A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, December 20, 1939, at 11:30 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

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 December 19, 1939, were approved unanimously.

Memorandum dated December 18, 1939, from the Personnel Committee submitting a proposed budget, covering the expenses of the Board for the year 1940, which had been prepared by Mr. Bethea as Budget Officer. Attached to the budget was a memorandum dated December 1, 1939, from Mr. Morrill recommending that the Board (1) approve the continuation as a regular procedure of the present practice of treating the three subsidiary functional budgets which make up the budget for the Secretary's office as a unit under which the Secretary is authorized to approve transfers as between the subsidiary budgets within comparable budget classifications, (2) approve the consolidation of the general budget with the service functions budget of the
Secretary's office for 1940 with the understanding that in future years provision will be made for all expenditures of a general character in the latter budget, and (3) authorize the respective division heads, with the consent of the Budget Officer, to make expenditures during 1940 and in subsequent years beyond the amount authorized in the approved non-personal services budget for the division for the particular year to an amount not exceeding 10 per cent of the original budget authorization for any individual classification, provided the aggregate authorization for non-personal services for the division will not be exceeded as a result of such additional expenditures. The latter recommendation contemplated that in the case of any major expenditures not contemplated in the original budget and all expenditures which would exceed the proposed 10 per cent limitation, it would be necessary, as in the past, for the head of the division concerned to submit a recommendation to the Board for an additional authorization.

Mr. Morrill's memorandum also stated that since the budget was submitted as of December 1, 1939, any appointments, resignations, salary changes, or other adjustments approved by the Board subsequent to that date and not provided for in the budget as submitted would increase or decrease the budget for 1940.

The budget as submitted was as follows:
<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$1,268,409.92</td>
</tr>
<tr>
<td>Retirement Contributions</td>
<td>57,999.32</td>
</tr>
<tr>
<td><strong>Total Personal Services</strong></td>
<td><strong>$1,326,409.24</strong></td>
</tr>
<tr>
<td>Traveling Expenses</td>
<td>79,300.00</td>
</tr>
<tr>
<td>Postage and Expressage</td>
<td>5,333.00</td>
</tr>
<tr>
<td>Telephone and Telegraph</td>
<td>61,985.00</td>
</tr>
<tr>
<td>Printing and Binding</td>
<td>60,655.00</td>
</tr>
<tr>
<td>Stationery and Supplies</td>
<td>18,960.00</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>20,740.00</td>
</tr>
<tr>
<td>Books and Subscriptions</td>
<td>6,405.00</td>
</tr>
<tr>
<td>Light, Heat, Power, and Water</td>
<td>26,000.00</td>
</tr>
<tr>
<td>Repairs and Alterations</td>
<td>12,000.00</td>
</tr>
<tr>
<td>(Building and Grounds)</td>
<td></td>
</tr>
<tr>
<td>Rental and Repairs</td>
<td>3,055.00</td>
</tr>
<tr>
<td>(Furniture and Equipment)</td>
<td></td>
</tr>
<tr>
<td>Medical Service and Supplies</td>
<td>450.00</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,080.00</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>7,125.00</td>
</tr>
<tr>
<td><strong>Total Non-Personal Services</strong></td>
<td><strong>302,958.00</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$1,629,397.24</strong></td>
</tr>
</tbody>
</table>

The memorandum from the Personnel Committee recommended approval of the budget as submitted together with the recommendations contained in the memorandum from Mr. Morrill.

Approved unanimously.

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

"Mr. Szymczak has brought to the attention of the Board your letter of December 18, 1939, with respect to the proposed increase in the salary of Mr. Rouse as Vice President of the Federal Reserve Bank of New York.

"The entire matter has been given further consideration by the Board of Governors and I have been requested to advise you that, inasmuch as the salary fixed for Mr. Rouse at the time of his employment by the Federal Reserve..."
"Bank of New York represented a substantial increase over the salary which he was receiving at the Guaranty Trust Company and since he has been in the employ of the Federal Reserve Bank of New York less than six months, the Board has come to the conclusion that a further increase should not be approved at this time but that the matter should be deferred pending consideration by the Board in March of the salaries of officers of the bank to become effective on April 1, 1940."

Approved unanimously.

Memorandum dated December 16, 1939, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated December 5 from Mr. Preston, First Vice President of the Federal Reserve Bank of Chicago, which requested approval by the Board of a change in the personnel classification plan of the bank to provide for the creation of the new position of "Supervisor" in the Bank Examination Department. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Memorandum dated December 18, 1939, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated December 14 from Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, which requested approval by the Board of changes in the personnel classification plan of the bank to provide for increases in the maximum salaries for the positions of "General Clerk", "Remittance Clerk" and "Note Custodian", for the creation of the new positions of
"Supervisor of Investment Operations" and "Supervisor of Commodity Credit Corporation Operations", and for the abolishment of the positions of "Supervisor of Custodians", "Custody Control Clerk", "Negotiable Collateral Custodian" and "Supervisory of C.C.C. and Investment Operations", all in the Reconstruction Finance Corporation Collateral and Collection Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Letter to the board of directors of "The Nyack National Bank and Trust Company", Nyack, New York, stating that, subject to conditions of membership, one to six inclusive, prescribed in Regulation H and the following special conditions, the Board approves the application made on behalf of the "Nyack Bank and Trust Company", a proposed State institution being organized to succeed The Nyack National Bank and Trust Company, Nyack, New York, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York:

"7. Such bank shall make adequate provision for depreciation in its banking house.

"8. Such bank shall, at the time of admission to membership, have assets and liabilities substantially the same in amount (with due allowance for changes arising from the ordinary course of business) and character as shown in the report of a survey of the national bank as of October 2, 1939, made by an examiner for the Federal Reserve Bank of New York, and shall have a paid-up and unimpaired capital of at least $575,000 and a surplus of at least $575,000."
"9. In the acquisition of the assets of The Nyack National Bank and Trust Company provision shall be made for the charge-off or elimination otherwise, if such has not already been done, of all the estimated loans, aggregating $5,268, as shown in the report of a survey of such national bank as of October 2, 1939, made by an examiner for the Federal Reserve Bank of New York.

"10. Prior to admission of such bank to membership, Marine Midland Corporation shall have complied with any conditions to the issuance of a general voting permit, for which application has been made, entitling it to vote the stock which it owns or controls of such bank."

The letter also contained the following special comment:

"Since the application for membership was made on behalf of the successor State institution prior to its organization, it is requested that, in connection with the acceptance of the conditions of membership prescribed by the Board, the board of directors of the State bank ratify the action which has been taken on its behalf in making application for membership in the Federal Reserve System."

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

"The Board of Governors of the Federal Reserve System approves the application made on behalf of the "Nyack Bank and Trust Company", a proposed State institution being organized to succeed "The Nyack National Bank and Trust Company", Nyack, New York, for membership in the Federal Reserve System, effective if and when the successor bank is duly authorized to commence business by the New York State Banking Department, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the national bank. 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 New York for his information."
"Before issuing stock in the Federal Reserve Bank of New York to the new State institution, you are requested to satisfy yourself that its capital stock as required in condition numbered 8 has been paid in, and that the organization papers and all agreements and contracts entered into between it and The Nyack National Bank and Trust Company covering the purchase of assets from, and the assumption of liabilities of, that bank and any and all other agreements and contracts between such bank and the stockholders and/or directors or other individuals or concerns, incident to the organization of the new State institution, have been considered by your counsel, and that he is satisfied as to their legal aspects. It is requested that a copy of the opinion of your counsel given in this connection, together with copies of any such agreements and contracts, including a copy of the bank's charter, be forwarded to the Board as soon as possible. It is requested also that the Board be furnished with a copy of the resolution of the board of directors of the State institution ratifying the action taken in its behalf in making application for membership in the Federal Reserve System.

"It appears that among the assets of The Nyack National Bank and Trust Company are certain securities which member banks are prohibited from purchasing under the provisions of Section 5156 of the Revised Statutes of the United States and the Comptroller's regulation governing the purchase of investment securities. It is suggested that you advise the management that such securities should be disposed of prior to the conclusion of the transaction or as soon thereafter as practicable.

"You understand, of course, that standard condition of membership numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future if necessary, but that, in accordance with the general authorization previously granted by the Board, you are authorized to waive compliance with the condition until further notice in so far as the condition applies to funds which are given statutory preference in the State of New York.

"It has been noted that the attention of the national bank has been called to the provisions of Section 12B(1)(4) of the Federal Reserve Act relating to the termination of the insurance on its deposits and that the Federal Deposit Insurance Corporation has been notified of the proposed conversion to a State institution."
Letter to the board of directors of the "Citizen's Bank of Poquoson", Odd, Virginia, 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 Richmond:

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

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business, such as the power to guarantee the payment of bonds. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

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

"The Board of Governors of the Federal Reserve System approves the application of the "Citizen's Bank of Poquoson", Odd, Virginia, 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 Commonwealth of Virginia for his information."
"The report of examination for membership lists one savings account which apparently does not conform to the definition of savings deposits as contained in the Board's Regulation Q, and it is assumed that if the bank is admitted to membership such account will be brought into conformity with the regulation.

"At the time of the examination the bank was carrying a time balance with a nonmember bank in excess of 10 per cent of its own capital and surplus, and, if it has not already been done, the management's attention should, of course, be called to the pertinent provision of section 19(c) of the Federal Reserve Act."

Letter to the board of directors of the "Bloomfield State Bank", Bloomfield, Indiana, stating that, subject to conditions of membership numbered 1 to 5 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 St. Louis:

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

"5. Such bank shall, at the time of its admission to membership, have assets and liabilities substantially the same in amount and character (with due allowance for changes arising from the ordinary course of business and changes contemplated by the proposed merger agreement submitted) as it and The Citizens State Bank had as of November 25, 1939, as shown by certified statements of the banks filed with the Federal Reserve Bank of St. Louis and by a report of investigation made by an examiner for the Federal Reserve Bank; and such bank shall have a paid-up and unimpaired capital of at least $50,000 and a surplus of at least $12,500.

"6. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $1,022.45, and likewise prior
to the admission of such bank to membership, provision shall be made for the charge-off, or elimination otherwise, of estimated losses of $1,625.44 in The Citizens State Bank, all as shown in the report of investigation of the banks as of November 25, 1939, made by an examiner for the Federal Reserve Bank of St. Louis."

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

"The Board of Governors of the Federal Reserve System approves the application of the "Bloomfield State Bank", Bloomfield, Indiana, for membership in the Federal Reserve System, effective if and when The Citizens State Bank, Bloomfield, Indiana, is merged with the Bloomfield State Bank, under the charter and title of the latter bank, 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 for the State of Indiana for his information.

"Before issuing stock in the Federal Reserve Bank of St. Louis to the Bloomfield State Bank you are requested to have the articles of merger and all agreements and contracts incident to the merger of The Citizens State Bank with such bank considered by your counsel and ascertain that he is satisfied as to their legal aspects. It is requested that a copy of the opinion of your counsel given in this connection, together with copies of such documents and the certificate of merger, be forwarded to the Board as soon as possible.

"It will be noted that the removal of the insurance agency from the quarters of the bank has not been required as a condition of membership. On page E-(1) of the report of examination of April 4, 1939, the examiner states that the management expressed itself as being not only agreeable, but rather anxious, to cease the renting of part of the lobby in the banking house to the insurance agency, and it is felt that in the circumstances this can be handled by the Reserve Bank as an administrative matter fully as well as by a condition of membership."
"On page A of the report of examination, the annual salary of the cashier is shown as $2,700 but it is stated that he is "voluntarily receiving $200 per month until earnings improve". It is assumed that the bank has no liability to pay the difference between the stated salary and the amounts actually received, but that if such liability exists it will be properly reflected on the bank's books.

"On the date of the special investigation, The Citizens State Bank was carrying with at least one nonmember bank a balance which would be in excess of 10 per cent of proposed capital and surplus of the merged bank, and it is assumed that the matter of reducing the balance to within statutory limits will be followed by your office."

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

"Reference is made to your letter of December 13, 1939 transmitting, with favorable recommendation, a request from the 'Merchants and Farmers Bank', Portsmouth, Virginia, for a further extension of six months, from January 31, 1940, of the time within which to complete compliance with condition of membership numbered 5, such condition reading as follows:

'5. As soon as practicable, and in any event within six months from the date of admission to membership, such bank shall dispose of any loans which may be secured in whole or in part by its own stock or obtain the substitution of other adequate security for each such loan.'

"According to the information submitted, the bank, through sales of the stock and substitution of other collateral, has disposed of all but 66 of the 676 shares of its own stock which were held as collateral to loans when examined for membership. The remaining 66 shares are held as collateral to two loans and the management feels that within the six-months' period asked for those loans will be strengthened by other collateral so that the stock can be released.

"In view of the circumstances, therefore, and your recommendation, the Board extends to July 31, 1940, the time within which the bank may complete compliance with the provisions of condition of membership numbered 5, and you are requested to advise the bank accordingly."

Approved unanimously.
Letter to "The National Bank of Grand Rapids", Grand Rapids, Michigan, reading as follows:

"The Board of Governors of the Federal Reserve System has considered your application for permission to exercise fiduciary powers, and grants you authority, effective if and when the proposed consolidation of The National Bank of Grand Rapids and the Grand Rapids Trust Company, both of Grand Rapids, Michigan, is consummated under the charter of your bank and under the title of First National Bank & Trust Company of Grand Rapids, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Michigan, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"Upon receipt of advice from the Comptroller of the Currency that the proposed consolidation has been effected, a formal certificate evidencing your right to exercise fiduciary powers will be forwarded to you."

Approved unanimously.

Telegram to Mr. Young, Federal Reserve Agent at the Federal Reserve Bank of New York, 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 "Marine Midland Corporation", Jersey City, New Jersey, entitling such organization to vote the stock which it owns or controls of the "Nyack Bank and Trust Company", Nyack, New York, 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:

"1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board’s letter X-3385, except that (a) paragraphs numbered 1, 2, 4, and 5 shall be omitted and remaining numbered paragraphs appropriately renumbered and (b) all lettered paragraphs and introductory sentence immediately preceding them shall be omitted.

"2. Prior to issuance of general voting permit authorized herein, applicant shall deliver to you in duplicate Exhibit L (Form P-3) executed by Cataract Hotel Corporation and Exhibit N (Form P-4) executed by applicant and consented to by such corporation, or furnish assurances satisfactory to you that it will deliver such exhibits to you within 30 days after issuance of such permit or furnish evidence in writing satisfactory to counsel for Federal Reserve Bank of New York that such exhibits are not required by Board’s Regulation P and directions on printed forms referred to.

"3. Prior to or simultaneously with issuance of general voting permit authorized herein, Nyack Bank and Trust Company shall be admitted to membership in the Federal Reserve System."

The telegram also stated that in order to eliminate any possible question concerning the authority of the applicant’s officers, because the resolution set forth in Exhibit C of the application was adopted prior to previous application, the applicant should be requested to furnish as soon as practicable two certified copies of a resolution of its board of directors or executive committee ratifying all action taken by its
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officers in obtaining such permit. The telegram stated further that, in view of the nature of the Royal Development Company, Hornell, New York, and its relationships to other organizations in the Marine Midland group, the Board does not deem it necessary to prescribe a condition requiring the filing of Exhibits L and N covering such corporation.

Approved unanimously.

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

"You will find enclosed a copy of a letter regarding Regulation T under date of December 13, 1939, from Mr. Clement Hackney of Thomson & McKinnon, 902 First Wisconsin National Bank Building, Milwaukee, Wisconsin, and a copy of our reply."

"You will note that Mr. Hackney refers to the fact that Regulation T as revised effective January 1, 1938, omitted any specific provision such as had been included in the previous Regulation, for the substitution of securities in a restricted account through the sale of one security and the subsequent purchase of another security within a period of two successive business days. He suggests that some such provision be added to the regulation.

"It appears that the firm is not familiar with the provision of section 3(b) of the Regulation regarding withdrawals from general accounts or the provision in section 4(f)(6) for setting aside money or securities for a customer in a special miscellaneous account instead of including them in the customer's general account. Under section 3(b), when securities are sold in a general account the margin required on the securities thus sold may be withdrawn from the general account except in certain cases. Funds so withdrawn may either be paid over to the customer or be deposited in the special miscellaneous account, and in either such event they would be available for deposit in the general account as margin on a subsequent purchase of securities. Accordingly, if the sale precedes the purchase, as in the case described by Mr. Hackney, the transaction could in most instances be effected under the present Regulation pursuant to these provisions."
"It will be appreciated if you will advise the firm accordingly."

Approved unanimously.

Letter to Mr. J. T. Robbins, Cashier of the Princeton State Bank, Princeton, Missouri, reading as follows:

"This will acknowledge receipt of your letter of December 5, with respect to the proposed transfer of thirteen counties in the northwestern part of Missouri from the Eighth to the Tenth Federal Reserve District. Your letter will be placed on file by the Board and will be given careful consideration when the Board considers the problem of readjustments of lines between Federal Reserve districts.

"We are glad to note from your letter that arrangements have been made by the Federal Reserve bank to send you a telegraphic letter explaining the details of future Treasury offerings so that the announcements with respect to such offerings may reach you in time for you to take such action as you may wish with respect thereto before the subscription books for the offerings are closed."

Approved unanimously.

Thereupon the meeting adjourned.

[Signatures]

Secretary.

Chairman.