

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, December 28, 1939, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

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 27, 1939, were approved unanimously.

Memorandum dated December 27, 1939, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated December 21 from Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, which requested approval by the Board of a change in the personnel classification plan of the bank to provide for an increase in the maximum salary for the position of "Examiner" in the Bank Examination Department from \$4,000 to \$4,500 per annum. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Letter to the board of directors of the "Ridgefield State Bank", Ridgefield, Washington, stating that, subject to conditions

12/28/39

-2-

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 San Francisco:

- "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. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Ridgefield State Bank', Ridgefield, Washington, 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 Supervisor of Banking for the State of Washington for his information.

"You will observe that the Board has not prescribed the special condition recommended by the Reserve Bank requiring the transfer of a portion of the bank's earnings and recoveries from its undivided profits account to a new account reflecting liability for deposits waived at the time of the bank's reorganization. As you know, if the bank becomes a member, it will be required to report its liability on obligations subordinated to claims of depositors and other creditors under item 33(b) Form F.R. 105, and it is believed that such requirement will properly disclose the bank's liability on the waived deposits."

Memorandum dated December 27, 1939, from Mr. Paulger, Chief of the Division of Examinations, recommending that, for the reason stated in the memorandum, the item Telephone and Telegraph in the 1939 budget for the Division be increased in the amount of \$200 for

12/28/39

-3-

the purpose of taking care of the present deficit of \$170 and for such additional calls as may be necessary during the remainder of the current year.

Approved unanimously.

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

"Reference is made to Mr. McRae's letters of December 13 and 14, 1939, and enclosures, presenting for the consideration of the Board the question whether The Morris Plan Company of Springfield, Springfield, Massachusetts, is a 'bank' within the meaning of section 8 of the Clayton Act, since, if the Company is not a 'bank', the statute is not applicable to directors or officers of the Company who are serving as directors or officers of member banks of the Federal Reserve System.

"It is understood that the Company was organized in 1913 under what are now Chapters 155 and 156 of the General Laws of Massachusetts, and that it is now subject to all but one of the provisions of Chapter 172A of the General Laws; that it is not a 'bank' within the meaning of that term as employed in the Massachusetts statutes; that by express provision of its certificate of incorporation it is 'not to carry on the business of a bank'; and that, although the statutes were amended in 1935 and 1938 so as to provide that such companies could, by a two-thirds vote of their shareholders and after receiving a certificate from the Commissioner of Banks, change their corporate name by inserting therein the words 'Banking' or 'Banking Company' and thereupon become 'banks' under Massachusetts law, authorized to 'carry on business of the character and in the manner set forth in' Chapter 172A, the Company has not taken steps to effect such a change in its affairs.

"It is further understood that the Company sells fully paid investment certificates but only in denominations of fifty dollars or multiples thereof, not exceeding \$5,000 to any one person; that, although it may, and does in practice, pay such certificates on presentation, such certificates are not negotiable or transferable by endorsement and are payable only on presentation by the holder or proper assignee thereof, and are subject to the

12/28/39

-4-

"right of the Company to require not more than thirty days' notice in writing and to limit the aggregate amount of payments in any one calendar month to an amount not exceeding its net receipts in the calendar month next preceding; that the Company also issues installment investment certificates representing accounts opened for the purpose of purchasing fully paid investment certificates on an installment basis; that it does not permit partial withdrawals from such installment investment certificate accounts, although the whole of any amount which has been paid thereon may be withdrawn and the certificate cancelled; that the Company makes no use whatever of counter checks or other checks to effect withdrawals; that, although the Company pays interest on both full-paid and installment investment certificates, the interest on full-paid investment certificates is paid by check mailed to the owner of the certificate on January and July first of each year (except when the interest amounts to less than fifty cents in which case the check is held until the accrued interest amounts to fifty cents or more), and the interest on installment investment certificate accounts is payable, only upon completion of the contract, on the date of maturity and is paid in cash or by check in accordance with the wishes of the customer upon surrender of his coupon book; that the major portion of the Company's transactions consists of the discounting or purchasing of notes and conditional sale agreements containing contracts for installment payments over periods of from six to twenty-four months, the Company purchasing or discounting about nineteen to twenty such obligations per day, and the daily average of installment payments collected being about 575; that payments on installment investment certificates average about four a day and withdrawals from such certificates average less than one a day; that the daily cash on hand carried in the Company's office averages less than \$1,500 from which all payments for loans or conditional sale agreements or investment certificates or for any other purpose are made, there being no segregation of cash for specific purposes; that the receipt and payment of funds in connection with investment certificates probably does not require more than ten per cent of one person's time; that withdrawals of full-paid investment certificates average eight per week; that the Company does not issue cashier's checks or drafts; that the Company does not accept deposits or maintain any form of so-called checking account service, but receives money in one payment or in installments in connection with the issue of investment certificates; that

12/28/39

-5-

"the Company is prohibited by law from transacting and does not transact a trust business; that it does not offer safety deposit facilities to the public; that it transacts no escrow or agency business for the public; that, except on rare occasions, it does not buy or sell securities for customers, and when it does the transaction is usually in connection with a loan; that it is not a member of any clearing house association; that its business hours are not identical with those of banking institutions operating in the community; that, although it is subject to the supervision of and examination by the Commissioner of Banks of Massachusetts, so also are cooperative banks, credit unions and small finance companies in the State; and that, although it is required to submit reports of condition to the Commissioner of Banks and to publish reports at such times and in such manner as the Commissioner shall direct, it is not required to submit and publish such reports as frequently as banks and trust companies in the State are required to do. It is understood also that the general public does not regard the Company as a bank of deposit.

"As the Board stated in its letter of October 19, 1939 (S-189-a), the question whether or not a particular institution is a 'bank' within the meaning of section 8 of the Clayton Act is often a perplexing one, and in view of the great variety of financial institutions in this country there must necessarily be cases where even slight variations in the facts will produce different results. Although the facts concerning The Morris Plan Company of Springfield vary in some particulars from the facts of the case dealt with in the Board's letter of October 19, 1939 (S-189-a), the Board is of the opinion that the variations are not material. Accordingly, on the basis of the facts set forth above, it is the opinion of the Board that The Morris Plan Company of Springfield, Springfield, Massachusetts is not now a 'bank' within the meaning of section 8 of the Clayton Act."

Approved unanimously.

12/28/39

-6-

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. Steeles  
Chairman.