

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 8, 1940, at 10:40 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. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel
Mr. Gardner, Senior Economist in the
Division of Research and Statistics

On January 4, 1940, there was sent to each member of the Board a copy of a memorandum prepared by Mr. Gardner under date of December 20, 1939, relating to discussions in which he (and on one or two occasions Mr. Goldenweiser) had participated with representatives of the Treasury and State Departments with respect to the possible establishment of an Inter-American Bank. The memorandum stated that the Board's representatives might be called upon presently to express its attitude toward the proposed bank and this meeting was called to consider that matter.

Mr. Gardner answered several questions with respect to the discussions in which he had participated and said that one of the questions considered was whether the control and management of the

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proposed bank would be in the hands of the respective Governments or the central banks. Mr. Ransom suggested that the essential question involved was whether there is an economic justification for the bank or whether its creation was suggested by other reasons and that, while the representatives of the Board could continue to participate in the discussions and lend assistance in the consideration of technical matters, it was not possible to reach any satisfactory conclusion in the absence of a statement of the proposed objectives of the bank.

Mr. Goldenweiser said that it would be helpful to the representatives of the Board who participate in the discussions if the Board would indicate its preference as to whether the administration of the bank should be in the hands of the Governments or in the hands of the central banks, and that his recommendation would be that, regardless of the Board's decision on this point, its representatives should continue to participate in the discussions and lend such assistance as they can in harmony with any position that the Board might take on the matter or instructions that it might give to its representatives. All of the members of the Board indicated that they were in agreement with this recommendation.

In a further discussion, Mr. Gardner stated that the Board might take the position (1) that there is no economic justification for the bank, or (2) that while the bank might fill some useful purpose its operations would be in a field in connection with which the Board should not be charged with responsibility, or (3) that it is

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a matter with which the Board is sympathetic and the System would be willing to accept a part in the administration of the bank if requested to do so, or (4) that the bank should be organized and that its administration should be placed in the hands of the central banks of the countries involved which in this country would be the Federal Reserve System. With respect to the latter point Mr. Goldenweiser said that the Secretary of the Treasury was actively interested in the proposal and had taken the position that the administration of the bank should be in the Governments, that the regular members of the Treasury staff reflected that view, but that the special advisers to the Treasury had indicated the opinion that there was no economic justification for the bank.

A further discussion was had with respect to the possible sources of the bank's capital and other funds, its relations with commercial and other banks, and the purposes that the new institution might serve.

During this discussion Mr. Clayton joined the meeting.

Consideration was also given to whether the purposes for which the bank was proposed could be met by the Export-Import Bank or by the creation of an Edge Act corporation under Section 25(a) of the Federal Reserve Act or by some other means.

Mr. Goldenweiser expressed the opinion that the discussions of the matter by representatives of this country with the Financial

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Subcommittee of the Inter-American Financial and Economic Advisory Committee could not proceed further without danger of the impression being created on the part of the representatives of other American republics that the United States is more or less committed to the establishment of the bank, and that in order to avoid this possibility a conference of proper Government officials should be held to determine what the attitude of the United States will be toward the creation of the bank.

Some of the members of the Board indicated agreement with Mr. Goldenweiser's opinion and with the position that, while there was no apparently satisfactory economic or financial reason for the organization of the bank, its creation might be justified by other reasons upon which the Board would not be in a position to express an opinion.

At this point Mr. Draper left the meeting.

Mr. Gardner stated that he had just learned this morning that another meeting of the representatives of the Board and the Treasury and State Departments had been called to convene this afternoon.

There was a further discussion of the instructions that might be given by the Board to its representatives and Chairman Eccles suggested that in order that the Board might not be placed in the position of having tacitly agreed to certain points, the questions should be raised in any further discussions whether the organization of the bank would be justified on economic grounds, whether, even if there were no

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economic need the bank would be desired for other reasons, and whether its administration should be in the hands of the Governments or the central banks. In connection with the latter question he said it should be pointed out that some of the nations involved apparently favored placing the control of the bank in the central banks and that the supervision of the Bank for International Settlements was in the hands of central banks, which are better qualified to provide continuity of policies and management.

At the conclusion of the discussion it was agreed that Messrs. Goldenweiser and Gardner should attend the meeting this afternoon and should make it clear that a definite question exists so far as the Board is concerned as to the economic justification for the bank and whether, if organized, it should be administered by the Governments or the central banks.

It was also agreed that Chairman Eccles would call Under Secretary of State Sumner Welles for the purpose of suggesting to him that there be a determination of the fundamental question of the attitude of this Government toward the creation of the bank.

At this point Mr. Gardner withdrew from the meeting.

Chairman Eccles stated that he had just talked on the telephone with Mr. Bell, Undersecretary of the Treasury, who advised that a meeting had been called for this afternoon in his office at which Mr. Delano, Comptroller of the Currency, Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, Messrs. Charles S. Spencer and James M. Landis, Special Advisers to the Treasury, Mr. E. S. Greenbaum, Special Counsel to the Treasury, and members of the Treasury staff

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would be present, for consideration of the question whether notice should be served on the Bank of America National Trust & Savings Association, San Francisco, California, to show cause why certain actions which may be taken under the law should not be instituted against the bank. Mr. Bell said, Chairman Eccles stated, that it would be appreciated if he and such other members or representatives of the Board of Governors as it desired to have present would attend the meeting.

It was agreed that Messrs. Eccles, McKee, Morrill and Dreibelbis should attend the meeting.

At this point Messrs. Thurston, Wyatt, Goldenweiser and Dreibelbis 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 January 6, 1940, were approved unanimously.

Memorandum dated December 29, 1939, from Mr. Paulger, Chief of the Division of Examinations, recommending that, for the reasons stated in the memorandum, the headquarters of Clarence S. Barker, Assistant Federal Reserve Examiner, be changed from Atlanta, Georgia, to Washington, D. C., effective January 2, 1940.

Approved unanimously.

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

"In view of the circumstances set forth in your

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"letter of December 21, 1939, the Board of Governors approves the payment of salaries in excess of the maximum annual salary of \$3,000 provided for the position of Senior Secretary in the personnel classification plan of your bank as follows:

<u>Name</u>	<u>Position</u>	<u>Annual salary</u>
Mary A. Regan	Senior Secretary	\$3,200
Lucille A. Lorch	Senior Secretary	3,200
Gertrude E. Roy	Senior Secretary	3,200"

Approved unanimously.

Letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Cleveland, made as of October 27, 1939, by the Board's examiners, a copy of the report of examination was left for your information and the information of the directors. A copy was also furnished President Fleming.

"The report does not appear to contain any matters requiring further comment at this time. The Board will appreciate advice, however, that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

Telegram to Mr. Merritt, Federal Reserve Agent at the Federal Reserve Bank of Dallas, authorizing him to issue a limited voting permit to the "Republic National Bank of Dallas", Dallas, Texas, entitling such organization to vote the stock which it owns or controls of "The First National Bank of Waco", Waco, Texas, at any time prior to April 1, 1940, to elect directors of such bank at the annual meeting of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meeting of

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such bank. The telegram requested the Federal Reserve Agent, in order to eliminate any possible question concerning the authority of applicant's officers to request the applicant to furnish as soon as practicable two certified copies of a resolution of its board of directors ratifying the action taken by its officers in filing the pending application, and authorizing designated officers to execute and deliver to the Board any additional documents or agreements required by the terms of said application or by the Board in connection therewith and to consent for and in name and on behalf of applicant to any conditions which may be imposed by the Board in granting permits pursuant to such application.

Approved unanimously.

Letter to Mr. H. A. Thomson, Secretary, Conference of Allied Local Officials of Pennsylvania, Drexel Hill, Pennsylvania, reading as follows:

"This refers to your letter of December 28, 1939, requesting a modification of the ruling of the Board of Governors that deposits of political subdivisions may not be classified as savings deposits.

"In this connection, a review of the background of the Board's definition of 'savings deposits' may contribute to a better understanding of the problem involved. Savings deposits are an exceptionally favored class of deposits having special privileges not granted to any other class of deposits. Thus, while member banks of the Federal Reserve System are forbidden by law to pay interest on demand deposits or to pay time deposits before maturity, except in certain exceptional circumstances, they are permitted to pay interest on savings deposits and also to pay such deposits on demand, provided the right to require 30 days' written notice of withdrawal is reserved.

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"In addition, member banks are permitted to carry with their Federal Reserve banks much lower reserves against savings deposits than against any other deposits which are payable on demand.

"These privileges were granted to savings deposits because of the desire to encourage thrift. However, the granting of such privileges led to certain abuses by member banks, chief of which were the classification of ordinary demand deposits as savings deposits, in order to pay interest on such funds and to carry the lower reserves against them, and the classification of idle funds of certain organizations as savings deposits, even though such funds were not accumulated for the purposes sought to be encouraged by the favored status given to savings deposits.

"In order to enable the Board of Governors to correct the abuses which had grown up in connection with savings deposits, the Banking Act of 1935 conferred upon the Board authority to define the term 'savings deposits' and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of the law and prevent evasions thereof. Pursuant to this authority and with the considerations above mentioned in mind, the Board provided in its Regulation Q, effective January 1, 1936, that a savings deposit must consist of the funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit.

"Soon after the issuance of its regulation, the Board ruled that deposits of municipalities and subdivisions or departments thereof may not be classified as savings deposits, since municipal corporations may not be considered organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes. The ruling was published in the Federal Reserve Bulletin for April 1936. Subsequently, this ruling, as well as other rulings regarding the classification of savings deposits, was reconsidered by the Board, and the position previously taken with respect to deposits of municipal corporations was reaffirmed in a ruling published in the Federal Reserve Bulletin for November 1937; except that deposits of school districts were permitted to be classified as savings deposits. This exception is based upon the ground that a school district is operated primarily for educational purposes. While it is true that municipal corporations and other political subdivisions, such as cities, boroughs, and townships, are not operated for profit, it can not be said that they are operated primarily

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"For religious, philanthropic, charitable, educational, fraternal or other similar purposes. For your information in this connection, there is enclosed a copy of the 1937 ruling above mentioned, together with a copy of the Board's Regulation Q relating to this subject.

"In the circumstances, the Board does not feel that it should modify its ruling with respect to the classification of deposits of municipal corporations, and we trust that you will understand the reasons for the Board's position in this matter.

"Your attention is invited to the fact that there is nothing in the Federal law or the Board's regulation to prevent municipalities or other political subdivisions from placing their funds in interest-bearing time deposits in member banks."

Approved unanimously.

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

"I am sorry not to have been able to make an earlier reply to your letter of December 20 regarding the proposed amendment to Regulation L, which has since been adopted. You asked why section 2(d)(6) would not cover an interlocking relationship involving a trust company which does not receive deposits and a neighboring commercial bank which does not handle trust accounts.

"While it is true that in such a case the two institutions, broadly speaking, would not be engaged in the same type of business, certain phases of their business might be of the same kind, for example, making loans, and thus prevent the relationship from being covered by this exception. On the other hand, the Board felt that it was entirely consonant with the spirit and purpose of the statute to permit interlocking relationships in such cases, and therefore proposed the amendment.

"I might add that the immediate occasion for the proposal was that some actual instances had come to the Board's attention where the relationships would not be covered by section 2(d)(6) but would be covered by an amendment of the kind which has been adopted."

Approved unanimously.

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

"Retel January 5. Section 22(g) of Federal Reserve Act would not be applicable to 'stockholders' loan fund' described by you unless (1) person borrowing therefrom is an executive officer under definition in Regulation O, and also (2) a loan from such fund constitutes a borrowing from, or creates an indebtedness to, the member bank in its own right or as trustee. Can not express definite opinion in matter in absence of full information as to all details of proposal. Suggest you confer with your Counsel before advising member bank."

Approved unanimously.

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

"Reference is made to your letter of December 22, 1939, with respect to the service of Mr. L. N. Dibrell as director of the First National Bank of Danville and as officer and director of the Danville Loan & Savings Corporation, both of Danville, Virginia.

"The question presented is whether or not the Corporation is a 'bank' within the meaning of section 8 of the Clayton Act. Apparently it was organized for the purpose of engaging in the Morris Plan of banking, and your Counsel, in his opinion, a copy of which you enclosed, discusses the question in the light of the Board's letter of October 19, 1939 (S-189-a). He states that the Corporation was organized under a Virginia statute providing for the organization of industrial loan corporations, and that although he is not sure that the State Corporation Commission of Virginia had the power to grant it such a charter, its charter authorizes it to sell 'certificates of investment and other evidences of indebtedness; to receive deposits from persons, firms or corporations, to issue certificates or evidences of deposit for the same, and to pay interest upon such deposits'. He adds that it is exercising these powers without objection from the State authorities.

"Among the exhibits which were attached to your Counsel's opinion were recent statements of condition

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"of the Corporation which show 'savings deposits' of \$1,290,000 and 'assigned deposits' of \$424,000 out of total liabilities of \$2,227,000. Your Counsel states that he understands that although the savings deposits consist of two classes, namely, certificates of investment and savings accounts, there are very few of the former now outstanding. The savings accounts consist of deposits received under the rules and regulations stated in the passbook, a specimen of which he attached. The rules are substantially the same as those used by commercial banks receiving savings deposits. The cover of the book is headed 'Savings Department', and before the place where 'Withdrawals' and 'Deposits' are entered is the statement that 'This book is accepted and all deposits are made subject to the Rules and Regulations of the Corporation as herein printed and made a part of this deposit Contract.' The 'Rules and Regulations' begin with: 'Deposits will be received and accounts opened in the sum of one dollar and upwards.' Your Counsel has been advised that the institution receives no deposits subject to check, but that withdrawals are permitted from savings accounts in the manner prescribed by the rules, which is in effect on demand.

"Your Counsel reviews some of the other factors which were discussed in the Board's letter of October 19, 1939 (S-189-a), but in view of what has been said above it appears that these factors are not important. As your Counsel points out, one of the most significant elements in determining whether a financing institution should be classified as a bank within the meaning of the Clayton Act is the receipt of deposits, and since it seems that the great bulk of the business of this institution is the receipt of deposits under a plan identical with that employed by banks receiving savings deposits, he concludes that it is a 'bank' within the meaning of the Clayton Act.

"The Board sees no reason to differ with this conclusion, which, moreover, is the same as that which your Counsel reached in 1934 and on the basis of which the Board issued a Clayton Act permit to Mr. Dibrell covering the relationships now involved, which the Board of course could not have done if the Corporation had not been a bank within the meaning of the statute."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. C. ...
Chairman.