

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 18, 1939, at 11:00 a.m.

PRESENT: Mr. Eccles, 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 16, 1939, were approved un-animously.

Telegram to Owen D. Young, Chairman, General Electric Com-pany, New York, New York, reading as follows:

"Confirming Chairman Eccles' telephone conversation with you this afternoon, Board has designated you as Chair- man and Federal Reserve Agent at Federal Reserve Bank of New York for year 1940 and has fixed your compensation as such on same basis as approved for 1939. It will be appre- ciated if you will advise by collect wire of your acceptance."

Approved Unanimously.

Telegram to Beardsley Ruml, Treasurer, R. H. Macy & Co., Inc., New York, New York, reading as follows:

"Board of Governors has appointed you deputy chairman of Federal Reserve Bank of New York for year 1940 and will

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"be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter to Mr. Logan, Vice President and General Counsel of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of December 1, 1939, enclosing the bill of Covington, Burling, Rublee, Acheson & Shorb for \$8,500 for legal services rendered from December 1, 1938 to October 6, 1939, in final disposition of the case of British-American Tobacco Company, Ltd. v. Federal Reserve Bank of New York. There is also included in the bill an additional amount of \$730.08 for disbursements incurred in connection with the case.

"The fee bill is accompanied by a summary of the nature of the work in connection with the appellate proceedings in the Circuit Court of Appeals and brief in opposition to certiorari in the Supreme Court of the United States.

"It is understood that the board of directors and General Counsel of the Federal Reserve Bank of New York have approved the bill and request its approval by the Board of Governors of the Federal Reserve System.

"You are advised that the Board approves the payment requested of a fee of \$8,500 and reimbursement of expenses of \$730.08.

"The fee herein approved, together with the fees heretofore approved for payment to the same firm in the same matter, bring the total of fees payable and approved in this case to the sum of \$65,175."

Approved unanimously.

Letter to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"On page 16-(a) of the report of examination of the Tracy Loan and Trust Company, Salt Lake City, Utah, are listed a number of liability accounts which were included in 'Other Liabilities' of the bank's condition report for June 30, 1939, but which the examiner concluded should have been reported as 'demand deposits'. As indicated on page 1-(b) of the report of examination, the examiner classified the accounts as demand deposits in his statement of

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"assets and liabilities on page 1 of the examination report.

"On reference to the condition report of the subject bank submitted as of October 2, 1939, the first call date following the examination, it is noted that the bank apparently reported all of the items in question as demand deposits except an item designated as 'Accrued brokerage' on page 16-(a) of the examination report which in the October 2, 1939, condition report is designated as 'Accrued insurance brokerage (not due)' and is included in 'Other liabilities'. It is suggested that the bank be advised to include the account in demand deposits in future reports, in accordance with the examiner's classification, unless information now available indicates that that is not the proper classification, in which case your advice and recommendations will be appreciated.

"In this connection, it is noted that the bank includes in 'Other liabilities' of its condition reports an item designated as 'Uncompleted building loans', amounting on October 2, 1939 to \$123,193.23. The examiner also included this item among 'Other liabilities' in his statement of assets and liabilities on page 1 of the report of examination. In a letter dated May 4, 1939 addressed to Mr. Sonne, a copy of which has been furnished the Board, the bank described this account as follows:

UNCOMPLETED LOANS

"This is the largest heading in the liability schedule because it has to do with building loans, which are now in the most active season of the year. Loans for building purposes are usually completed before any work is commenced and the proceeds paid only as the building progresses. Showing this as a liability provides a more thorough control of the advancements on building loans, although in this case it creates a fund which would ordinarily not be found in a bank statement. Another method, which we would not consider as safe in operating this account, would be to only enter the actual payments on construction loans into the loan account, thereby eliminating this uncompleted loan account. The majority of these loans are Federal Housing Title II construction mortgages which we have made on a brokerage basis at such a small unprofitable margin that we would not be inclined to continue such business if this were technically regarded as a deposit.

"The above quoted description of the account in question indicates that the bank has not actually credited the borrowers' accounts with the full amounts of the building loans, and

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"presumably the borrowers are not required to pay interest on the unadvanced portion of such loans. If so, it would seem that the unadvanced portion should, in so far as condition reports are concerned, be deducted from the face amounts of the notes and only the amounts actually advanced included in loans. In so far as its own books are concerned, it is, of course, entirely proper for the bank to record the transactions in the manner it is now doing. It is suggested, therefore, that the bank be advised to show such loans net in condition reports, unless in your opinion there appears to be some objection thereto, in which case your advice and recommendation will be appreciated."

Approved unanimously.

Letter to "The Midland National Bank", Midland, Texas, reading as follows:

"This refers to the resolution adopted on October 27, 1929, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act, except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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Memorandum dated November 25, 1939, from Governor McKee reading as follows:

"At its meeting April 22, 1938, the Board requested that I review the conditions of membership then being prescribed by the Board and submit to the Board a recommendation as to revisions which I felt should be made therein.

"This action followed a decision to modify the policy with respect to the requirement for eliminations of depreciation in securities (so as to make the policy consistent with the proposals which the Board had under consideration with respect to a revision of examination policy) and was in accordance with my suggestion that such a general review be made.

"In the recent revision of Regulation H, standard condition of membership numbered 4 was amended to conform with the comparable requirements contained in Regulation F relating to trust powers of national banks, and I now recommend that no further action be taken with respect to a revision of the standard conditions of membership and that the matter be removed from the monthly statement of unfinished business.

"It will be recalled that in the fall of 1935 the standard conditions of membership were greatly simplified and reduced from 15 to 3 in number, with 3 additional conditions in case of banks exercising trust powers.

"Representatives of the Division of Examinations and of Counsel's Office have considered a further revision, but it was their consensus that it would be preferable to have provisions of a number of conditions of membership incorporated in the law, but that until such legislation could be enacted, the present standard conditions should be retained.

"The only two conditions which might be considered by some as unduly restrictive are condition numbered 3, which prohibits a bank from engaging in the sale of real estate loans (mortgages covered by insurance under the provisions of the National Housing Act are specifically exempted from this prohibition), and condition numbered 6, which requires banks which deposit trust funds in the banking department to secure such deposits in the same manner and to the same extent as is required of national banks. I am not prepared at this time to recommend modification of either condition."

Approved unanimously.

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Thereupon the meeting adjourned.

Charles Moriel  
Secretary.

Approved:

W. S. ...  
Chairman.