

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

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

Mr. Morrill, Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman

Mr. Ransom referred to the discussion at the meeting of the Board on September 15, 1939, with respect to the release by the Federal Reserve Bank of New York of information received by it from the Bank of England in the early afternoon on September 14, relating to the exchange rate on sterling and to the request which had been made that a full report of the matter be submitted by President Harrison both to the Board and to the Treasury. He stated that Mr. Bailie, Special Adviser to the Secretary, had called him on the telephone today and advised that the Treasury had received a copy of President Harrison's report. Mr. Bailie stated, Mr. Ransom said, that the Secretary was satisfied with the report and intended to file it. Mr. Ransom asked Mr. Bailie what the Board was expected to do with the report. Mr. Bailie advised him that it was their suggestion that the Board also file the report unless it desired to make some further comment on it. Mr. Ransom said that he replied that he would like to know from the

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Secretary whether that course of procedure was satisfactory to the President inasmuch as it had been reported by the Secretary that the President was interested in the matter, and that Mr. Bailie had stated that the Secretary would assume full responsibility for that course of procedure being satisfactory to the President. Mr. Bailie then requested, Mr. Ransom said, that the Board advise him informally as to whether it had any further comments to make to the Treasury on the report and if not, they would close their file in the matter, and that he had advised Mr. Bailie that it would be necessary for him to first discuss the matter with the other members of the Board.

At this point Chairman Eccles left the meeting.

Messrs. Dreibelbis, Assistant General Counsel, and Gardner, Senior Economist in the Division of Research and Statistics, were then called into the meeting and participated in a lengthy discussion as to the manner of disposition of the report by the Board. During the discussion the suggestion was made that a draft of letter be prepared, to be addressed to the Secretary of the Treasury, acknowledging that the Board had received the report which it was understood had also been submitted to the Treasury, that the Board understood from conversations which Mr. Ransom had had with Mr. Bailie and which Mr. Ransom reported to the Board that Mr. Harrison's report was satisfactory to the Treasury and that no further action was necessary.

Mr. Morrill was requested, in consultation with Messrs. Dreibelbis and Gardner, to prepare, for consideration

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by the members of the Board, a draft of a letter to the Secretary of the Treasury along the lines suggested.

At this point Messrs. Thurston, Dreibelbis and Gardner 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 September 25, 1939, were approved unanimously.

Letter to the board of directors of "The Middle Point Banking Company", Middle Point, Ohio, 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 membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "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 \$1,048.37, as shown in the report of examination of such bank as of August 28, 1939, made by an examiner for the Federal Reserve Bank of Cleveland."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Middle Point Banking Company', Middle Point, Ohio, for membership in the Federal

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"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 Superintendent of Banks for the State of Ohio for his information.

"It will be noted that the Board has not prescribed the special condition recommended by the Reserve Bank Committee regarding excessive loans. None of the loans involved is classified, six of the eight lines are excessive as a result of guarantees on one loan, and the two direct lines are excessive by only small amounts. In view of the circumstances, therefore, it is felt that the matter is more appropriately an administrative and supervisory matter rather than one requiring a condition of membership."

Letter to the board of directors of the "Exchange State Bank", Lanark, Illinois, 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 membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Prior to admission of such bank to membership, the directors shall review the compensation paid to directors, officers and employees and shall make such adjustments therein as may be considered appropriate by the Federal Reserve Bank of Chicago in the light of the bank's obligation to the holders of deferred certificates of deposits; and, so long as the deferred certificates remain outstanding, any material increase in such compensation shall have the prior approval of the Federal Reserve Bank."

Approved unanimously, together with
a letter to Mr. Schaller, President of the

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Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Exchange State Bank', Lanark, Illinois, 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 Auditor of Public Accounts for the State of Illinois for his information.

"In view of the fact that the examiner has reported that the estimated losses shown in the report of examination for membership were charged off at the close of the examination, the usual condition of membership requiring the elimination of estimated losses has not been prescribed.

"The reason for condition of membership numbered 5 is of course the salary paid to Vice President Verbest, an inactive officer and controlling stockholder of the bank. The propriety of the payment of a salary to the officer has been questioned by your examiner and examiners for the Federal Deposit Insurance Corporation and the State Department on the grounds that it was not being earned and therefore appeared to be a device for contravening the agreement with the waiving depositors, under the terms of which agreement the deferred certificates are payable before any distribution to stockholders as such, and, according to his letter of September 11 on the subject, Mr. Young apparently feels that the salary should be discontinued. The Board shares the view that in the circumstances the payment seems unwarranted and it will be expected that under the condition you will see that salaries paid by the bank are justified in the light of the institution's obligation to the holders of the deferred certificates."

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

"Consideration has been given to your letter of August 11, 1939 and enclosure, relative to the applicability of the Clayton Act to Mr. Ernest Stauffen, Jr. Mr. Stauffen

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"has been serving continuously since prior to the enactment of the Banking Act of 1935 as an officer of Manufacturers Trust Company, New York, New York, and as a director of The Marine Midland Trust Company of New York, New York, New York. On May 29, 1939 Mr. Stauffen was elected a director of Manufacturers Trust Company, and the question is whether he may continue to serve as a director of both institutions until February 1, 1940.

"The President of The Marine Midland Trust Company of New York suggests that under the second unnumbered paragraph of section 8 of the Clayton Act and sections 2(c) and 3(e) of Regulation L, the question of the capacity in which an individual serves an institution is immaterial and that since Mr. Stauffen has been lawfully serving both institutions since prior to the enactment of the Banking Act of 1935 he may continue to do so even though he has since become a director as well as an officer of Manufacturers Trust Company. He says that it is his view that the purpose of section 8 was to prevent interlocking relationships between certain banks, but that the statute makes no differentiation based upon the capacity in which the individual is serving a bank.

"However, it is important to remember that the purpose of the second unnumbered paragraph of section 8 (and section 3(e) of Regulation L) upon which this question turns was to prevent wholesale resignations on the effective date of the amendments which were made by the Banking Act of 1935 and to give the banks involved a reasonable time within which to make the required adjustments. Since the only purpose of the provision was to avoid the hardship which might result from a resignation, it seems doubtful that the Board should construe it as authorizing service in a new capacity, particularly in view of the fact that prior to the enactment of the Banking Act of 1935 the Board regarded an additional capacity as a new relationship which required a new Clayton Act permit.

"From a purely technical standpoint, also, it is doubtful whether the permission contained in the second unnumbered paragraph of section 8 to continue 'such service' and the provisions of section 3(e) of Regulation L authorizing an individual to continue to serve as a director, officer or employee until February 1, 1940 if his services in 'such capacities' have been continuous could be construed as authorizing service in new capacities.

"Of course, the whole question will become moot on February 1, 1940, under the provisions of section 8 and of

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"Regulation L, because after that date new and old relationships alike will be permitted only if the institutions are of the classes specified, and at that time Mr. Stauffen will apparently have to sever his relationships with one of the two institutions he is serving."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. ...
Chairman.