from the Staff Personnel Committee to the Personnel Committee of the Board, reading as follows:

"The Staff Personnel Committee has given consideration to the recommendations contained in Mr. Goldenweiser's memorandum of June 13, 1939, attached, and recommends:

- (1) That George Doherty, Junior Economist in the Division of Research and Statistics, be granted leave without pay for the

7/7/39

-8-

- "purpose of attending the Littauer School of Harvard University as a fellow during the period from October 16, 1939, to a date not later than June 1, 1940;
- (2) That during the period of Mr. Doherty's leave of absence the Board continue to make contributions on his behalf to the Retirement System with the understanding that he will continue to make his own contributions; and
 - (3) That the foregoing recommendations be approved with the understanding that, subject to the approval of the Board in each case, similar treatment will be accorded other employees of the Board, not to exceed one each year, who may be granted fellowships to the Littauer School of Harvard University in the future.

"In reaching a decision on this matter the Staff Committee felt that it should not recommend the approval of Mr. Goldenweiser's recommendations with respect to Mr. Doherty unless the Board were willing to adopt a policy under which other employees of the Board could be expected to receive similar treatment. The Committee was impelled to submit a favorable recommendation on the broader question because it felt that it is in the public interest for the Board to cooperate with the Littauer School of Harvard University and that in general the studies pursued by employees of the Board as fellows would increase the value of their services to the Board. It was also influenced by the fact that the acceptance of such fellowships involves a substantial financial sacrifice on the part of the employees, that a refusal by the Board to continue its contributions to the Retirement System would entail a further personal sacrifice on their part or the loss of their insurance and retirement benefits during the period of absence, that as a practical matter contributions made by the Board would not inure to the benefit of the employee but would be transferred to the general fund of the Retirement System in the event the employee failed to return to the Board's organization, and that all employees who are permitted to accept a fellowship on the foregoing basis will give assurances that they firmly intend to return to the employ of the Board at the close of the period for which leave without

7/7/39

-9-

"pay is granted."

The recommendations of the Staff Personnel Committee, having been approved by the Board's Personnel Committee, were approved unanimously.

Memorandum dated June 29, 1939, from the Staff Personnel Committee to the Personnel Committee of the Board, with respect to the proposed retirement of Miss Mary Sibley Evans, a junior economist in the Division of Research and Statistics, reading as follows:

"The Staff Personnel Committee has given consideration to the recommendations contained in Mr. Goldenweiser's memorandum to the Board of June 6, 1939, attached, and recommends:

- (1) That the Board supplement Miss Evans' retirement allowance by making a special contribution of \$1500 (representing her salary at the present rate for six months) to her retirement reserve; and
- (2) That, in order that Miss Evans may be carried on the Board's payroll until September 1, 1939, (on which date she will be retired automatically), she be granted the full twenty-six days annual leave for the year 1939, plus such accumulated annual and sick leave and accrued sick leave as she has to her credit, together with two days and five hours additional sick leave.

"Miss Evans has been absent on sick leave since May 18 and the Division of Research and Statistics has been advised by her physician that she will not be able to return to work prior to the date of her retirement. The Staff Committee recognizes that the action proposed in this case involves the broad question of policy whether the Board should regularly grant supplementary retirement allowances to its employees. However, the Committee concluded that the treatment proposed to be accorded Miss

7/7/39

-10-

"Evans is not out of line with that accorded other employees of the Board who have retired heretofore under similar circumstances.

"The Committee was influenced by the fact that under existing authority the Federal Reserve banks are in a position to supplement the retirement allowances of their employees in special cases and the further fact that the Retirement System was originally set up on a basis whereby the allowances to be paid thereunder contemplated a period of thirty or more years of service. Since the Federal Reserve System has been in existence slightly more than twenty-five years, employees who are retired at this time do not ordinarily receive adequate allowances. On the other hand, the Committee was impressed with the necessity for having some cut-off date or tapering-off process whereby such allowances would be reduced and ultimately discontinued. It felt, however, that this was a subject which would require further study and it has appointed a subcommittee consisting of Mr. Sneed, Chairman, and Messrs. Vest and Bethea to explore the broader questions involved, with a view to formulating and submitting to the full Committee a recommendation as to the policy which should be followed in dealing with future cases both in the Board's organization and at the Federal Reserve banks."

The recommendations of the Staff Personnel Committee, having been approved by the Board's Personnel Committee, were approved unanimously, with the understanding that the report of the subcommittee referred to in the memorandum would be submitted in time for consideration at a conference of Presidents of the Federal Reserve banks prior to January 1, 1940.

Letter to Mr. Leedy, Vice President and General Counsel of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of March 1, 1939, and its enclosures, requesting a ruling with respect to the question whether Union National Bank in Kansas City, Kansas City, Missouri, is violating the provisions of Regulation F relating to the collective investment of trust funds by acting as trustee under a trust indenture

7/7/39

-11-

"executed by such bank and American Trust Funds, Inc., on July 29, 1937, providing for the issuance of American Trust Funds Certificates.

"On the basis of the information submitted, the Board is of the opinion that, in acting as trustee under such trust indenture, Union National Bank in Kansas City is not investing trust funds collectively within the meaning of Regulation F and, accordingly, is not violating the provisions of the regulation relating to such investments. This opinion is based upon the view that the issuance of American Trust Funds Certificates does not result in the creation by the investors of separate trusts, the funds of which are to be invested collectively, but that, instead, the investors become parties to a single trust in which they purchase beneficial interests.

"It should be pointed out, however, that the Board's ruling with respect to the provisions of its Regulation F is not intended to constitute approval of the handling of this account by the bank or to contain any expression of opinion as to its desirability. It is understood that the Comptroller of the Currency will give consideration to this matter in connection with the review of the report of examination of the Union National Bank as of April 18, 1939."

Approved unanimously.

Letter to Mr. Coffey, Deputy Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Minneapolis, made as of May 26, 1939, by the Board's examiners, a copy of the report of examination was left for your information and the information of the other directors and a copy was also furnished President Peyton. After the report of examination has received the consideration of the board of directors of the Federal Reserve Bank, the Board will appreciate advice as to any action taken or to be taken with respect thereto as well as with respect to any other significant matters which may have been discussed by the examiners with the management during the course of examination."

Approved unanimously.

7/7/39

-12-

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

W. S. [unclear]
Chairman.