

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, February 1, 1940, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
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. Paulger, Chief of the Division of Examinations  
Mr. Cagle, Assistant Chief of the Division of Examinations  
Mr. Chase, Assistant Counsel

Chairman Eccles read the following letter received by him this morning from the President of the United States:

"In view of my veto last year of the Bill extending the time for ending interlocking bank directorships and in view of the apparent hope on the part of some of these directors that some method could be devised for a slight extension of the final date, I am writing to you and the Board to tell you that I have no objection to a short extension -- say three months but no longer than four months. This will give ample time to make the necessary arrangements. As I said in my veto message, I honestly believe that the intent of the law should be definitely put into effect, especially because so much time has already elapsed."

Chairman Eccles then stated that during conversations which he had with Senators Wagner and Glass on January 30 and 31 they raised the

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question of the possibility of a further extension by the Board of the permission granted by Regulation L, Interlocking Directorates Under the Clayton Act, for the continuation of certain interlocking bank directorates, that they both desired that the extension be granted, and that yesterday afternoon Senator Wagner got in touch with the White House again, following which the President called him (Chairman Eccles). Chairman Eccles said that after outlining briefly for the information of the President the position in which the Board found itself with respect to a further extension, the President stated that he would send a letter to the Board immediately suggesting an extension of three or four months.

During the discussion which ensued Mr. Morrill read, at Mr. Draper's request, the following statement which had been prepared by Mr. Draper setting forth his position with respect to a further extension of the permission granted by Regulation L:

"Should a 4 months' extension under Regulation L be granted?

"1. According to some proponents of this extension, it will provide time for the banks to readjust their Boards in accordance with the so-called 'new situation'. This question of requesting additional time for readjustments on bank boards has been discussed at every cut-off date. It was discussed on January 1, 1939, on August 1, 1939, and now on January 31, 1940. You remember that the reason advanced for the extension on January 1st, 1939, was that the banks needed more time so that they might make the necessary changes of their directors at the January annual meetings of their respective boards. The reasons given for extensions on August 1, 1939, and now on January 31, 1940, are on the surface more or less

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"different, but essentially they are the same.

"If we grant this 4 months' extension now, it will undoubtedly be asked for again on June 1, 1940, and if precedents are any indication of future behavior, it will be asked for just as persistently on June 1, 1940, as it has been on the three previous occasions. Every time this cut-off date approaches, we are told: 'But this time we shall tell the banks that we mean business'. We have already notified the banks accordingly on two separate occasions before. How seriously have they taken it? They have taken it so lightly that in New York City today there are 31 directors of big banks who, if they really had taken our regulation seriously, would have retired from their respective boards over a year ago. In this group of 31 men, there are 4 who represent a large private bank and another large bank or trust company. There are also 4 men who represent a large trust company and another bank or trust company. It is obvious that in spite of repeated extensions, this law is not being taken seriously by some of the largest and most influential banks in New York City.

"2. Other proponents of this request for an extension advocate it on the ground that it will give Congress an opportunity to pass legislation extending the cut-off date. You may remember that Congress did pass such legislation at its last session. The bill was vetoed by the President. Have we received any information recently which would indicate that the President will not veto this new bill for the same reasons that he advanced when vetoing a similar bill last July? If not, what useful purpose will be served by granting this 4 months extension only to have Congress pass a bill granting a further extension which in turn will undoubtedly be vetoed by the President?

"3. There is a very simple, effective method by which to solve this difficulty. It is the method suggested in the veto of last year's bill by the President. It is for Congress to change the basic provisions of the law as enacted many years ago. If Congress will do this, no difficulty should present itself in properly administering the statute. But if Congress has not and will not do this, then it seems to me that we are deliberately attempting to circumvent the expressed will of Congress by continually granting these extensions that in essence have the effect of mullifying the obvious intent of the basic statute.



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"If the President personally communicates with the Board concerning an extension of this statute and permits us to say in our statement to the public that we are making an extension with his knowledge and consent, I feel that we should accede to his wishes. If, however, the statement which we release to the public does not indicate the expressed consent of the President mentioned above, I should like to vote 'no' on this resolution."

Mr. Ransom stated that he had talked over the telephone with Mr. McKee late yesterday and that the latter indicated that in the circumstances he would favor amending Regulation L to extend the permission granted by the Board for a further period of six months or a year.

Consideration was given to the statement that would be released to the press in the event action were taken by the Board and question was raised whether the Board would be at liberty to quote the President's letter in such a statement. Chairman Eccles left the room to ascertain the attitude of the White House on this point and upon his return said that he had been advised that the Board could use the letter in any way it saw fit.

Thereupon Mr. Szymczak moved that the following resolution be adopted:

"RESOLVED, That Regulation L, Interlocking Bank Directorates Under the Clayton Act, be amended, effective immediately, as follows:

- "1. By changing the date 'February 1, 1940' in section 3(a) to the date 'June 1, 1940'; and
- "2. By changing the date 'February 1, 1940' in section 3(e) to the date 'June 1, 1940'."

Mr. Szymczak's motion was put by the chair and carried unanimously.

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Approval was also given to the following press statement, with the understanding that it would be released immediately and that a copy thereof would be sent by telegraph to each Federal Reserve bank:

"The Board of Governors of the Federal Reserve System has amended subsections 3(a) and 3(e) of its Regulation L relating to interlocking bank directorates under the Clayton Act, effective immediately, so as to extend until June 1, 1940, the time during which certain persons who have been serving member banks may continue to serve a member bank and not more than one other bank.

"This final extension was made at the request of Senator Wagner, Chairman of the Banking and Currency Committee of the Senate, and of Senator Glass, senior member of that Committee, and upon receipt of the following letter from the President addressed to the Chairman of the Board:

'In view of my veto last year of the Bill extending the time for ending interlocking bank directorships and in view of the apparent hope on the part of some of these directors that some method could be devised for a slight extension of the final date, I am writing to you and the Board to tell you that I have no objection to a short extension -- say three months but no longer than four months. This will give ample time to make the necessary arrangements. As I said in my veto message, I honestly believe that the intent of the law should be definitely put into effect, especially because so much time has already elapsed.'"

At this point Messrs. Thurston, Wyatt, Paulger, Cagle and Chase 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 31, 1940, were approved unanimously.

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Bonds, in the amount of \$10,000 each, executed under date of January 19, 1940, by Jere V. D. Stryker as Assistant Federal Reserve Agent, and by Norman C. Cooper and Robert W. Bullock as Alternate Assistant Federal Reserve Agents, all at the Federal Reserve Bank of New York.

Approved unanimously.

Memorandum dated January 31, 1940, from Mr. Morrill recommending, upon the request of Mr. Goldenweiser, Director of the Division of Research and Statistics, that Mrs. Vera R. Glaser, a stenographer in the Secretary's Office, be transferred to the Division of Research and Statistics, with salary at the rate of \$1,800 per annum, effective as of February 1, 1940. The memorandum also recommended that the salaries of the following stenographers in the Secretary's Office be increased, effective February 1, 1940:

	<u>From</u>	<u>To</u>
Lida B. Sloan	\$1,560	\$1,800
Margaret Lee Higdon	1,620	1,800
Lucy E. Fulwiler	1,620	1,800
Claire A. Bastable	1,680	1,800

Approved unanimously.

Memorandum dated January 27, 1940, from Mr. Carpenter, Assistant Secretary, recommending, for the reason stated in the memorandum, that Miss Ruth McCrary be appointed as a file clerk in the Secretary's Office, with salary at the rate of \$1,320 per annum, effective as of February



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1, 1940, subject to her passing satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated January 25, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending, for the reason stated in the memorandum and with the concurrence of the Secretary's Office, that Miss Margaret Johnston, a file clerk in the Secretary's Office, be transferred to the Division of Research and Statistics as a stenographer, with salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her new duties.

Approved unanimously.

Letter to the board of directors of the "Jersey State Bank", Jerseyville, Illinois, 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 for the appropriate amount of stock in the Federal Reserve Bank of St. Louis:

- "4. No payment or distribution shall be made by such bank to the trustee for waiving depositors and contributing stockholders, pursuant to the plan under which the bank was reopened in 1933, except with the prior approval of the Federal Reserve Bank of St. Louis.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$9,476.44, as

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"shown in the report of examination of such bank as of September 11, 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 'Jersey State Bank', Jerseyville, Illinois, 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 Auditor of Public Accounts for the State of Illinois for his information.

"In accordance with the recommendation of your committee, the Board has prescribed a condition of membership to require the bank to obtain the approval of the Reserve Bank before making any distributions or payments to the trustee for waiving depositors and contributing stockholders. It has not been the practice of the Board to prescribe such a condition generally. It has been prescribed in this case, however, in view of the fact that you anticipate that more than the ordinary degree of supervision of the bank's affairs is needed. It is assumed, of course, that in the administration of the condition the Reserve Bank will give full and proper consideration to the rights of the waiving depositors.

"In view of the unfavorable factors which have been discussed in the report of examination and the presentation memorandum submitted with the application, it is understood that you intend to advise the management of the bank, in particular President Chapman and Executive Vice President Adams, as to what will be expected in the way of improvement and that you will follow the affairs of the bank closely and render such assistance as you can in seeing that the desired progress is made. In this connection, it is understood also that the president of the bank, who owns nearly 80 per cent of the stock of the institution and is said to be a man of substantial means and successful in his own field, would be responsive to a request to make a change in the active management should that become necessary.



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"Please advise the Board of the results of the understanding reached with the management and keep the Board currently advised as to the progress made by the bank in effecting the needed improvements and as to the steps taken by your office to see that such improvements are effected without undue delay."

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. S. C. C. C. C.  
Chairman.