

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 2, 1939, at 11:30 a. m.

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

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 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 October 31, 1939, were approved unanimously.

Memorandum dated October 26, 1939, from Mr. Morrill recommending that, for the reasons stated in the memorandum, Miss Mildred Evelyn Todd and Miss Marie Garland McNeese be appointed on a temporary basis for a period of six months as file clerks in the Secretary's Office, each with salary at the rate of \$1,260 per annum, effective as of the date upon which they enter upon the performance of their duties, and with the understanding that if their services are entirely satisfactory the appointments will be made permanent and their salaries will be increased to the rate of \$1,380 per annum.

Approved unanimously.

11/2/39

-2-

Letter dated November 1, 1939, to the board of directors of "The Wayne Trust Company", Cambridge City, Indiana, 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 to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$2,678.13, as shown in the report of examination of such bank as of October 2, 1939, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"It has been noted that the bank is authorized to exercise full trust powers but is handling only a small amount of trust business, and it is understood that no new business is being accepted and the activity will be discontinued entirely. In view of the circumstances the application has been approved on the same basis as if the bank were not exercising trust powers, and should it desire in the future to exercise such powers, other than to the extent necessary in connection with the trusts now being administered, application for permission to do so should be made in accordance with the provisions of condition of membership numbered 1.

"The Board of Governors sincerely hopes that you will find membership in the System beneficial and the relationships with your Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you."

11/2/39

-3-

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Wayne Trust Company', Cambridge City, Indiana, 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 Director, Department of Financial Institutions of the State of Indiana for his information.

"The \$12,000 capital debentures issued by the bank are held locally and it will be recalled, of course, that debentures not held by the Reconstruction Finance Corporation are not to be taken into consideration in figuring the number of shares of Federal Reserve bank stock to be issued to a member bank."

Letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"In your letter of October 18 regarding The Plainfield Trust Company, Plainfield, New Jersey, you referred to the payment of dividends amounting to \$112,500 on the bank's common capital during the past five years, expressed the opinion that the payment of dividends on common capital should be discontinued, and requested the Board, if it agrees with your conclusion, to take such steps as deemed advisable to induce the bank to discontinue its common dividend.

"Dividends on the bank's common capital were discontinued last summer, and the Board has been informed that the bank does not intend to pay any dividends on common capital until such course is clearly warranted.

"As a matter of fact, prior to the elimination of the dividend in August of this year, dividends had been reduced to nominal amounts. For each of the years 1936 and 1937 dividends paid amounted to \$30,000, or 4 per cent of the bank's common capital of \$750,000. In February 1938, however, the semi-annual dividend was reduced from \$15,000 to \$7,500, and in August of that year was again halved, when

11/2/39

-4-

"a dividend of \$3,750 was paid. A dividend of the same amount was paid in February of this year.

"The Board has been informed that the elimination of the August dividend was decided upon by the directors after consideration of the comments and suggestions regarding dividend policy contained in the report of the examination of the bank made as of April 15, 1939 by examiners for the Federal Reserve Bank of New York, and of suggestions made by the State Banking Department following its examination as of the same date.

"The bank is admittedly confronted with serious problems, particularly with respect to its other real estate and distressed mortgage loans, and during the past few years it has charged out a substantial amount of losses, as you indicate. However, it seems worthy of consideration that the bank has been able to make such substantial charge-offs out of its own resources. Another favorable feature in the picture is the bank's substantial earning power.

"While dividends on the bank's common capital had already been discontinued prior to the writing of your letter, the Board's representatives will be glad to discuss with you or other representatives of your Corporation any aspects of this situation, as they have always been glad to discuss with your Corporation any situation affecting State member banks. The Board, therefore, has requested Governor McKee to confer with you."

Approved unanimously.

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

"This refers to your letter of October 6 regarding the method of reflecting reserves for amortization of bond premiums in condition reports of the Mercantile-Commerce Bank and Trust Company, St. Louis, Missouri.

"The information furnished to you by the Comptroller of the subject member bank and quoted in your letter of October 6 indicates that the reasons that bond premium amortization reserves can not readily be allocated to the bank's investments as classified in Schedule B of condition reports on form F. R. 105 are (1) that the record of such reserves is maintained on cards and, as calls for condition reports are ordinarily made several days later than the call date, a proper application of reserves could not be made to specific issues of securities without re-

11/2/39

-5-

"establishing the card record as of the call date, and (2) the card record is not posted periodically to show the accumulated reserve for bond premium on a specific issue.

"In the above circumstances it seems clear that it would be a laborious task for the bank to make an accurate distribution of the reserves as of call dates. It is assumed, however, that a distribution is made by the bank from time to time as an auditing measure or for other reasons, and that the bank could make a reasonably close estimate of the amount of reserves that should be allocated to the various classifications of securities in Schedule B of the call report. In any event, it is suggested that the bank be advised to apportion the reserves for bond premiums as of call dates on the basis of such information as it has available. A similar procedure may be observed in the allocation of the bond premium reserves at the time of examinations."

Approved unanimously.

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

"In accordance with Mr. Knoke's reply of October 25 to the letter addressed to you under date of October 21, 1939, the Board of Governors hereby terminates the authority granted to the Federal Reserve Bank of New York on March 22, 1939, to make advances of not to exceed \$20,000,000 outstanding at any one time to the Bank for International Settlements secured by gold actually in transit to New York."

Approved unanimously.

Letter to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, reading as follows:

"I have delayed replying to your letter of October 17 in regard to the next meeting of the Federal Advisory Council on Monday and Tuesday, November 20 and 21, until I could get an opportunity to canvass the members of the Board about it.

"The Board does not have any topics to propose for discussion at this meeting but the suggestion has been

11/2/39

-6-

"made that it might prove to be helpful to both the Board of Governors and the Council if the Board could be advised of the subjects which members of the Council desire to have considered, and that the members of the Board meet with the members of the Council on Monday morning for the purpose of a round table discussion of such subjects, in the light of which the Council would then proceed in its own sessions to consider the conclusions that it might wish to draw. The members of the Board, of course, would be available for the purpose of the usual joint session to receive any recommendations that the Council might wish to present at the conclusion of its sessions.

"It will be appreciated if you will communicate this suggestion to the members of the Council and let me know their wishes in the matter."

Approved unanimously.

Letter to The Attorney General of the United States, reading as follows:

"This refers to your letter of October 11, 1939, requesting that the Board's files be made accessible to a representative of your Committee on Administrative Procedure, and this letter will also confirm a telephone conversation between Mr. Clayton, Assistant to the Chairman of the Board, and Mr. Gellhorn, Director of your Committee, on October 12, 1939, at which time Mr. Gellhorn was advised that the Board had granted permission to your representative to examine its files for the purposes of the study undertaken by your Committee on Administrative Procedure.

"You will, of course, realize that the Board's files contain information relating to banking transactions and other matters of a highly confidential character, and we understand that information concerning specific transactions or specific banking institutions derived from the Board's files by your representative will be held in confidence. It is also our understanding that the Board will have an opportunity to examine any report relating to the procedures or activities of the Board prepared by your representative or your Committee on Administrative Procedure prior to the time such report is made public."

Approved unanimously.

11/2/39

-7-

Mr. Morrill suggested that the Board authorize the payment of the cost of the luncheon served to Honorable Elmer Thomas, United States Senator from Oklahoma, in the Board's dining room yesterday.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. S. ...
Chairman.