

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, August 17, 1939, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 16, 1939, were approved unanimously.

Memorandum dated July 31, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, Miss Cecil Melanson be appointed on a temporary basis for a period of three months as a draftsman in the Division, with salary at the rate of \$120 per month, effective as of the date upon which she enters upon the performance of her duties. The memorandum also recommended that in the event Miss Melanson were appointed by the Board she now become a member of the Retirement System of the Federal Reserve banks.

The recommendations were approved unanimously.

Letter to the board of directors of the "State Bank of Rockville", Rockville, Minnesota, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for member-

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ship in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Minneapolis:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$921.50, as shown in the report of examination of such bank as of July 3, 1939, made by an examiner for the Federal Reserve Bank of Minneapolis.
- "6. At the time of admission of such bank to membership the aggregate of its common capital stock and debentures held by the Reconstruction Finance Corporation shall be not less than \$25,000."

Approved unanimously, together with a letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'State Bank of Rockville', Rockville, Minnesota, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banks for the State of Minnesota for his information.

"As will be noted, a condition of membership requiring that the other real estate now carried by the bank be reduced at least 10 per cent annually has not been prescribed. The proper carrying value of such assets in the future would seem to be more properly an administrative matter than the subject of a condition of membership."

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Enclosed herewith is a copy of a letter of August 4, 1939, from Mr. James B. Warden, Vice President and Trust Officer, First National Bank at Pittsburgh, Pittsburgh, Pennsylvania, inquiring whether certain transactions constitute violations of section 11(a) of Regulation F. It will be appreciated if you will reply to this inquiry. Mr. Warden is not being advised of this reference.

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"For your guidance, it may be noted, in connection with the first type of transactions described by Mr. Warden, that the Board is of the opinion that a corporation which controls a majority of the voting shares of a national bank clearly is an affiliate of such bank within the meaning of section 11(a) of Regulation F and that, accordingly, the investment of trust funds by the national bank in property acquired from such corporation is prohibited.

"With respect to the second type of transactions described, it is suggested that you advise Mr. Warden in accordance with the views expressed in the Board's letter of August 4, 1937 (S-24)."

Approved unanimously.

Letter to Mr. Frederick A. Carroll, Chairman, Committee on Trust Policies, Trust Division, American Bankers Association, reading as follows:

"This refers to the Board's letter of May 26, 1939, to Mr. Samuel C. Waugh with reference to a possible amendment to the provisions of section 11 of the Board's Regulation F and also refers to informal conversations which you and Mr. Gilbert Stephenson had with representatives of the Board on August 10.

"The Board greatly appreciates your assistance in this matter, and it will be appreciated if you will furnish the Board with the views of your committee on the question whether section 11 of Regulation F should be amended by striking out the last sentence of footnote 12 to that section and adding a new footnote applicable to the whole section reading as follows:

'The requirements of this section shall not be deemed to prohibit the making of any investments or the carrying out of any transactions which are expressly required by the instrument creating the trust or are specifically authorized by court order.'

"The Board would also appreciate a statement of the views of your committee as to whether or not any other amendments to section 11 of Regulation F are desirable at this time."

Approved unanimously.

Letter to Mr. Evans, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

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"This refers to your letter of August 1, 1939, requesting the Board's views with respect to whether a loan made by a certain State member bank under circumstances described therein should be regarded as a violation of section 23A of the Federal Reserve Act. It has been noted from the report of examination of The Liberty State Bank, Dallas, Texas, as of July 8, 1939, that the question arose in connection with such examination.

"It is understood that the bank has capital and surplus in the amount of \$400,000; that when admitted to membership the bank held loans in the amount of \$78,000 secured by stock of a holding company affiliate of the bank; that subsequently the bank made a new loan of \$5,285 secured by stock of the same holding company affiliate; and that at the time such loan was made the bank's loans secured by stock of the holding company affiliate had been reduced by more than the amount of the new loan but the amount of such loans was still in excess of 10 per cent of the bank's capital and surplus. It does not appear that any of the exceptions contained in the third paragraph of section 23A were applicable.


"Under the provisions of section 23A of the Federal Reserve Act, it is clear that, subject to the exceptions mentioned above, a member bank is not permitted to make a loan secured by stock of a holding company affiliate of the bank if the amount of the new loan together with the amount of loans of like character then held (regardless of whether they were made prior to the bank's admission to membership) will exceed 10 per cent of the capital and surplus of the bank. The fact that the amount of such loans will be less than the amount at the time of the bank's admission to membership is wholly immaterial. Accordingly, the Board is of the opinion that the loan in question was made in violation of section 23A.

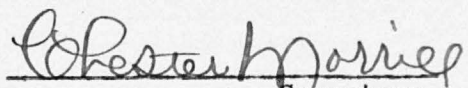
"In connection with this matter, your attention is called to the Board's letter of July 17, 1933 (X-7504) which dealt with an analogous situation."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.