

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, September 28, 1939, at 11:00 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, 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 September 27, 1939, were approved unanimously.

Memorandum dated September 21, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Jean M. Sanders, a clerk in that Division, and recommending that it be accepted effective as of the close of business on September 5, 1939, and that Mrs. Sanders be not required to refund an amount equal to her salary for the period of approximately eight days of annual leave and eight days of sick leave which she had taken up to September 5, 1939, and which was unearned.

The recommendations were approved unanimously.

Letter to the Secretary of the Treasury, prepared in accordance

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with the action taken at the meeting of the Board on September 27, 1939, and reading as follows:

"The Board of Governors has received from President Harrison, of the Federal Reserve Bank of New York, under cover of his letter of September 22, a copy of a report from Mr. Knoke relating to the handling of certain information on Thursday, September 14, 1939, concerning the official British buying rate for sterling. Mr. Harrison stated that he was sending this report to you with a similar covering letter.

"Vice Chairman Ransom has reported to the Board his conversation of this date with Mr. Bailie of your Department. The Board understands from this conversation that President Harrison has furnished the information you desired and that you feel that there is no need for further action in regard to this matter."

Approved unanimously.

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

"Reference is made to your letter of September 16, 1939 transmitting a request of the 'Merchants and Farmers Bank', Portsmouth, Virginia, for permission to reduce its common stock by \$25,000. The reduction is to permit cancellation of 500 of the shares of stock now held as collateral to loans and which are to be reduced to possession by the bank.

"Based upon the information at hand, the Board would be inclined to approve, in accordance with your recommendation, a reduction of \$25,000 in the bank's common stock if that plan were going to be carried out. However, according to the bank's letter of September 18 to the State Commissioner, agreements have been reached for the sale of at least 262 of the shares, and if the sales are completed the reduction in capital will be correspondingly less. Therefore, action on the request for permission to reduce the capital stock is being deferred until the bank's plans are developed further. The Board, however, extends until January 31, 1940, the time within which the bank may complete compliance with the provisions of condition

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"of membership numbered 5, which reads as follows and which is one of the reasons, it is understood, for the proposed reduction:

- '5. As soon as practicable, and in any event within six months from the date of admission to membership, such bank shall dispose of any loans which may be secured in whole or in part by its own stock or obtain the substitution of other adequate security for each such loan.'

"It is requested that you inform the bank as to the Board's reasons for deferring action on the request for permission to reduce the capital stock. It is assumed that you will follow the situation and that, if all of the 500 or more shares are not sold and the directors desire to reduce the capital through cancelation of the unsold shares, you will submit the matter to the Board in advance of the annual stockholders' meeting."

Approved unanimously.

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

"Reference is made to your letter of August 19 to Mr. Paulger with respect to certain questions arising in connection with the recent report of examination of the First-Citizens Bank and Trust Company, Greencastle, Indiana.

"You state that the bank's practice of paying salaries one month in advance was, to the extent of advancing salaries to the officers of the bank, considered by the examiner as being in violation of section 22(g) of the Federal Reserve Act because the action had not had the prior approval of the bank's board of directors. In this connection, however, your attention is called to the fact that under the Board's Regulation O, section 1(c), an advance of unearned salary for a period not in excess of 30 days would not be an extension of credit and therefore approval by the board of directors would not be required.

"You raise the question of whether in connection with applications for membership banks should be required to write down to cost bonds which may be carried above that



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"figure. Generally speaking, the carrying of bonds in excess of cost is an undesirable practice which should be discouraged. While in some cases the circumstances may be such as to justify an exception to the general rule, there is apparently no compelling reason why such a requirement should not have been made in this case. The bond involved had a Group 2 rating at the time the bank was examined for membership, the carrying value was substantially in excess of the then 'appraised value', and the write-up was made at the time of the purchase of the bond."

Approved unanimously.

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

"The report of examination of the Farmers and Merchants Bank, Huron, South Dakota, as of August 21, 1939 transmitted with your letter of September 18, contains the following comment on page B of the confidential section:

As of December 30, 1938 transit account was debited \$10,500 and a special reserve account credited for like amount on the strength of anticipated premiums incident to the sale of \$200,000 Consolidated Federal Land Bank bonds. The sale was not consummated or premiums realized until January 4, 1939. The condition report as of December 31, 1938 therefore did not disclose a true condition. The matter was discussed with President Barkl. He admitted the transaction was irregularly handled. Nothing similar is apt to reoccur.

"At the end of the memorandum regarding the report of examination, form F.R. 212, you state that 'Unless the Board of Governors of the Federal Reserve System deems it advisable to take some special action with regard to the publication of the report referred to above, no action appears to be necessary.' In your letter of September 18, however, you ask whether it will be necessary for the bank to republish its December 31, 1938 condition statement or whether any other action should be taken with respect to it. In reply you are advised that, in the light

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"of the above quoted comments, no further action need be taken in connection with the bank's published statement."

Approved unanimously.

Letter to The First National Bank of Kansas City, Kansas City, Missouri, reading as follows:

"This refers to your request that the Board determine that your bank is not engaged as a business in holding the stock of or managing or controlling banks.

"The Board understands that your bank is engaged in the general banking and trust business; that, in substance, it is the owner of certain shares of stock of five banks taken as collateral security for loans which have been charged off but such holdings are relatively insignificant, not amounting to more than 10 per cent of the outstanding shares in any instance; that, in the performance of normal fiduciary functions, your bank holds small amounts of the stock of numerous banks; that, largely through the efforts of your bank, the Johnson County National Bank and Trust Company, Johnson County, Kansas, was recently organized to furnish fiduciary services to customers of your bank and others residing in a suburban section of Kansas City which could not be practically performed by a Missouri institution; that, in order to provide continuity of management, a majority of the stock of the new institution, which is owned by various individuals, soon will be placed in trust under trust agreements naming your bank as co-trustee; and that your bank does not own or control any stock of, or manage or control, any bank not referred to above.

"Without determining whether your bank is now a holding company affiliate of the Johnson County National Bank and Trust Company or will become a holding company affiliate of that institution upon the consummation of the plan under which the stock of the Johnson County National Bank and Trust Company will be placed in trust, the Board has determined that your bank is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks or trust companies, within the meaning of section

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"2(c) of the Banking Act of 1933, as amended, and is of the opinion that the consummation of the above-mentioned plan will not require reconsideration of such determination.

"However, if there should at any time be such a change in the facts as to indicate that your company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

Approved unanimously.

Letter to Mr. L. J. Schuster, President of W. J. Young & Company, Clinton, Iowa, reading as follows:

"This refers to your request that the Board determine that your company is not engaged as a business in holding the stock of, or managing or controlling, banks.

"The Board understands that your company is an investment holding company for members of the Young family; that its assets consist of real estate, bonds, and stocks of a number of local corporations engaged in varied enterprises; that it owns or controls 619 of the 1,000 outstanding shares of stock of Clinton Savings Bank and 263 of the 600 outstanding shares of stock of Clinton National Bank, both of Clinton, Iowa, the stock owned or controlled of the latter bank constituting more than 50 per cent of the shares voted at the last election of directors; that the two banks, owned by substantially the same shareholders, are closely associated in their operations, Clinton Savings Bank handling the savings and trust business and Clinton National Bank handling the commercial banking business; and that your company does not own or control any stock of, or manage or control, any banks other than Clinton Savings Bank and Clinton National Bank.

"In view of these facts, the Board has determined that your company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and, therefore, it is not a holding company affiliate for any purposes



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"other than those of section 23A of the Federal Reserve Act.

"If, however, the facts should at any time differ from those set out above to an extent which would indicate that your company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

Approved unanimously.

Thereupon the meeting adjourned.

Chesler Morris  
Secretary.

Approved:

W. Steuler  
Chairman.