

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 19, 1939, at 10:30 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  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Director, Division of Research and Statistics  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel  
Mr. Wingfield, Assistant General Counsel

There was presented a letter dated December 18, 1939, addressed to Mr. Szymczak by Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, with further reference to the proposed increase to \$17,500 in the salary for Robert G. Rouse, Vice President of the Bank, whose appointment as Manager of the System open market account, was approved by the Federal Open Market Committee on December 13, 1939. Mr. Szymczak stated that the letter had been written as the result of a suggestion that he had made to Mr. Harrison, President of the New York Bank, that the Board be advised fully with respect to the compensation received

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by Mr. Rouse as Vice President of the Guaranty Trust Company at the time he severed that connection to enter the employ of the Federal Reserve Bank of New York. Mr. Szymczak stated further that since it did not appear from Mr. Sproul's letter that Mr. Rouse received any substantial compensation from the Guaranty Trust Company in addition to his salary at the rate of \$11,000 per annum, his entrance salary at the Federal Reserve bank of \$14,000 represented a substantial increase; that the proposed additional increase of \$3,500, making a total salary increase in less than six months of \$6,500, was unusually large; and that it would be his recommendation that the New York bank be advised that the Board would defer further consideration of a proposed increase in Mr. Rouse's salary until the submission to the Board by the bank of its official salary list in March 1940 to become effective April 1, 1940.

Mr. Szymczak's recommendation was approved unanimously.

There was also presented a memorandum dated April 6, 1939, from Mr. Goldenweiser with respect to a letter received by the Board under date of November 29, 1939, from Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, stating that the board of directors of the Bank had voted to redesignate Dean C. A. Phillips of the University of Iowa as Economic Adviser to the board of directors of the Chicago Bank for the year 1940 with compensation at

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the rate of \$3,000 per annum in addition to necessary traveling expenses. Mr. Goldenweiser's memorandum stated that if the Board, as a matter of policy, wished to take a position in this matter, he would recommend that the redesignation of Dean Phillips be disapproved for the reasons stated in the memorandum and that, if the Board did not wish to take that action, it was recommended that it be definitely understood that the memoranda prepared by Dean Phillips on various economic subjects should not be permitted to circulate outside of the Federal Reserve Bank of Chicago except with the approval of the Board of Governors in each instance.

In connection with the above matter Mr. Goldenweiser called attention to a letter received by him under date of December 16, 1939, from President Schaller of the Federal Reserve Bank of Chicago, with which was enclosed a manuscript prepared by Dean Phillips under the title "A Labor Catechism", for distribution to the officers and directors of the Chicago Bank and the Detroit Branch and to the Board of Governors, and which stated that the bank would be pleased to have Mr. Goldenweiser's comments on the current memorandum and that each month memoranda representing prior discussions by Dean Phillips with the board of directors would be forwarded.

In the discussion which followed, it was the general consensus that it should not be expected that the Division of Research and Statistics should be called upon to approve memoranda written at

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the Federal Reserve banks on general economic subjects and that memoranda prepared under the conditions applying in this case ordinarily should be restricted to subjects in which the Federal Reserve banks have more direct interest. The Chairman expressed the opinion that the existing arrangement under which, apart from the Board's Division of Research and Statistics, there was a statistical adviser and also an economic adviser to the board of directors was undesirable from an organization standpoint and should be corrected.

At the conclusion of the discussion it was agreed that Chairman Eccles should call Mr. Wood, Chairman of the Federal Reserve Bank of Chicago, on the telephone and point out to him the practical problems created by the distribution of memoranda of this kind and the objectives which the Board had in seeking to build a strong Division of Research and Statistics at each Federal Reserve bank, with the thought that Mr. Wood, when the Board's point of view was fully explained, might develop a program for correcting the situation in a satisfactory manner.

Reference was made to a draft of letter to President Harrison of the Federal Reserve Bank of New York raising the question whether it might not be better for the New York Bank to follow the custom of the other Federal Reserve banks of avoiding discussions of national policy in their annual reports. The opinion was expressed that this was a matter which might be handled more effectively in

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a conference than by letter and Mr. Davis suggested that Mr. Eccles call Mr. Harrison on the telephone and invite him and Chairman Young, or in his stead Deputy Chairman Ruml, to come to Washington for a discussion of the matter.

Mr. Davis' suggestion was approved unanimously.

On recommendation of the Personnel Committee the following appointments were made, subject to confirmation of the respective appointees' willingness to serve:

Clarence Roberts, Editor, The Farmer-Stockman, Oklahoma City, Oklahoma, was appointed a Class C director of the Federal Reserve Bank of Kansas City for the term of three years beginning January 1, 1940, on the understanding that, before entering upon his duties as a Class C director, he will tender his resignation as a director of the Oklahoma City Branch.

Neil R. Johnson, farmer and cattle raiser, Norman, Oklahoma, was appointed a director of the Oklahoma City Branch of the Federal Reserve Bank of Kansas City for the unexpired portion of the term of three years ending December 31, 1941.

Christie Benet having advised Mr. Morrill over the telephone yesterday that, because of the many demands made upon his time, he did not wish to be reappointed as a director of the Charlotte Branch, D. W. Watkins, Director of Extension, Clemson College, Clemson, South Carolina, was appointed a director of the Charlotte Branch of the Federal Reserve Bank of Richmond for the term of three years beginning January 1, 1940.

George Barry Bingham, President and Publisher of the Louisville Courier-Journal, Louisville, Kentucky, was appointed a director of the Louisville Branch of the Federal Reserve Bank of St. Louis for the term of three years beginning January 1, 1940.

J. P. Norfleet, President of Sledge & Norfleet, cotton factors, Memphis, Tennessee, was appointed a director of the Memphis Branch of the Federal Reserve Bank of St. Louis for the term of three years beginning January 1, 1940.

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R. E. Short, farmer and cattle raiser, Brinkley, Arkansas, was appointed a director of the Little Rock Branch of the Federal Reserve Bank of St. Louis for the term of three years beginning January 1, 1940.

Before this meeting there had been circulated among the members of the Board a draft of letter to the Comptroller of the Currency reading as follows:

"This refers to Mr. Upham's letter of February 13, 1939, relating to inquiries by national banks with respect to whether certain proposed transactions will violate provisions of section 11 of the Board's Regulation F. Our reply has been delayed pending the consideration of possible amendments to pertinent provisions of the regulation and a copy of the regulation as amended effective November 20, 1939, is enclosed herewith.

"In one type of case described by Mr. Upham, a national bank holds a real estate mortgage loan in its commercial department and proposed to loan trust funds to the mortgagor upon the same security, the proceeds of such new loan to be used to satisfy the old loan. In the other, a national bank holds a real estate mortgage loan as a trust investment and proposes to make a commercial department loan to the mortgagor upon the same security, the proceeds of such new loan to be used to satisfy the old loan. In both instances, it is assumed that there is no objection to the quality of the loans either as trust investments or as commercial department investments.

"Subsection (a) of section 11 of Regulation F provides that a national bank shall not invest trust funds in 'property acquired from' the bank. With an exception not pertinent here, subsection (b) of such section provides that trust assets shall not be 'sold or transferred' by a national bank to itself. The language of such provisions is broad enough to prohibit a bank from doing by indirection that which it cannot do directly and, therefore, in the Board's opinion, transactions of the kinds described above are prohibited by the regulation unless they come within the exception contained in footnote numbered 12 of the amended regulation under which transactions otherwise prohibited are permitted if they are required by the instrument creating the trust or are specifically authorized by court order."

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Mr. Ransom stated that he had requested that the letter be discussed at a meeting in order to bring out clearly the points involved in the ruling contained in the proposed letter. At Mr. Ransom's request Mr. Wingfield reviewed the consideration which had been given to the question involved in the ruling at the time the recent amendments to Regulation F were under discussion and stated that the office of the Comptroller of the Currency understood at the time these discussions took place that the Board probably would take the position set forth in the proposed letter.

At the conclusion of the discussion, the letter was approved unanimously.

There was then presented a draft of letter to the Presidents of all Federal Reserve banks reading as follows:

"Following a review of the by-laws governing the branches of Federal Reserve banks and also of the Board's regulations relating to directors of such branches, the Board of Governors is considering the adoption of regulations in the form enclosed herewith governing the operations of the branches of the Federal Reserve banks. These regulations include most of the provisions which are now contained in the regulations of the Board regarding directors of branch Federal Reserve banks and also certain other provisions that are largely of a formal character, but they do not contemplate any important changes in operating procedure.

"The regulations provide that each Federal Reserve bank may adopt by-laws or issue instructions, not inconsistent with the law or the regulations, containing such further provisions with regard to the operation of its branches as it may deem advisable. Under the proposed regulations it will not be necessary for a Federal Reserve bank to obtain the approval of the Board of Governors of such by-laws or instructions, but it will be expected that copies of any such by-laws or general instructions regarding

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"the operation of branches, as well as copies of any future amendments thereof, will be furnished promptly to the Board of Governors for its information. In this connection, it will also be expected that, before the regulations become effective or as soon thereafter as practicable, each Federal Reserve bank will review the existing by-laws of its branches and make such modifications as may be appropriate in the light of the new regulations.

"The Board will be pleased to receive any comments you may care to make with respect to the proposals outlined above, and it is requested that you submit them in time to reach the Board not later than January 15, 1940."

Approved unanimously.

There was then presented a letter addressed to the Board under date of December 8, 1939, by Mr. Lichtenstein, Secretary of the Federal Advisory Council, referring to the discussion at the meeting of the Council with the Board of Governors on November 21, 1939, with respect to a change in the procedure for the meetings of the Council in Washington which would contemplate a preliminary discussion meeting with the Board of Governors, and outlining a program for future meetings of the Council.

The Secretary was requested to prepare a letter to Mr. Lichtenstein advising that the Board was in agreement with the proposed procedure.

Mr. Wyatt stated that he had received a letter from Mr. Walter Gellhorn, Director of the Attorney General's Committee on Administrative Procedure advising that the Committee would meet on Friday, December 22, 1939, to consider the report written by Mr. Richard Salant on the administrative procedure of the Board of

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Governors and that he (Mr. Gellhorn) would like to know before that date the names of the representatives of the Board who would be present at the meeting.

Mr. McKee moved that Messrs. Ransom, Wyatt, Thurston and Morrill represent the Board at the meeting of the Committee.  
Carried unanimously.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Dreibelbis, Vest and Wingfield left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board.

The minutes of the Board of Governors of the Federal Reserve System held on December 18, 1939, were approved unanimously.

Memorandum dated December 14, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the appointment of Alfred Sherrard as a junior economist in the Division be made permanent as of January 1, 1940, with salary at the present rate of \$2,800 per annum.

Approved unanimously.

Letter to the board of directors of "The Minerva Savings & Bank Company", Minerva, Ohio, 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

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for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "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 \$961.01, as shown in the report of examination of such bank as of November 7, 1939, made by an examiner for the Federal Reserve Bank of Cleveland."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Minerva Savings & Bank Company', Minerva, Ohio, 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 Superintendent of Banks for the State of Ohio for his information.

"Two lines are listed in the report of examination for membership as being in excess of State limits. It is assumed that the matter of bringing the lines into conformity with State laws will, of course, be followed by your office.

"While the report of examination and presentation memorandum accompanying the application contain no reference to the holding company affiliate status of The Minerva Holding Company upon the admission of The Minerva Savings & Bank Company to membership, it appears from the plan for reopening the bank that all of the stock of the bank, except directors qualifying shares, is controlled by The Minerva Holding Company because it is pledged with

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"such holding company 'with full power to the Holding Company to vote such stock'. However, it is assumed that The Minerva Holding Company does not own or control a substantial portion, if any, of the stock of, or manage or control, any other bank and, in view of this fact, the Board has determined that The Minerva Holding 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. Accordingly, The Minerva Holding Company will not be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. A letter to The Minerva Holding Company advising it concerning the Board's action is enclosed for transmittal to such company. Two copies of the letter are enclosed, one for your files and the other for the bank's files. If the facts are not as stated above, this matter should be submitted to the Board for further consideration prior to the bank's admission to membership."

The letter to The Minerva Holding Company, to which reference is made in the above letter and which was approved unanimously by the Board, read as follows:

"This refers to the Board's approval on this date of the application of The Minerva Savings & Bank Company, Minerva, Ohio, for stock in the Federal Reserve Bank of Cleveland subject to certain conditions and to the status of your company as a holding company affiliate upon the admission of the bank to membership in the Federal Reserve System.

"The Board understands that all of the stock of The Minerva Savings & Bank Company, except directors qualifying shares, is pledged with your company with full power to vote such stock vested in your company and, accordingly, it appears that, upon the bank's admission to membership, your company will become a holding company affiliate of the bank, within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

"The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization--

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"(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank \*\*\*"

"However, the Board also understands that your company does not own or control a substantial portion, if any, of the stock of, or manage or control, any bank other than The Minerva Savings & Bank Company and, in view of this fact, 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 the following provisions of section 2(c) of the Banking Act of 1933:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) \* \* \* any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"As a result of such determination, your company will not be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. However, the Board reserves the right to make a further determination at any time on the basis of the then existing facts and if your company should at any time own or control a substantial portion of the stock of, or manage or control, more than one bank, this matter should again be submitted to the Board for its determination."

Letter to the board of directors of "The Minerva Banking Company", Minerva, Ohio, 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 membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

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"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. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Minerva Banking Company', Minerva, Ohio, 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 Superintendent of Banks for the State of Ohio for his information.

"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, and, if it has not already been done, the management's attention should of course 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.

"In connection with one of the loans listed in the report of examination for membership, that of Jefferson E. Cooper for \$10,359.79, the examiner states that it is excessive under the limitations prescribed by section 11(m) of the Federal Reserve Act. Reference is also made to the loan in the comments on page 2. As you know, the provisions of section 11(m) are not applicable to nonmember banks and if the management of the bank was led to believe that after admission of the bank to membership the loan would constitute a violation of section 11(m) and a reduction in the loan to within the prescribed limits would be necessary, such an impression should be corrected.

"On page 4(1) of the report it is stated that in 1937 a cash distribution of earnings was made under the provisions of the reorganization agreement to the trustees for the waiving depositors but 'that no further distribution of earnings is contemplated until April 3, 1943, when the seven-year period expires.' It is not clear from the comments whether it is contemplated that no further distribution of

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"earnings would be made until after expiration of the agreement, when the earnings would accrue to the stockholders, or whether it was contemplated that at the expiration of the agreement proper settlement would be made with the trustees. It is assumed, of course, that the latter is the real intent. The question arises, however, as to whether the management is justified in taking the position that regardless of earnings, no distribution will be made for the next three years for the benefit of the waiving depositors. It will be expected that after admission of the bank to membership the management will at all times give proper consideration to the rights of the waiving depositors and that the Reserve Bank will follow the situation and see that the bank keeps faith with the waiving depositors."

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

"This refers to your letter of December 7, 1939, with enclosures, requesting the Board's opinion with respect to the question whether the payment and absorption by member banks in Michigan of a tax upon deposits imposed by Senate Enrolled Act No. 166, passed by the 1939 Michigan Legislature, constitutes a payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act and of the Board's Regulation Q.

"It appears that by virtue of the Michigan statute and the regulations of the State Tax Commission issued thereunder, depositors are subject to a tax upon their deposits, based upon the amounts of deposits as of the close of any month or other accounting period as fixed by the Commission retroactively after the close of the tax year. Among other deductions, the law allows the deduction of deposits in banks up to the amount of \$3,000. It appears further that the statute permits any person having intangible personal property of another on deposit to pay the tax imposed by the Act and also permits, but apparently does not require, such person to charge such payments against the property of the owner; and that the regulations of the Commission expressly provide that banks may pay the tax on bank deposits.

"In 1933, the Board had under consideration the Indiana Intangibles Tax Acts which imposed a tax upon depositors in Indiana banks, to be computed according to the

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"amounts on deposit in such banks on the last day of each month in each year. Under this statute, each bank, at its election, was permitted to pay the taxes assessed against its depositors or to deduct the amount thereof from the deposits against which such taxes were assessed. In a letter dated December 9, 1933 (X-7714), the Board took the position that the absorption by member banks of the Indiana tax on deposits as an operating expense of each bank does not, in itself and in the absence of special factors in particular cases which might indicate the contrary, constitute a payment of interest by such banks and is not inconsistent with that provision of section 19 of the Federal Reserve Act which forbids any member bank, directly or indirectly, to pay any interest on any deposit which is payable on demand.

"It is believed that the provisions of the Michigan statute, while not identical, are substantially similar to those of the Indiana statute involved in the above case, and that the views expressed by the Board in that case are equally applicable in the present instance. Accordingly, it is the opinion of the Board that the payment and absorption by member banks in Michigan of taxes upon deposits imposed by Senate Enrolled Act No. 166 of the Michigan Legislature would not constitute a payment of interest in violation of the law or of the Board's Regulation Q."

Approved unanimously.

Thereupon the meeting adjourned.

Chester M. Mowbray  
Secretary.

Approved:

W. S. ...  
Chairman.