

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 26, 1940, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
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. Smead, Chief of the Division of Bank Operations
Mr. Paulger, Chief of the Division of Examinations
Mr. Dreibelbis, Assistant General Counsel

PRESENT ALSO: Mr. Hugh Leach, President of the Federal Reserve Bank of Richmond

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 23, by the Federal Reserve Banks of New York,

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Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on April 25, 1940, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Leach was present in response to the invitation of the Board for the purpose of acquainting the Board more fully with the reasons for the recommendation of the directors of the Federal Reserve Bank of Richmond, which was discussed at the meeting of the Board of Governors on April 15, 1940, that the Board approve the transfer from the Richmond head office territory to the Charlotte Branch territory of sixteen North Carolina counties and that ten other counties in North Carolina be not so transferred. Mr. Leach reviewed briefly certain factors which influenced the determination of the present territory of the Charlotte Branch and stated that, from the standpoint of banking services, the services rendered to the banks in the sixteen counties proposed to be transferred by the head office or the Charlotte Branch would probably be equally good, but that these counties are in the Charlotte trade territory and are close to Charlotte geographically, the bankers in these counties go to Charlotte more frequently than to Richmond, and the officers of the Branch can have more frequent contact with them than the officers at the head office are able to have. He said that this does not apply to the ten counties which it is proposed to leave in the head office

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territory and that, while banks in Richmond which have correspondent relationships with banks in the twenty-six counties would not object to the transfer of the sixteen counties they would want to raise objection if all twenty-six counties were changed.

Mr. Leach made the further statement that he knew that a member bank located in one of the ten counties did not desire to be transferred to the Charlotte territory, that, although he did not have any direct information from the other member banks in those counties, Mr. Lassiter, Chairman of the Richmond Bank, had talked to W. H. Wood, President of the American Trust Company of Charlotte and chairman of the committee which presented the transfer petition to the Richmond Bank, and as a result it is believed that the member banks in the ten counties would be satisfied if they were not transferred, but that it might be well for the Reserve Bank to obtain a statement from them to that effect.

Mr. McKee raised the question whether, if the proposed transfer were approved, it would prompt suggestions for changes in other Federal Reserve Districts and it appeared to be the consensus that if the change under consideration were justified it should be made regardless of that possibility.

Mr. Draper inquired whether it would be advisable to hold a hearing to determine if the change proposed by the board of directors of the Richmond Bank would be satisfactory to the member banks in the territory affected and Mr. Leach said that he felt certain that the

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same result could be obtained by giving the banks in the ten counties an opportunity to submit a written statement of their views.

Mr. Davis inquired of Messrs. Morrill, Smead, and Paulger whether they saw any reason why the proposal of the Richmond directors should not be approved. Their reply was that they knew of none. Mr. Morrill added that he felt it would be desirable for the Richmond Bank to get a letter from Mr. Wood's committee and from the National Bank of Lumberton, which was the only bank that signed the petition that was not represented on the committee, to the effect that the banks in the ten counties would not urge the transfer of those counties to the Charlotte territory.

Mr. Leach stated that he would suggest to Mr. Lassiter that he request Mr. Wood to ascertain from the member banks in the ten counties whether they would be satisfied with the recommendation of the Richmond directors and to advise the Reserve Bank in writing of their response.

All of the members of the Board present agreed that if the member banks in these counties have no substantial objection to remaining in the head office territory, the Board would be willing to approve the proposed transfer of the sixteen counties to the Charlotte Branch territory.

Mr. Leach said that if this transfer is made he hoped to have it understood in the district that the question of changes in branch territories was settled for the time being at least.

Upon inquiry from Mr. Thurston, it was understood that any announcement of action taken with respect to the proposed transfer

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would be made by the Federal Reserve Bank of Richmond rather than by the Board in Washington.

Mr. Leach called attention to the fact that the lease on the banking quarters of the Charlotte Branch will expire on May 31, 1941, and stated that the space occupied by the Branch is inadequate and very unsatisfactory and that he had come to the conclusion that the best solution of the matter would be the erection of a building in which to house the Branch offices. He added that he did not want to go ahead with plans for the acquisition of a site and the erection of a building unless he knew that the Board would be favorable to such a step.

In response to an inquiry from Mr. Davis, Mr. Leach said that space in the building in which the present offices of the Branch are located could not be rearranged and renovated to suit the needs of the Branch without the expenditure of a great deal of money, that the resulting accommodations would not be nearly as satisfactory as a separate building, and that it was his thought that if a building were erected it should be designed so that it could be used for purposes other than banking quarters, which would give it a resale value, and so that additional stories could be added to afford additional space if needed.

During the discussion which followed the members of the Board indicated that they would have no objection to the Richmond Bank looking into the matter of the acquisition of a possible site and the

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preparation of preliminary sketches and estimates of cost for submission to the Board for approval before any commitments are made by the Bank with respect to the purchase of a site or the preparation of detailed plans and specifications.

Before this meeting the attention of the members of the Board had been called to a letter dated April 20, 1940, from Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, extending an invitation to the members of the Board to attend a conference of the directors of the head office and branches of the St. Louis Bank to be held on Thursday, May 23, 1940.

It was agreed unanimously that Mr. Szymczak would attend the conference and that if it were possible for Mr. Davis and other members of the Board to arrange their plans they would be present also.

At this point Messrs. Thurston, Wyatt, Smead, Paulger, Dreibelbis and Leach 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 April 25, 1940, were approved unanimously.

Letter to the board of directors of "The Lodi State Bank", Lodi, Ohio, 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

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in the Federal Reserve Bank of Cleveland:

- "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. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Lodi State Bank', Lodi, Ohio, 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 Superintendent of Banks for the State of Ohio for his information.

"Since the amount of estimated losses classified in the report of examination for membership is small, the usual condition of membership regarding the elimination of estimated losses has not been prescribed.

"It is assumed that your office will follow the matter of bringing the three savings accounts listed on page 16 of the report into conformity with the Board's regulations."

Letter to the board of directors of the "Dupo State Savings Bank", Dupo, Illinois, 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 St. Louis:

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

Approved unanimously for transmission through the Federal Reserve Bank of St. Louis.

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Letter to the board of directors of the "Farmers State Bank & Trust Company", Cuero, Texas, 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 Dallas:

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

The letter also contained the following special comments:

"It has been noted that the bank is authorized to exercise fiduciary powers but is not doing so, and that it possesses certain other powers which are not being exercised and which are not necessary in the conduct of a banking business, such as the power to guarantee 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. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Farmers State Bank & Trust Company', Cuero, Texas, for membership

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"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 State of Texas for his information.

"In view of the comments contained in the report of examination made in connection with the application for membership regarding the need for capable supervision, and the comments made in the memorandum submitted with the application regarding the need for strengthened management and directorate, it is assumed that the Reserve Bank will follow the situation closely and will use its influence in such manner as may be appropriate to bring about the desired corrections.

"It is also assumed that your office will follow the matter of the bank's reducing to within statutory limits the excess balance with a nonmember bank."

Letter to the board of directors of the "First State Bank", Dumas, Texas, 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 Dallas:

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

Approved unanimously for
transmission through the Federal
Reserve Bank of Dallas.

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

"Reference is made to your letter of April 17, 1940, submitting for the consideration of the Board the plan of the 'Bronx County Trust Company', New York, New York, for purchasing from The National City Bank of New York three branches located, respectively, at Crosby Avenue at Westchester, 184th Street at Third Avenue, and 212th Street and White Plains Avenue, all in the Borough of Bronx, City of New York.

"It is understood that the plan contemplates that the Bronx County Trust Company will assume the deposit liabilities of the three branches, amounting to approximately \$6,750,000, acquire a like amount of acceptable assets, and pay to the National City Bank of New York \$100,000 in consideration for the vaults, equipment, leaseholds, and good will.

"In view of the information furnished, it does not appear that the transaction will involve a change in the general character of the business of the Bronx County Trust Company or in the scope of the corporate powers exercised by it within the meaning of standard condition of membership numbered 1 to which the member bank is subject. Therefore, in accordance with your recommendation, the Board will interpose no objection, under the conditions of membership, to the acquisition of the three branches. It is assumed, of course, that the assets acquired in the transaction will be set up on the bank's books at proper values and that any part of the purchase price which appropriately should be classified as payment for goodwill will not be capitalized."

Approved unanimously.

Letter to The Sealy & Smith Foundation for The John Sealy Hospital, Galveston, Texas, reading as follows:

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"Pursuant to a request made by Mr. Fred W. Catterall, President of The First National Bank of Galveston, Galveston, Texas, in his letter of April 1, 1940, the Board has given consideration to the status of your organization as a holding company affiliate of his bank.

"The Board understands that your organization is a corporation, without capital stock, organized as a charitable undertaking to receive and administer property contributed to it for the construction, remodeling, enlarging, equipping and furnishing of The John Sealy Hospital and other hospital buildings in connection with it in the city of Galveston, and the endowment thereof, for the use of the people of that city and to provide them with necessary medical care and attention therein; that such corporation owns 1,040 of the 2,000 outstanding shares of stock of The First National Bank of Galveston; that it owns 1,205 of the 7,500 outstanding shares of stock of Hutchings-Sealy National Bank of Galveston and smaller amounts (in no case in excess of 5 per cent of the outstanding shares) of the stock of a number of other banks; that it does not otherwise control a significant portion of the stock of, or manage or control, any other bank; and that all of the bank stocks owned by it were received as gifts.

"In view of these facts, the Board has determined that your organization is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and therefore it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, the facts should at any time differ from those set out above to an extent which would indicate that your organization might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to make a further determination at any time on the basis of the then existing facts."

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Approved unanimously for transmission through the Federal Reserve Bank of Dallas.

Telegram to Mr. Hays, Assistant Vice President of the Federal Reserve Bank of Cleveland, which was approved at the meeting of the Board on April 23, 1940, and revised at the suggestion of Mr. Bell, Under Secretary of the Treasury, to read as follows:

"Referring your April 19 wire, understand that Treasury Department is giving consideration to availability of funds with which to reimburse Federal Reserve banks for expenses incurred by them as designated agencies under President's executive orders and recent regulations relating to transactions in foreign exchange, etc. Federal Reserve banks should submit separate vouchers at end of month for reimbursement of such expenses, and the Treasury Department will review matter to determine whether means can be found to effect reimbursement."

Approved unanimously, with the understanding that a similar telegram would be sent to the Presidents of all Federal Reserve Banks.

Letter to Honorable W. L. Austin, Director, Bureau of the Census, Department of Commerce, reading as follows:

"Replying to your letter of April 23 in connection with the data on retail installment paper held by State bank members of the Federal Reserve System recently furnished to you, you are advised that the Bureau of the Census may publish such data in any form and at any time that it desires, and that acknowledgement of the source of such material may be made in any manner that you deem appropriate."

Approved unanimously.

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Letter to the Presidents of all Federal Reserve Banks except Boston, Philadelphia and Richmond, reading as follows:

"At the conference held in Washington on March 19, 1940, the Conference of Presidents approved in principle the proposal of the Standing Committee on Collections that the American Bankers Association bank numbering system be revised, and requested the Chairman of the Conference to appoint a committee of three members of the Conference to review, with power to approve in behalf of the Conference, such plan for the revision of the numbering system as may be recommended by the Standing Committee on Collections.

"If a revision of the American Bankers Association bank numbering system is adopted that involves the printing on checks of numbers indicating the Federal Reserve bank or branch territory in which a bank is located, subsequent changes in Federal Reserve branch territorial lines will cause considerable confusion in sorting and routing checks.

"It will be appreciated, therefore, if you will discuss this matter with the Directors of your bank at the first convenient opportunity and advise the Board whether the bank feels that any changes should be made in branch territorial lines in your district before a change, if any, is made in the American Bankers Association bank numbering system."

Approved unanimously.

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

"The Board of Governors concurs in the action taken by the Conference of Presidents at their meeting held in Washington March 19, 1940 with respect to the Report of the Standing Committee on Collections dated February 19-20, 1940.

"The Board has noted the action taken by the Conference relative to the adoption of a uniform size of paper for regulations, circulars and general letters of the Board of Governors and the Federal Reserve banks. The Board may wish to take this matter up with the Reserve banks at a later date."

Approved unanimously.

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Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place a special order with the Bureau of Engraving and Printing, supplementing the order requested June 14, 1939, for the printing of Federal Reserve notes of the 1934 Series in the amount and denomination stated for the Federal Reserve Bank of New York:

Denomination	Number of sheets	Amount
\$5,000	100	\$6,000,000"

Approved unanimously.

Memorandum dated April 17, 1940, from Mr. Bethea, Assistant Secretary, referring to the arrangements in effect during 1939 for maintaining a skeleton force on Saturdays during the summer months and suggesting that, if the Board wishes to adopt the same plan during the coming summer season, it authorize the maintenance of a skeleton force on Saturdays from Saturday, May 25 to Saturday, September 7, inclusive, a period which includes sixteen Saturdays.

The maintenance of a skeleton force on Saturdays as suggested in Mr. Bethea's memorandum was approved unanimously, subject to the same regulations as were in effect during the corresponding period last year.

Memorandum dated April 19, 1940, from Mr. Paulger, Chief of the Division of Examinations, recommending that the budgets for the year 1940 for the bank examinations departments of the respective Federal Reserve Banks, except Boston and San Francisco which are being held for further consideration of certain matters, be approved as submitted as follows:

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<u>F.R. Bank</u>	<u>Budget</u>
New York	\$376,448
Philadelphia	144,750
Cleveland	116,640
Richmond	80,471
Atlanta	52,425
Chicago	142,991
St. Louis	66,955
Minneapolis	35,223
Kansas City	55,345
Dallas	36,789

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Donald M. ...
Vice Chairman.