

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 19, 1939, at 4:30 p. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

Mr. Eccles stated that in accordance with an arrangement with the Secretary of the Treasury, to which reference was made at the meeting of the Board on October 17, 1939, he and Messrs. Harrison and Knoke, President and Vice President, respectively, of the Federal Reserve Bank of New York, went to the Treasury this morning to confer with the Secretary with respect to the proposed request of the Treasury that the New York bank open accounts for the Governments of England and France and that there were present at the conference, in addition to the Secretary, Messrs. Hanes, Under Secretary of the Treasury, Bell, Assistant to the Secretary, Stewart, Special Assistant to the Secretary, White, Director of Monetary Research, and Cochran, Technical Assistant to the Secretary. Mr. Eccles said the Secretary asked that he make a statement with respect to the matter to be considered, that he (Mr. Eccles) outlined the problem and that, without referring to the memorandum approved at the meeting of the Board on October 14, 1939, and handed by him to the Secretary on Monday, October 16, he repeated

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substantially what was in the memorandum, stating that the reasons for the Board's position were that the accounts of the Bank of England and the Bank of France with the Federal Reserve Bank of New York were already established and the matter could be handled in a routine manner and as confidentially as if fiscal agency accounts were opened. Mr. Eccles added that he also explained that the directors of the New York bank and the Board of Governors had certain supervisory powers in either case but that as a practical matter he did not think there would be any reason to expect that anyone here or at the New York bank would expect to receive any more information in connection with the accounts maintained for the Bank of England or the Bank of France than they would expect in connection with a fiscal agency account. Mr. Harrison agreed with this statement, Chairman Eccles said, and added the further comment that the Stabilization Fund operations had been kept strictly confidential, that there was no reason why transactions in the accounts maintained for the Bank of England and the Bank of France could not be treated in a like manner, and that if any question arose in this connection he would communicate with the Treasury about it.

The Secretary then stated, Chairman Eccles said, that he thought the procedure suggested by the Board was a desirable way to handle the matter and that he was personally willing to try it out in that way. Chairman Eccles made the further statement that it was explained to the

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Secretary that if the Board's suggestion were adopted the Secretary could not get a transcript of the accounts with the Bank of England or the Bank of France without the foreign central banks requesting the New York bank to furnish such a transcript to the Treasury, and that that was a matter which the Secretary would have to take up with the British and French Embassies. Chairman Eccles went on to say that the Secretary stated that he understood that aspect of the matter.

The Secretary then inquired, Chairman Eccles said, what he thought of requiring that all of the financial transactions for the account of the British and French Governments be handled through the accounts at the New York bank. In this connection Chairman Eccles pointed out that as contemplated by the Federal Reserve Bank of New York the accounts at that bank would be merely clearing accounts, that funds would be deposited in the accounts and transferred from the accounts to commercial banks, that checks in payment for materials purchased by the British and French Governments in this country would be drawn on these commercial accounts, and that the commercial banks would take care of the documents and other matters involved in the transactions. Chairman Eccles said that his reply to the Secretary's inquiry was that he saw no point in maintaining the accounts unless all of the business were handled through the accounts, and that Messrs. Harrison, Hanes and Knoke expressed disagreement with that position, Mr. Harrison stating that there was a practical point to be considered that the Federal Reserve Bank of New York was not equipped to render

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the services that commercial banks were equipped to render. Messrs. Foley and White favored the concentration of transactions through the account, Chairman Eccles said, and Secretary Morgenthau stated that he would not endeavor to settle the question at this time but that he was in agreement with the position which Chairman Eccles had taken on the matter.

Chairman Eccles added that at the conclusion of the discussion at the Treasury the Secretary asked for the opinion of each of those present as to whether a fiscal agency account should be opened or the transactions should be handled through the existing accounts maintained by the Federal Reserve Bank of New York with the Bank of England and the Bank of France, and that there was no opposition on the part of anyone to handling the matter through the existing accounts.

Following a discussion of the above matter Mr. Morrill presented a draft of letter addressed to Senator Theodore Francis Green in his capacity as Chairman of the Morris Plan Company of Rhode Island which had been prepared in accordance with the action taken at the meeting of the Board on October 17, 1939. The letter was in the following form:

"Following receipt of your letter of October 9, 1939, further consideration has been given to the question whether The Morris Plan Company of Rhode Island is a 'bank' within the meaning of section 8 of the Clayton Act. As you know, if the Company is not a 'bank', the statute is not applicable to directors of the Company who are serving as officers or directors of member banks of the Federal Reserve System.

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"It is understood that the Company was organized under a statute (Chapter 145 of the General Laws of Rhode Island) which relates to 'loan and investment companies' and which defines the powers of such companies. It is also understood that, since it was organized under that Chapter, section 4 of Chapter 144 of those Laws makes it unlawful for the Company to call itself a 'bank', 'savings bank' or 'trust company', or receive 'deposits', or 'transact business in the way or manner of a bank, savings bank or trust company'.

"You have furnished us with a copy of the letter from the Chief of the Division of Banking and Insurance of the State of Rhode Island in which he says, consistently with the above statutory provisions, that the Company 'is in no sense a banking institution'. You have also advised us that the Federal Deposit Insurance Corporation ruled that the Company was not eligible for membership in the Temporary Federal Deposit Insurance Fund because it did not accept 'deposits', and that the Federal Bureau of Internal Revenue refused to grant the Company exemption from surtaxes under section 104(a) of the Revenue Act of 1936 on the ground that it was not a 'bank'.

"It is understood that the Company sells fully paid investment certificates but only in denominations of fifty dollars or multiples thereof; that, although it may, and does in practice, redeem such certificates on demand, it requires the registered owner thereof to sign a receipt therefor on the back of such certificate with the practical result that there is no effective method of negotiating such certificate except by presenting it at the office of issue which holds the stub originally attached to such certificate and which stub bears the owner's signature; that the Company issues what are termed installment investment certificates representing accounts opened for the purpose of purchasing fully paid investment certificates on an installment basis; that, although it permits withdrawals from such installment investment certificate accounts, the customer may not draw on such account by check but must (except in extreme cases such as illness, etc., where he may sign a receipt which is returned to the Company's office accompanied by the installment investment account book and receive the Company's check for the amount withdrawn) present his installment certificate account book at the Company's office and sign a receipt

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"reading 'Received of The Morris Plan Co. of R. I. the sum of \$ _____ as part payment of Instal. Invest. Cert. # _____' which is imprinted by rubber stamp on the Company's card record of the particular account at the time of withdrawal; that the Company makes no use whatever of counter checks or other checks to effect withdrawals; that, although the Company pays interest on both full paid and installment investment certificates, the interest on full paid investment certificates is paid by check mailed to the customer's registered address, and interest on installment investment certificate accounts (which does not begin to run until the balance thereon amounts to \$25) is not paid or credited at regular intervals, but is paid to the customer by cash, check, or credit to the customer's installment certificate account when called for by the customer; that the major portion of the Company's transactions, which are estimated at an average of approximately six hundred a day, involve the making of loans or receipt of payments on loans; that payments on or withdrawals from installment certificates average about ten a day; that the daily cash on hand carried in the Company's main office amounts to about \$10,000, of which amount about \$400 to \$500 is set aside for payments on both full paid and installment investment certificates and the remainder is set aside for lending transactions; that the receipt and payment of funds in connection with investment certificates probably does not require much more than a half hour a day of the one investment teller's time; that withdrawals on investment certificates probably average about three weekly; that the Company does not issue cashier's checks or drafts, such checks as it issues being drawn on the banks where it has deposit accounts in the city of Providence; that the Company does not maintain any form of so-called checking account service (other than the limited withdrawal service on installment investment certificate accounts above described); that the Company is prohibited by law from transacting and does not transact a trust business; that it does not offer safety deposit facilities to the public; that it transacts no escrow or agency business for the public; that, except for the occasional sale of securities held as collateral to loans, it does not buy or sell securities for customers; that it is not a member of the Providence Clearing House Association; that its hour of closing extends one hour beyond the closing hour of banks in Providence; that, although it is

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"subject to the supervision of and examination by the Chief of the Division of Banking and Insurance of Rhode Island, so also are building and loan associations, credit unions and small finance companies in the State; and that, although it is required to submit reports of condition to the Chief of the Division of Banking and Insurance twice a year, it is not required to publish such reports, which banks and trust companies in the State are required to do. It is understood also that the general public regards the company as a lending corporation or finance company operating primarily in the installment lending field and not as a bank of deposit.

"The question whether or not a particular institution is a 'bank' within the meaning of section 8 of the Clayton Act is often a perplexing one, and in view of the great variety of financial institutions in this country there must necessarily be cases where even slight variations in the facts will produce different results. It is for this reason that the facts upon which the present ruling is based have been set forth in detail in this letter, and on the basis of these facts the Board is now of the opinion that the Company is not a 'bank' within the meaning of section 8 of the Clayton Act."

Upon motion by Mr. McKee, the letter was approved unanimously.

The action stated with respect to each of the matters herein-after referred to was then taken by the Board:

The minutes of the meetings (2 meetings) of the Board of Governors of the Federal Reserve System held on October 18, 1939, were approved unanimously.

Letter to the board of directors of the "Home State Bank", Trent, Texas, 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

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membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas:

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

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Home State Bank', Trent, Texas, 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 Banking for the State of Texas for his information.

"In view of the fact that the amount of estimated losses classified in the report of examination for membership is small, and since the management has stated that at the end of the seasonal liquidation period determined losses will be charged out, the usual condition of membership regarding the elimination of estimated losses has not been prescribed.

"On the date of examination for membership the bank was carrying a balance in excess of 10 per cent of its capital and surplus with a nonmember bank. It is assumed that the management's attention has been or will be called to the fact that under the provisions of section 19 of the Federal Reserve Act the amount which a member bank may keep on deposit with a nonmember bank is limited to 10 per cent of its own capital and surplus."

Letter to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, prepared in accordance with the action taken at the meeting of the Board on October 17, 1939, and reading as follows:

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"Owing to the fact that it has been necessary for members of the Board to devote nearly all of their time to other matters, a delay in replying to your letter of September 15 in regard to the discount rates at your bank has been unavoidable.

"The question of uniformity of discount rates at the twelve Federal Reserve banks is one which the Board has had under discussion for some time and, upon considering it further in connection with your letter, felt that it is a matter which might well be discussed by the Chairmen of the Federal Reserve banks at their next conference. A separate letter suggesting a date for the Chairmen's Conference is going forward to you today."

Approved unanimously, together with
a letter to the Chairmen of all Federal
Reserve banks, reading as follows:

"The Board of Governors regrets that the pressure of other matters during recent weeks has made it impossible for it to arrange for a conference of the Chairmen of the Federal Reserve banks during the early Fall.

"It has now been suggested that the conference be held on Monday, December 4, 1939, at 10:00 a.m., and I have been requested to inquire whether that date would be a convenient one for you."

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. Charles
Chairmen.