

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 27, 1939, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Davis

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 hereinafter referred to was taken by the Board:

Letter dated July 24, 1939, to the board of directors of the "Anna State Bank", Anna, Illinois, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special 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:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

Approved unanimously for transmission through the Federal Reserve Bank of St. Louis.

Letter dated July 24, 1939, to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"Enclosed is a copy of a letter, dated July 19, 1939, from Mr. N. C. Lenfestey, Cashier of The National City Bank of New York, stating that the bank is giving consideration to the advisability of opening a branch in Barranquilla, Colombia, and inquiring whether it may do so

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"under the permission granted by the Board on July 30, 1928, or whether it will be necessary to file a formal application.

"It will be appreciated if you will communicate with The National City Bank and suggest that, in view of the lapse of time since the original permission was granted, it will be advisable to file with your bank a formal application for permission to establish a branch at Barranquilla, Colombia. Upon the receipt of such application, the usual procedure will be followed."

Approved unanimously.

Letter dated July 24, 1939, to Mr. Rounds, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of June 28, 1939, regarding section 5(c) of Regulation T, which provides that:

'A creditor may borrow from another creditor in the ordinary course of business as a broker or dealer on any registered security to the extent and subject to the terms upon which the latter may extend credit to him in accordance with the provisions of this regulation, and subject to any other applicable provisions of law.'

"The term 'creditor' as used in section 5(c) is defined in section 2(b) of the regulation as follows:

'The term "creditor" means any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member.'

"Your letter raised the question whether section 5(c) authorizes a 'creditor', as defined in section 2(b), to borrow in this country in the ordinary course of business as a broker or dealer on registered nonexempted securities from a foreign broker. The foreign broker maintains no place of business in the United States, but 'transacts a business in securities through the medium of a member of a national securities exchange' and hence appears to fall within the definition of the term 'creditor'.

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"It is the view of the Board that section 5(c) in its present form grants permission for the domestic broker thus to borrow from the foreign broker who 'transacts a business in securities through the medium of a member', but that it grants the permission only on condition that the loan so obtained by the domestic broker meets the requirements of section 5(c) that it be 'in accordance with the provisions of this regulation'.

"This means that in obtaining the loan the domestic broker must not be receiving more credit on given securities than he could get on those securities, in the case of a loan of the same description, from a domestic 'broker or dealer who transacts a business in securities through the medium of a member', and must not otherwise be obtaining any benefits that such a domestic broker or dealer could not lawfully grant under the regulation. One result of this requirement is that the loan may not be obtained on the basis of the special loan value prescribed for the special omnibus account, because section 4(b) of the regulation limits such loans to cases in which the lender is a member of a national securities exchange. It is, of course, unnecessary for present purposes to determine whether, or to what extent, the foreign broker would be required to comply with Regulation T, since the domestic broker is not granted permission to borrow unless the loan complies with the requirements of Regulation T to the same extent as if the lender were a domestic 'creditor'."

Approved unanimously.

Letter dated July 24, 1939, to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of July 13, 1939, with enclosures, advising that the board of directors of the Federal Reserve Bank of Minneapolis, on July 11, 1939, took action amending the by-laws of your bank and also, subject to the approval of the Board of Governors, the by-laws of the Helena Branch.

"It is noted that the by-laws of the Federal Reserve Bank of Minneapolis have been amended so as to eliminate the provisions in Article I, Section 4, and in Article IV, Section 7, for the annual determination of salaries of

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"directors, officers, and counsel; to add a new subsection to Article III, Section 2, authorizing the discount committee to issue instructions to the officers of the bank for the custody of all moneys, investments, and securities owned by, or in the possession of, the bank; and to revise the provisions of Article IV, Section 6, regarding the duties of the cashier and assistant cashiers.

"It is understood that the only amendments made to the by-laws of the Helena Branch are to change the word 'custody' to 'supervision' in Sections 2 and 4 of Article V so that the managing director and cashier will be required to have joint supervision, rather than joint custody, of all moneys, investments, and collaterals held by the Branch. You are advised that the Board of Governors approves these amendments to the by-laws of the Helena Branch."

Approved unanimously.

Letter dated July 24, 1939, to the Presidents of all Federal Reserve banks, reading as follows:

"It has come to the attention of the Board of Governors recently that some of the Federal Reserve banks, in the shipment of Government securities by express, are declaring such securities in certain instances at their nominal value and that, as a result, such Federal Reserve banks may be failing to comply with tariff regulations of the Interstate Commerce Commission with respect to express shipments. For your information in this connection, there is enclosed a copy of a memorandum with respect to this matter which has been prepared in the Legal Division of the Board."

Approved unanimously.

Letter dated July 25, 1939, to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"You will recall that when the application of the bank now known as the Wyoming County Bank and Trust Company, Warsaw, New York, for membership in the System was under consideration towards the end of 1936, it was regarded as a borderline case, principally because of the character

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"of control and management of the banks to be merged. You will recall also that in advising the Reserve Bank of approval of the application the Board expressed the opinion that the affairs of the bank should be closely followed and that it was expected the Reserve Bank would do so.

"As you know, the Board's approval of the application was based largely upon the fact that the largest bank in the group to be merged was a national bank and thus a member of the System; that the proposed plan of merger was essentially a simplification of an existing situation; and that the consolidation of the two national banks, one State nonmember bank, and one private bank, all controlled by the same interests, into one bank which would be a member of the System could be expected to contribute to the working out of an unsatisfactory situation.

"The anticipated progress and improvement has not materialized and the report of examination of the bank as of March 1, 1939, reflects not only a disappointing but a disturbing situation, responsibility for which appears to rest solely on the management. The distressed financial condition of President Humphrey, his involved interests, the circumstances under which the preferred stock of Financial Institutions, Inc., which owns most of the bank's common stock, was sold, and the record of accomplishments of Mr. Humphrey as president of the bank since admission to membership all raise a question of whether the situation can be worked out under his management.

"It would seem that this might be a type of case where appropriate supervisory action should be able to bring about correction of an unsatisfactory situation before it reaches a critical stage requiring more drastic action. It will be appreciated, therefore, if you will review the situation carefully, having in mind the circumstances under which the bank was admitted to membership, and advise the Board as to any plans or program you may have for bringing about an improvement in the condition of the bank and the character of its management."

Approved unanimously.

Letter dated July 25, 1939, to Mr. John G. Nichols, Chief of the Division of Examination of the Federal Deposit Insurance Corporation, reading as follows:

"This is in reply to your letter of July 18, 1939,

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"requesting written consent for examiners for your Corporation to examine the Central Home Trust Company, Elizabeth, New Jersey, for the purpose of ascertaining the extent to which the bank has made corrections of the unsafe and unsound practices cited in your Corporation's letter of March 16, 1939 to the Board of Governors.

"The Board of Governors of the Federal Reserve System hereby grants written consent, in accordance with the provisions of subsection (k)(2) of section 12B of the Federal Reserve Act, for examiners for the Federal Deposit Insurance Corporation to examine the Central Home Trust Company, Elizabeth, New Jersey, jointly with examiners for the Federal Reserve Bank of New York for the purpose of ascertaining the extent to which the trust company has made corrections of the unsafe and unsound practices cited in the Corporation's letter of March 16, 1939, to the Board of Governors and for the purpose of developing information for use in appraising the situation and determining what might best be done with respect thereto."

Approved unanimously, together with the following letter dated July 25, 1939, to Mr. Gidney, Vice President of the Federal Reserve Bank of New York:

"Enclosed is a copy of a letter sent today to Mr. John G. Nichols, Chief, Division of Examination, Federal Deposit Insurance Corporation, in reply to the request of the Corporation for permission to make an examination of the Central Home Trust Company, Elizabeth, New Jersey. It will be appreciated if you will keep the Board advised as to the developments in the situation."

Letter dated July 25, 1939, to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of July 14, 1939, and enclosure, with regard to the applicability of section 22(g) of the Federal Reserve Act and the Board's Regulation O to Mr. R. L. Beare, Vice President of the Second National Bank, Jackson, Tennessee.

"It is noted that the board of directors of the bank proposes to adopt a resolution giving Mr. Beare

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"authority to sign deeds, checks, drafts, and other documents in the absence of the president, but expressly denying him the authority to make loans or to perform any of the other duties of an executive officer having control of matters of policy or direction of the activities of the bank. In the circumstances, the Board concurs in your opinion that the duties to be performed by Mr. Beare require a participation 'in the operating management of the bank' and, therefore, he would be an executive officer of the bank within the meaning of the Board's Regulation O."

Approved unanimously.

Letter dated July 25, 1939, to Miss Counts, Manager of the Beauty Shop, reading as follows:

"In accordance with the terms of the contract dated April 21, 1939 between the Board of Governors and you, it was agreed that a review would be made at the end of the first 90 days of operations. It is my understanding that this review of operations has been made by you and Messrs. Skees and Spurney. This study has revealed that the Board should receive a slightly higher concession fee and I understand that it is agreeable to you to pay the Board eight (8) per cent of the total gross receipts, consisting of receipts from services, operation of permanent wave machine, and sales of merchandise, instead of the ten (10) per cent which you now pay on the receipts for services only. The payment of the new eight per cent fee is to commence with the week ending Friday, July 28, 1939. A review of operations will again be made on October 21, 1939 (which is another 90-day period) to determine whether this new fee is equitable, and if it is not, to make any adjustments that may be satisfactory to you and to the Board in the amount of the fee for future operations or in the method of computing it.

"In addition to the equipment mentioned in the contract of April 21, 1939 as being furnished by you, this will confirm the fact that you have also furnished and installed one display case and one electric hair dryer, both of which are your property.

"It is proposed that this letter become a part of

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"and supplement to the original contract of April 21, 1939, leaving the terms of the original contract that are not affected by the provisions contained herein to remain as stated.

"Kindly advise in writing if the terms of the changes in the contract of April 21, 1939 which are embodied in this letter are acceptable to you."

Approved unanimously.

Telegram dated July 26, 1939, to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"In accordance with your recommendation, Board extends until August 16, 1939, the time within which 'Farmers State Bank of Madelia, Incorporated', Madelia, Minnesota, may complete membership in the System."

Approved unanimously.

Letter dated July 26, 1939, to the Presidents of all Federal Reserve banks, reading as follows:

"There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding 'Whether Regulation T Permits Domestic Broker to Borrow from Foreign Broker'.

"It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement."

The ruling referred to in this letter is the one contained in the letter dated July 24, 1939, to Mr. Rounds, Vice President of the Federal Reserve Bank of New York, which is set forth at an earlier point in these minutes.

Approved unanimously.

Letter dated July 26, 1939, to Senator Morris Sheppard, reading

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as follows:

"This refers to your letter of July 12, in which you quote from a letter you received from a bond salesman with respect to the practice recently undertaken by the Federal Reserve Bank of Cleveland of handling orders for the purchase and sale of securities for member banks.

"From information heretofore brought to the attention of the Board, it would appear that the nature of this service has been rather generally misunderstood by securities dealers in the Cleveland Federal Reserve District. The service has been performed by a number of Federal Reserve banks for many years and it is believed is handled in such a way as not to interfere with the business of dealers in securities.

"For a number of years the Federal Reserve Bank of Cleveland has been placing orders for the purchase or sale of bearer form securities of the United States Government and its agencies for the account of member banks. Under date of May 10 it advised member banks in its district that, effective that date, its service would be extended to include orders for the purchase of other securities (except stocks in bearer form).

"We are informed that since the issuance of its letter of May 10 the Federal Reserve Bank of Cleveland has handled only one transaction of this character, and that was the sale of securities for the account of one of its member banks which it had held in safekeeping for the member bank for a number of years. You can readily appreciate that member banks at times find it a real convenience to be in a position to instruct their Federal Reserve bank to dispose of securities which the member bank has in safekeeping at the Federal Reserve bank.

"It is understood that the objections of those attending the mass meeting in Pittsburgh, referred to in the attachments enclosed with your letter, were largely, if not entirely met, when they were advised that the member banks would be asked to designate the broker or dealer through whom they wished their orders executed and that the additional service did not include new issues of securities.

"If information should come to your attention indicating that the service rendered by the Federal Reserve Bank of Cleveland does actually constitute an unwarranted interfering with the business of security dealers in the

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"Cleveland District, I hope you will let me know, as the service in question is intended solely as an accommodation to member banks."

Approved unanimously.

Letter to Mrs. Victrin Pattillo, Stenographer in the office of Governor Szymczak, reading as follows:

"This is to advise you that the Board of Governors of the Federal Reserve System accepts, with regret, your resignation effective as of the close of business July 31, 1939.

"It is understood that you are taking this action in order to accept a position with the Federal Reserve Bank of New York effective on August 1, 1939, and that Bank will be advised of the Board's acceptance of your resignation for the purpose of preserving your status in the retirement system."

Approved unanimously, together with a letter to the Federal Reserve Bank of New York, reading as follows:

"For the purposes of the records of your Bank and with the view to the preservation of the status of Mrs. Victrin Pattillo as a member of the Federal Reserve Retirement System, you are advised that the Board of Governors has accepted the resignation submitted by Mrs. Pattillo as an employee of the Board of Governors effective as of the close of business July 31, 1939, in order that she may accept an appointment to a position in your Bank which it is understood is to become effective on August 1, 1939."

Memorandum dated July 27, 1939, from Mr. Spurney, Building Manager, recommending (1) that Mrs. Ethel M. Sunderman be promoted from relief charwoman to charwoman, with no change in her present salary at the rate of 50¢ per hour, effective as of August 1, 1939; and (2)

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that Mrs. Adelia Gertrude Pyles be appointed as a relief charwoman, with salary at the rate of 50¢ per hour, effective as of August 1, 1939, and subject to her passing satisfactorily the usual physical examination. The recommendations had been reviewed and approved by Mr. Morrill.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. S. [Signature]
Chairman.