

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 5, 1939, at 9:45 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 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 December 4, 1939, were approved unanimously.

Memorandum dated December 1, 1939, from Mr. Paulger, Chief of the Division of Examinations, submitting the resignation of R. Thornton Snow as an Assistant Federal Reserve Examiner, to be effective as of the close of business on December 4, 1939, and recommending that the resignation be accepted as of that date.

Approved unanimously.

Telegram to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, referring to the application of the "Guardian Bank of Royal Oak", Royal Oak, Michigan, for permission to

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withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal Reserve bank stock issued to the Guardian Bank of Royal Oak, the Federal Reserve Bank of Chicago is authorized to cancel such stock and make appropriate refund thereon.

Approved unanimously.

Telegram to Mr. Matter, Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, stating that, subject to the conditions set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to the "BancOhio Corporation", Columbus, Ohio, entitling such organization to vote the stock which it owns or controls of "The Hocking Valley National Bank of Lancaster", Lancaster, Ohio, at all meetings of shareholders of such bank, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram is limited to thirty days from the date of the telegram unless an extension of time is granted by the Board. The conditions contained in the telegram upon which the permit was authorized were as follows:

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- "1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in same form as that which applicant executed on December 12, 1938, as condition to issuance of permit dated December 16, 1938.
- "2. Prior to issuance of general voting permit authorized herein, The Hocking Valley National Bank of Lancaster shall have charged off or otherwise eliminated all estimated losses as shown by latest available report of examination by a national bank examiner.
- "3. Prior to issuance of general voting permit authorized herein, applicant shall have charged off or otherwise eliminated all estimated losses as shown by report of examination as of April 29, 1939, by an examiner for the Federal Reserve Bank of Cleveland."

The telegram also stated that it had been noted that the Comptroller of the Currency had requested The Ohio National Bank of Columbus, applicant's principal subsidiary, to increase its capital structure at least \$1,500,000, the request being predicated upon a marked increase of deposits without a proportionate increase of capital, the failure to provide for allowable depreciation in properties out of earnings, the large investment in banking premises and other real estate and amount thereof classified as III because of previous write-ups and neglected depreciation, the large amount of potential other real estate, and the extent to which earnings have been continuously paid to applicant. The telegram stated further that it had been noted also that during the years 1934 to 1938, inclusive, management fees and dividends received by applicant from this bank were \$2,384,000; that with total net income of \$2,458,000, applicant paid dividends of

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\$2,156,000; and that dividend rate increased from 72 cents per share in 1936 to 80 cents in 1937 and 84 cents in 1938 and is 88 cents for 1939, and that in view of the foregoing, and after consideration of all pertinent data and correspondence, the maintenance of adequate capital by The Ohio National Bank of Columbus is a matter of concern to the Board and the Board feels that, in accordance with conservative banking practices and terms of voting permit agreements executed by applicant, applicant should pursue such financial policies as are necessary to provide for increases in the bank's capital structure in relation to increases in its deposits and to make ample provision for depreciation in its properties.

Approved unanimously.

Letter to Mr. Jerome Frank, Chairman of the Securities and Exchange Commission prepared for the signature of Chairman Eccles, and reading as follows:

"Upon returning to the office I have found your letter of November 27, enclosing a copy of a tentative draft of a rule which the Commission has now under consideration to regulate the commingling and rehypothecation of customers' securities.

"You call my particular attention to a clause of the proposed rule which would prohibit a broker from borrowing on customers' securities an amount greater than the total indebtedness of those customers in respect of their rehypothecated securities and suggest that we may wish to consider this feature in its relation to the 75 per cent loan value presently accorded to customers' securities by Regulation U.

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"If the principle involved in the clause in question is correctly understood by us, it means that a broker may not borrow on all of the securities of customers who owe him money a total amount in excess of the total amount owed to him by those customers. On the basis of this understanding the staff advises me, and I thoroughly agree with the view, that in principle the clause is in accord both with good brokerage practice and with the intent of Regulation U, which has always been predicated on the proposition, already embodied in the rules of leading exchanges, that a broker's total borrowings on customers' securities should not exceed his total loans to customers.

"As Mr. Parry has advised Mr. Purcell, the staff will probably be able to supply, in advance of December 11, some further comments relating to technical details or to other features of the proposed rule."

Approved unanimously.

Thereupon the meeting adjourned.

Peter Morie
Secretary.

Approved:

W. Steeles
Chairman.