

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 22, 1939, at 10:45 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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. Dreibelbis, Assistant General Counsel

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, and to Messrs. Kimball, Hays, Leedy and Hale, Secretaries of the Federal Reserve Banks of New York, Cleveland, Kansas City and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on December 19, by the Federal Reserve Banks of New York, Cleveland, Kansas City and San Francisco on December 21, 1939, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Davis stated that a telegram had been received from Henry S. Dennison advising that he was pleased to accept appointment as a Class C director of the Federal Reserve Bank of Boston but that he would like to suggest that the Board give serious consideration to

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inviting Henry I. Harriman, the third Class C director at the bank, to serve as Deputy Chairman.

Upon recommendation by Mr. Davis the following telegram to Mr. Dennison was approved unanimously:

"Retel December 19. Board sincerely appreciates your acceptance of appointment as class C director. It has given careful consideration to your suggestion relating to appointment of deputy chairman but would like very much to have you continue in that capacity and would be pleased to have your acceptance by collect telegram."

There was presented an undated letter received by Chairman Eccles on December 19, 1939, from Mr. Preston C. Delano, Comptroller of the Currency, reading as follows:

"This will acknowledge receipt of your letter of December 14, 1939, which was written pursuant to our conversation of that date in regard to the current condition of the Bank of America National Trust and Savings Association of San Francisco, California, and the present status of the supervisory problems which it presents.

"Your letter seems to have been written under the impression that negotiations seeking an agreement with respect to the adoption of corrective measures have been under way between the Bank and this office and that a proceeding against the officers and directors of the Bank under Section 30 of the Banking Act of 1933 is no longer contemplated.

"I want to correct this impression. The situation concerning the Bank's major problems remains much the same as it was a year ago last fall when Governor Ransom attended the meetings in Secretary Morgenthau's office. The differences between this office and the Bank remain unsolved despite my repeated warnings that definite corrective steps must be taken by the Bank. Whatever negotiations have been under way have not been for the purpose of seeking an agreement but for the purpose of seeing to it that the Bank complies with the recommendations and suggestions which I have made based on reports of examination of the Bank. To date the Bank has done little more than equivocate and has taken

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"no definite steps to comply with the most important of these recommendations and suggestions. Neither does it appear that the Bank is presently disposed to take any such steps.

"The continuance of this situation cannot be tolerated. Indeed, I have told the Chairman of the Board of the Bank that the Bank must come forward by December 31, 1939 with a definite program, approved by its Board of Directors, which will meet to my satisfaction my recommendations and suggestions. If such a program is not forthcoming, I will be compelled to take such measures against the Bank's management as the law authorizes and requires to protect the interests of the stockholders and depositors. A proceeding under Section 30 is one such measure and the possibility that a proceeding under that Section may yet be necessary is by no means foreclosed.

"With this in mind, if you still wish to be advised with respect to the Bank and will designate some member of your Board with whom I may communicate, I shall be very glad to keep him informed as to any action taken."

In connection with this matter Chairman Eccles called attention to a letter which he addressed to the Secretary of the Treasury under date of October 27, 1938, with respect to certain legal and practical aspects of proceedings under Section 30 of the Banking Act of 1933, to the reply to this letter which was addressed to Chairman Eccles under date of November 3, 1938, by Acting Comptroller of the Currency Upham, and to the Chairman's letter of November 14, 1938, to the Comptroller of the Currency on the same subject.

In the discussion which followed during which Messrs. Paulger, Chief of the Division of Examinations, and Leonard, Assistant Chief of the Division of Examinations, joined the meeting, reference was made again to the statement presented by Chairman Eccles to the Secretary of the Treasury on December 12, 1939, and read by the latter at that

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time, and to the Board's letter of December 14, 1939, to the Comptroller of the Currency, in which communications were set forth reasons why the Board desired to be fully informed with respect to the condition of the Bank of America National Trust & Savings Association.

During the course of the discussion references were made to the following points: (1) The bank is a member bank of the Federal Reserve System and as such is subject to various provisions of the Federal Reserve Act and to the regulations of the Board, as well as to the powers of the Board and of the Federal Reserve bank to require reports and to make examinations; (2) The Board of Governors, after consultation with the office of the Comptroller of the Currency, issued a permit to Transamerica Corporation to vote the stock of Bank of America National Trust and Savings Association, that this permit has not been surrendered, revoked or canceled and that some of the matters mentioned in the communications which the Board has received and in discussions with it on the subject relate to transactions between the bank and the Transamerica Corporation; (3) Representatives of the Bank of America in discussions with the Board and in communications furnished to the Board have referred to correspondence and negotiations with the Comptroller of the Currency including an agreement said to have been reached upon a program of corrective action with respect to the condition and affairs of the bank but have complained of inability to obtain a full discussion or understanding with respect to these matters by correspondence or conference; (4) In discussions with members of the Board, representatives

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of the Bank of America have indicated the imminence of a request on their part to the Board under its statutory authority to examine the bank and determine the merits of its present situation; (5) Considerably more than a year has elapsed since the Board was first advised of the possibility of the institution of a proceeding under section 30 of the Banking Act of 1933 but that no such proceeding has been instituted and that during this period the Comptroller of the Currency has not informed the Board of developments in the Bank's situation except to the extent that the Board has received copies of reports of examinations of the national bank and recently the Comptroller, at the Board's request, furnished it copies of certain letters, but not the entire correspondence between the office of the Comptroller and the bank; (6) It has been the general practice of Federal banking supervisory authorities to accept reports of examinations made by other Federal authorities primarily responsible for examination of particular types of banks and that this has been the practice with respect to examinations made by the Comptroller of the Currency of national banks; (7) It has been the general practice of the supervisory authorities to consult and exchange information and to endeavor to arrive at solutions of problems of common interest and joint concern and that this has been true as to national banks with the exception of the Bank of America; (8) The Board has not received and does not have full information from the standpoint of the Comptroller of the Currency as to the correspondence and negotiations between his office and the Bank of America and that such information is essential

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to a full understanding of the situation as to that bank and its relations with Transamerica.

At the conclusion of the discussion the following letter to the Comptroller of the Currency was approved by unanimous vote, with the understanding that it would be sent to the Comptroller today by messenger:

"In response to your letter replying to my letter of December 14, regarding the Bank of America N.T. & S.A., and for reasons indicated in previous correspondence and conversations, the Board has asked me to say that it would like to be advised in regard to the current condition of the bank and the present status of the supervisory problems which it presents. The Board has asked that you call me on the telephone in order that a conference may be arranged for this purpose."

At this point Messrs. Wyatt, Paulger, Dreibelbis and Leonard withdrew from the meeting.

Upon recommendation of the Personnel Committee, and subject to confirmation of his willingness to serve, Roger B. Shepard, President, Finch, Van Slyck & McConville, Minneapolis, Minnesota, was appointed a Class C director of the Federal Reserve Bank of Minneapolis for the unexpired portion of the term of three years ending December 31, 1941.

At this point Mr. Thurston 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 meeting of the Board of Governors of the Federal Reserve System held on December 21, 1939, were approved unanimously.

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

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"In accordance with the recommendation contained in your letter of December 18, 1939, the Board of Governors approves the payment of a salary to Mr. L. Bernard Raether, Federal Reserve Agent's Representative at the Detroit Branch, at the rate of \$3,000 per annum, effective January 1, 1940."

Approved unanimously.

Letter to the board of directors of the "Deposit Guaranty Bank & Trust Company", Jackson, Mississippi, stating that, subject to conditions of membership numbered 1 to 6, inclusive, 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 Atlanta:

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

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Deposit Guaranty Bank & Trust Company', Jackson, Mississippi, 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 State Comptroller for the State of Mississippi for his information.

"In view of the fact that of the estimated losses shown in the report of examination for membership all except approximately \$800 representing accumulated cash shortages were reported to have been eliminated during

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"the examination, and the cash shortage will be eliminated at the close of the year, the usual condition of membership regarding the elimination of estimated losses has not been prescribed.

"It is assumed that your office will, of course, follow to a conclusion the appointment of a trust committee and the promised improvement in the trust department records.

"According to the report of examination for membership and the latest reports of examinations by the State Department and Federal Deposit Insurance Corporation, there has been considerable activity in the bank's investment account, which activity in the opinion of the examiners has the appearance of an attempt to speculate in the account and which has been subject to rather severe criticism by the State Department and Federal Deposit Insurance Corporation. If you have not already done so, you should make it clear to the bank that as a member bank it will be expected to adhere strictly to sound investment principles, discontinuing the criticized practices of the past."

Letter to Mr. Preston Delano, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of Deputy Comptroller Gough's letter of December 19, 1939, advising of a change in the plan of conversion of the 'Citizens State Bank & Trust Company', Goose Creek, Texas, into a national banking association, under which the proposed increase in capital stock of the converting bank from \$50,000 to \$100,000, by means of a stock dividend, is to be effected immediately after the conversion is completed, instead of prior thereto as originally contemplated.

"The Board sees no objection to the amended procedure and, therefore, continues its grant of fiduciary powers as set forth in our letter of December 13, 1939 to the bank, with the understanding that the proposed increase in capital stock of the converting bank will be effected substantially as stated in Mr. Gough's letter."

Approved unanimously.

Memorandum dated December 20, 1939, from Mr. Foulk, Fiscal Agent, recommending that an assessment of twenty-five hundredths of

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one per cent (.0025) of the total paid-in capital and surplus (Section 7 and Section 13b) of the Federal Reserve banks as of the close of business December 31, 1939, be levied to cover the general expenses of the Board during the first six months of 1940, and that the Federal Reserve banks be instructed to pay in the assessment in two equal installments on January 2, 1940, and March 1, 1940.

The following resolution levying an assessment in accordance with the Fiscal Agent's recommendation was approved unanimously:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1940, it is necessary that a fund equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

"(1) There is hereby levied upon the several Federal Reserve banks an assessment in an amount equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business December 31, 1939.

"(2) Such assessment shall be paid by each Federal Reserve bank in two equal installments on January 2, 1940, and March 1, 1940, respectively.

"(3) Every Federal Reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by

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"transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Letter to the Presidents of all Federal Reserve banks, reading as follows:

"In accordance with the practice of holding periodic conferences of representatives of the bank examination departments of the Federal Reserve banks, it is planned to hold such a conference in Washington some time in the first part of the coming year, probably early in February. The exact date will be announced later.

"As in the past, the conference will partake largely of the nature of a round table discussion and an effort will be made to consider at the conference any subjects or problems of general interest which the representatives of the Reserve banks may wish to discuss. Members of the Board's staff will also be glad, of course, to discuss with representatives of the Reserve banks any other matters of less general interest which are not brought up at the conference.

"The Board's Division of Examinations has suggested that it might be more helpful if, instead of having many topics on the program, the program were planned with the idea of rather full discussion of a relatively few topics. The Division has suggested that the following topics be included:

1. Classification of loans, particularly Classification II.
2. Type of comments and suggestions with respect to individual loans and general loaning and credit policies.
3. Real estate and real estate loans.
 - a. Treatment of land contracts -- as other real estate or real estate loans.
 - b. Treatment of 'assets indirectly representing other real estate'.
4. Securities.
 - a. Amortization of premium on exempted securities.

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"b. Requirements with respect to use of profits from sale of securities.

c. General supervisory policies and practices.

"It will be appreciated if the officers in charge of the examination departments of the Federal Reserve banks will forward to Mr. Paulger before January 10 their comments and suggestions as to the general type of program and as to specific subjects. It will also be helpful in planning for the conference if the Reserve banks will indicate both the most convenient and the most inconvenient times for holding the conference during the period from the latter part of January to the first part of March."

Approved unanimously.

Memorandum dated November 30, 1939, from Mr. Szymczak in which he referred to the consideration given by the Board since the meeting with the Federal Advisory Council on November 29, 1938, to the question of the Federal Reserve banks paying traveling expenses of representatives attending stockholders meetings at the banks and to the practice of some of the banks in holding other meetings of bankers at the Federal Reserve banks and in which he recommended that the future policy of the Board be such as will permit the Federal Reserve banks to absorb, within reasonable limits, expenses incurred in connection with meetings of member and nonmember bankers with the officials of Federal Reserve banks.

Approved unanimously, with the understanding that no advice would be sent to the Federal Reserve banks with respect to this action at this time.

Memorandum dated December 18, 1939, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the January issue of the Federal Reserve Bulletin in the form attached to

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the memorandum a statement with respect to the question whether Section 32 of the Banking Act of 1933 applies to "Secretary to Board of Directors".

Approved unanimously.

Memorandum dated December 20, 1939, from Mr. Smead, Chief of the Division of Bank Operations, submitting the requests of the Federal Reserve banks for authority to pay dividends, to set aside certain reserves and to make certain charge-offs at the end of 1939, and recommending that the requests of the Federal Reserve banks be approved as set forth in the memorandum. The memorandum stated that current earnings during 1939 would amount to approximately \$38,433,000 and current expenses to approximately \$28,639,000, leaving current net earnings of approximately \$9,794,000, that during the period January 1 to December 18, 1939, a total profit of \$3,787,000 was realized on the sale of Government securities from the System open market account; that other credits to profit and loss would exceed proposed charges to profit and loss by approximately \$2,383,000; and that this amount plus the current net earnings of \$9,794,000 would give net earnings of approximately \$12,177,000. The memorandum also stated that under Section 13b of the Federal Reserve Act the Federal Reserve banks were required to pay to the United States Treasury two per cent yearly, if earned, on the total payments received from the Secretary of the Treasury for the purpose of making industrial advances and commitments; that if the additions to reserves on industrial advances and commitments being recommended

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were authorized, approximately \$428,000 would be charged to Section 13b surplus by four Federal Reserve banks and payments approximating \$66,000 would be made to the Treasury by the other Federal Reserve banks. The memorandum stated further that after deducting approximately \$8,110,000 for dividends and \$66,000 for payments to the United States Treasury under Section 13b of the Federal Reserve Act and withdrawing about \$428,000 from surplus (Section 13b), principally to take care of losses and to provide reserves for estimated losses on industrial advances not covered by current net earnings on industrial advances and commitments, there would remain approximately \$4,429,000 for transfer to surplus (Section 7).

The recommendations contained in the memorandum were approved unanimously as follows:

1. Each Federal Reserve bank was authorized to pay the usual semi-annual dividend at the close of the year, estimated at a total for all banks of \$4,062,000.
2. The Federal Reserve Bank of Atlanta was authorized to charge-off \$64,298 on the Birmingham, Jacksonville and New Orleans branch buildings to cover the cost of improvements and additions; and to set aside special reserves of \$18,345 on the same buildings to cover the cost of replacements incident to the installation of air conditioning, etc., and \$148,556 on fixed machinery and equipment in the Birmingham, Jacksonville, Nashville and New Orleans branch buildings to cover the cost of installation of air conditioning, installation of and repairs to elevators, and replacements to the plumbing, heating and electric systems.
3. The Federal Reserve Bank of Chicago was authorized to charge-off \$232,000 on the Chicago building, \$118,000 on the Chicago site, and \$112,500 on the Detroit branch site, in order to bring the book value of said properties more in line with the present market value, it

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being understood that beginning with January 1, 1940, the current two percent depreciation allowance on the Chicago and Detroit buildings will be based on cost less charge-offs, as the depreciation reserves on these buildings will on that basis equal the book values in approximately forty years from date of occupancy.

4. The Federal Reserve Bank of Minneapolis was authorized to charge-off \$100,000 on the Minneapolis site to reduce the book value thereof to \$400,520.66.
5. The Federal Reserve Bank of Dallas was authorized to set aside a special reserve of \$78,000 on the head office building with a view to ultimately increasing the reserve on that building to the point where the normal two per cent annual depreciation allowance will produce a reserve equal to the carrying value of the building in forty years from the date of occupancy.
6. The Federal Reserve Bank of San Francisco was authorized to write down the book value of the Los Angeles branch land from \$298,865.49 to \$75,000.
7. The Federal Reserve Bank of Cleveland was authorized to charge-off \$199,462 on the old Pittsburgh branch building to reduce its book value to \$150,000.
8. The Federal Reserve banks listed below were authorized to set aside reserves for losses and to make charge-offs on industrial advances and commitments in the approximate amounts shown, as being necessary to cover estimated losses on specific advances outstanding:

	<u>Total</u>	<u>Charge-offs</u>	<u>Reserves</u>
Boston	\$ 2,000	\$ 2,000	---
New York	405,000	352,000	\$ 53,000
Philadelphia	120,000	---	120,000
Richmond	74,000	12,000	62,000
Atlanta	15,000	---	15,000
Chicago	14,000	---	14,000
Minneapolis	33,000	---	33,000
Dallas	19,000	---	19,000
San Francisco	<u>34,000</u>	<u>---</u>	<u>34,000</u>
Total	\$716,000	\$366,000	\$350,000

9. The Federal Reserve banks listed below were authorized to

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withdraw amounts from surplus (Section 7) for transfer to reserves for contingencies as follows:

Boston: \$150,000.

New York: An amount equal to its participation in profits from sale of United States Government securities, \$1,088,000.

Cleveland: Not to exceed \$73,737.50.

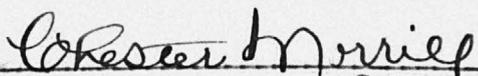
Kansas City: An amount equal to its net earnings after payment of dividends, \$213,000.

Dallas: An amount (\$27,807.50) sufficient to increase its reserve to \$1,800,000.

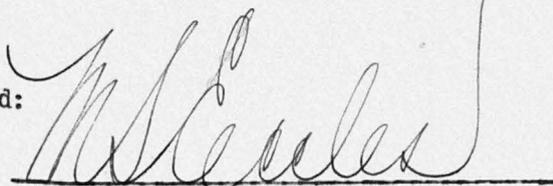
It was understood that the Federal Reserve Bank of Cleveland would be advised that if it wishes to do so the Board will interpose no objection to its using the remainder of its net earnings for the purpose of setting up a special reserve on the head office building, with the understanding that the book value of the building will not be written down to an amount where the annual two per cent depreciation allowance will result in writing off the book value of the building in less than 40 years from the date of its occupancy.

10. The Federal Reserve Bank of Richmond was authorized to deduct from its reserve for contingencies and credit to its profit and loss account \$3,000 representing the employees' loan fund at that bank.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.