A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 3, 1940, at 10:30 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel
Mr. Williams, Assistant Counsel
Mr. Hammond, Chief of the Correspondence and Publications Section of the Secretary's Office

There were presented telegrams to Mr. Sanford, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, and Messrs. Dillard and Hale, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on April 30, by the Federal Reserve Banks of New York, Atlanta, Chicago, and San Francisco on May 2, 1940, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their
existing schedules.

Approved unanimously.

Before this meeting all of the members of the Board had had an opportunity to read a memorandum prepared by Mr. Wingfield under date of April 15, 1940, with which he submitted for consideration by the Board a final draft of an amendment to Regulation F, Trust Powers of National Banks, which would permit the operation of mortgage investment funds by national banks. The memorandum pointed out that the amendment had been sponsored by a committee of the Pennsylvania Bankers Association, had been pending before the Board for some time, that numerous conferences had been held regarding it, that the committee of the Pennsylvania Bankers Association had been heard and had filed a brief in support of the proposal, that the opinions of the Federal Reserve Banks, the Comptroller of the Currency, and others had been obtained regarding it, with the results outlined in an attachment to the memorandum, and that the question of policy as to whether the amendment should be adopted was ready for consideration by the Board.

The proposed amendment was discussed in the light of the arguments for and against its adoption as set forth in the attachment to Mr. Wingfield's memorandum, at the conclusion of which, upon motion by Mr. Ransom, the following resolution was adopted by unanimous vote, with the understanding that a statement would be issued to the press regarding the amendment to the regulation and that copies
of the amendment would be sent promptly to the Federal Reserve Banks and to Mr. Berger, Chairman of the committee of the Pennsylvania Bankers Association which sponsored the amendment:

RESOLVED, That effective June 1, 1940, Regulation F, Trust Powers of National Banks, be amended in the following respects:

1. Amend the first paragraph of subsection (a) of section 17 of Regulation F by changing the period at the end thereof to a colon and adding the following:
   Provided, however, That funds shall not be invested in a Common Trust Fund of the type provided for in subsection (d) of this section unless such investments are specifically authorized by the State statutes.

2. Amend subsection (b) of section 17 of Regulation F by deleting "subsection (c)" and inserting in lieu thereof "subsections (c) and (d)."

3. Amend the first sentence of subsection (c) of section 17 of Regulation F to read as follows:
   Subject to all other provisions of this regulation except subsections (b) and (d) of this section, funds received or held by a bank in its capacity as trustee, executor, administrator, or guardian may be invested in participations in a Common Trust Fund administered pursuant to the provisions of this subsection.

4. Amend second paragraph of subdivision (2) of subsection (c) of section 17 of Regulation F to read as follows:
   At the time of making the first investment of funds of a trust in any Common Trust Fund, the bank shall send a notice of such investment to each person to whom a regular periodic accounting ordinarily would be rendered, except that such notices need not be sent to a court unless required by the court, and except that such notices need not be sent where the trust instrument specifically authorizes investments in Common Trust Funds.

5. Amend second paragraph of subdivision (3) of subsection (c) of section 17 of Regulation F to read as follows:
The bank shall, without charge, send a copy of the latest report of such audit annually to each person to whom a regular periodic accounting of the trusts participating in the Common Trust Fund ordinarily would be rendered or shall send advice to each such person annually that the report is available and that a copy will be furnished without charge upon request.

6. Amend the second sentence of the first paragraph of subdivision (5) of subsection (c) of section 17 of Regulation F to read as follows:

If the bank administers more than one Common Trust Fund under this subsection, no investment shall be made which would cause any one trust to have an interest in all such Common Trust Funds in excess of the sum of $25,000; and, if the bank administers Funds under both subsections (c) and (d) of this section, no investment shall be made which would cause any one trust to have an interest in all such Funds in excess of the sum of $25,000.

7. At the end of section 17 of Regulation F add a new subsection (d) reading as follows:

(d) Common Trust Funds composed principally of mortgages (Mortgage Investment Funds). Subject to all other provisions of this regulation except subsections (b) and (c) of this section, funds received or held by a bank in its capacity as trustee, executor, administrator, or guardian may be invested in participations in a Common Trust Fund administered pursuant to the provisions of this subsection (hereinafter referred to as a "Mortgage Investment Fund"). All admissions and withdrawals of participations in a Mortgage Investment Fund shall be made on the basis of the actual amount invested by each participant, and, except in final liquidation of a Mortgage Investment Fund, participants therein shall not have an interest in reserves accumulated or enhancement in the value of assets, except such as may be distributable as income.

20/Note, however, that certain provisions of subsection (c) are incorporated in this subsection by reference.
(1) Mortgage Investment Fund to be operated under written plan. - Each Mortgage Investment Fund shall be subject to the provisions of subdivision (1) of subsection (c) of this section.

(2) Trust investment committee to approve participation. - No funds of a trust shall be invested in a participation in a Mortgage Investment Fund without the approval of the trust investment committee. Before permitting any funds of any trust to be invested in a participation in a Mortgage Investment Fund, the trust investment committee shall review the assets comprising the Mortgage Investment Fund; and, if it finds that the condition of the Mortgage Investment Fund is such that the funds of such trust might not lawfully be invested in a participation therein at that time, or that such investment would be contrary to the provisions of this subsection, funds of such trust shall not be so invested.

At the time of making the first investment of funds of a trust in any Mortgage Investment Fund, the bank shall send a notice of such investment to each person to whom a regular periodic accounting ordinarily would be rendered, except that such notices need not be sent to a court unless required by the court, and except that such notices need not be sent where the trust instrument specifically authorizes investments in Mortgage Investment Funds.

(3) Mortgage Investment Fund to be audited annually. - Each Mortgage Investment Fund shall be subject to the provisions of subdivision (3) of subsection (c) of this section.

(4) Value of assets to be determined periodically. - Not less frequently than once during each period of three months, the trust investment committee of a bank administering a Mortgage Investment Fund shall determine the value of the assets in the Mortgage Investment Fund. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund except on the date of determination of such valuation or, if permitted by the Plan, within two business days subsequent to the date of such determination; and no participation shall be admitted to or withdrawn from the Mortgage Investment Fund unless, on the basis of such valuation, the value
of the assets of the Mortgage Investment Fund, exclusive of accrued income, is at least equal to the amount of the outstanding participations. No participation shall be admitted or withdrawn unless, in accordance with the provisions of the Plan, prior to the date of the determination of such valuation, notice of intention to participate or to make such withdrawal shall have been given in writing to the bank administering the Mortgage Investment Fund, or a written notation of the contemplated participation or withdrawal shall have been made in the records of the bank.

The real estate securing each obligation contained in a Mortgage Investment Fund and any real estate contained in the Mortgage Investment Fund shall be appraised at least once every three years by two persons, one of whom shall not have participated in the last preceding appraisal of the particular property for the purposes of the Mortgage Investment Fund. Such persons shall be appointed by the bank's board of directors and shall, in the opinion of the board, be familiar with real estate values in the vicinity in which any such real estate is situated and qualified to make such appraisals. The persons appointed shall actually inspect such real estate and shall so certify in a written certificate of appraisal, which shall be filed and preserved in the bank's records.

The trust investment committee shall require more frequent appraisals of all properties or any particular property if such action is deemed by the committee to be necessary to enable it properly to discharge the duties imposed upon it by this subsection.

(5) Miscellaneous limitations. - No funds of any trust shall be invested in a participation in a Mortgage Investment Fund if such investment would result in such trust's having an interest in the Mortgage Investment Fund in excess of the sum of $1,200 or 2 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, whichever is greater at the time of investment, or in any event in excess of the sum of $10,000. If the bank administers more than one Mortgage Investment Fund, no investment shall be made which would cause any one trust to have
an interest in all such Mortgage Investment Funds in excess of the sum of $10,000; and, if the bank administers Funds under both subsections (c) and (d) of this section, no investment shall be made which would cause any one trust to have an interest in all such Funds in excess of the sum of $25,000. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one.

No investment for a Mortgage Investment Fund shall be made in obligations of any one person, firm, or corporation which would cause the total amount of investment in obligations issued or guaranteed by such person, firm, or corporation to exceed 10 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, provided that this limitation shall not apply to investments in obligations of the United States or for the payment of the principal and interest of which the faith and credit of the United States shall be pledged.

The unpaid balance of any obligation secured by real estate in which the funds of a Mortgage Investment Fund are invested shall not exceed $10,000 on the date of the investment therein unless the aggregate amount of all outstanding participations in the Mortgage Investment Fund exceeds $200,000, in which event the unpaid balance of such obligation shall not exceed 5 per cent of the amount of such outstanding participations or $50,000, whichever amount is less.

Any bank administering a Mortgage Investment Fund shall have the responsibility of maintaining in cash such part of the assets of the Mortgage Investment Fund as shall be deemed by the bank to be necessary to provide adequately for the needs of participating trusts and to prevent inequities between such trusts. No investment of the moneys of a Mortgage Investment Fund shall be made if following such investment the cash balance, exclusive of collected income on hand, in the Mortgage Investment Fund would be less than an
amount equal to 5 per cent of the total amount of all outstanding participations in the Mortgage Investment Fund. Unless, upon computing the amount of the admissions and withdrawals which are to be made as of any valuation date pursuant to notice given as required in subdivision (4) of this subsection, the trust investment committee determines that there will be sufficient cash in the Mortgage Investment Fund to permit all such withdrawals, no admissions to or withdrawals from the Mortgage Investment Fund shall be permitted as of such valuation date.

Unless the trust investment committee determines that, after effecting the admissions and withdrawals which are to be made as of any valuation date pursuant to notice given as required in subdivision (4) of this subsection, the amount of investments of a Mortgage Investment Fund represented by assets in which moneys of the Mortgage Investment Fund could not then be invested under the provisions of subdivision (3) of this subsection will not exceed 10 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, no admissions to or withdrawals from the Mortgage Investment Fund shall be permitted as of such valuation date.

(6) Reserve account and distribution of income. - In each Mortgage Investment Fund the bank shall establish and maintain a reserve account as part of the principal thereof, to which, to the extent available, all realized losses shall be charged. Any realized gain in the value of assets of a Mortgage Investment Fund, other than income, shall be credited to such reserve account.

At least semiannually a bank administering a Mortgage Investment Fund shall determine the net income of the Mortgage Investment Fund during the period since the last determination thereof. At the close of each earning period, if the total amount contained in such reserve account is less than 10 per cent of the total amount of all outstanding participations in the Mortgage Investment Fund, the bank shall transfer to the reserve account, out of the net income of the Mortgage Investment Fund, such amount as the bank shall
determine to be proper under the circumstances. The total amount so to be transferred to the reserve account during any year shall not be less than 10 per cent of the amount of the gross income of the Mortgage Investment Fund for such year or more than one per cent of the average of the total amounts of all outstanding participations in the Mortgage Investment Fund at the close of each earning period. No such transfers to the reserve account shall be made which will cause the amount contained therein to exceed 10 per cent of the amount of all outstanding participations.

The balance of the net income remaining after transferring the appropriate part thereof, if any, to the reserve account, shall thereupon be distributed to the owners of the outstanding participations in the Mortgage Investment Fund in proportion to the amounts of their participations and the period of time owned since the previous determination of net income.

(7) Withdrawal of participation in a Mortgage Investment Fund. - Upon the withdrawal of a participation of any trust prior to termination and final liquidation of a Mortgage Investment Fund, such trust shall be entitled to be paid in cash the total amount of the funds of such trust invested in the participation, with net income thereon to the date of such payment, but such income shall not be paid until the amount thereof shall have been determined at the close of the current earning period.

Upon the termination and final liquidation of a Mortgage Investment Fund, all assets of the Mortgage Investment Fund shall be distributed among the owners of the participations at that time in proportion to the amounts thereof.

(8) Investment of moneys of Mortgage Investment Funds. - The moneys of a Mortgage Investment Fund shall be invested in--

1. Obligations secured by real estate which, at the date of the investment, are legal for investment of trust funds under the laws of the State in which the bank is located and are insured by the Federal Housing Administrator, having been insured prior to the first
day of July 1939, pursuant to the provisions of Title II of the National Housing Act, approved the 27th day of June 1934, as amended, or having been so insured thereafter, with like force and effect, pursuant to any revision or extension of the provisions of the said Act; or

2. Obligations secured by real estate which, at the date of the investment, are legal for investment of trust funds under the laws of the State in which the bank is located and are of the kind which might be acquired by a national bank under the provisions for making amortized loans contained in the third sentence of section 24 of the Federal Reserve Act; or

3. Obligations secured by real estate which, at the date of the investment, are legal for investment of trust funds under the laws of the State in which the bank is located, which are payable within 20 years, and which either provide for semiannual payments reducing the principal thereof annually in an amount equal to at least 5 per cent of the amount of the principal on the date of investment, or provide for the amortization of the total unpaid principal amount of such mortgage on the date of investment by equal monthly payments during the term of such mortgage, such monthly payments being fixed at an amount which will include the interest due on such mortgage on the date of such payments and an additional amount to be applied in the reduction of the unpaid principal amount of such mortgage. In the case of a renewal or extension of any such obligation held by a Mortgage Investment Fund, the date upon which the Mortgage Investment Fund originally acquired the obligation shall be considered the date of investment.

If in the judgment of the trust investment committee such obligations are not available for investment of moneys of a Mortgage Investment Fund, such moneys may be invested temporarily in obligations
of the United States or of the State in which the bank is located or for the payment of the principal and interest of which the faith and credit of the United States or of such State shall be pledged, and which are legal for investment of trust funds under the laws of the State in which the bank is located. As soon as obligations secured by real estate in which the moneys of the Mortgage Investment Fund may be invested are available, such securities shall be disposed of and the proceeds invested in such obligations if this can be accomplished without disadvantage to the Mortgage Investment Fund.

(9) Management of Mortgage Investment Fund and fees. — Each Mortgage Investment Fund shall be subject to the provisions of subdivision (8) of subsection (c) of this section.

(10) Effect of mistakes. — Each Mortgage Investment Fund shall be subject to the provisions of subdivision (9) of subsection (c) of this section.

At Mr. Ransom's suggestion, Mr. Williams reported on the information that he had obtained regarding the status of the Wagner banking study questionnaire, stating that he had been informed that Senator Wagner hoped to send out official copies of the questionnaire today or tomorrow.

Mr. Ransom said that, in view of his contemplated absence from the city, he would like to discuss at this meeting the procedure to be followed by the Board in connection with the questionnaire. He stated that it appeared from the information that had come to him that the questions could be classified into two groups, one calling for factual material which could be prepared by the staff and the other relating to matters upon which it would be necessary for the Board to express an
opinion, and that on the latter group of questions he did not think there was anything the staff could do with respect to the preparation of answers to the questions, other than to prepare such factual material as may be necessary as a basis for an opinion, until the Board indicated what its position would be. He added that in this situation he would suggest that when the questionnaire is received the questions be divided into the two groups and that the Board indicate what its attitude would be with respect to the questions involving matters of opinion and that the staff be requested to prepare such factual information as the Board may need to answer all the questions upon which answers are to be submitted by it. Mr. Ransom made the further comment that apparently the questionnaire is not to take the place of hearings on the Wagner resolution but answers to the questionnaire will be used to determine the program and nature of the hearings.

Mr. Ransom then referred to the banking studies which had been prepared by the staff in anticipation of hearings on the Wagner Resolution and called upon Mr. Goldenweiser, as chairman of the committee appointed by the Board on February 21, 1940, to review and make suggestions with regard to the studies, to report on the present status of the studies. Mr. Goldenweiser said that numerous suggestions as to changes in the studies had been received from the Board's staff and from a few of the outside persons to whom copies had been sent, and that the committee had met yesterday and had decided to recommend to the Board
that it reach a decision with regard to (1) whether the studies are
to be published and (2) if so, whether it will approve the employment
of someone to edit the studies. The reason for the latter question,
he said, was that the editing of the studies for publication will re-
quire the full time of an experienced editor for from three to six
months, that they could not be placed in satisfactory final form in
less than six months, and that there is no one in the Board's organi-
zation who has the time or sufficient training for the task. He also
said that the committee would recommend that the studies be published
for the reason that they contained a large amount of factual informa-
tion which is not now available to the public or available only in a
very scattered way and which would be very valuable to the System and
to students of the subject.

Mr. Ransom suggested that the studies could be published as
an official publication of the Board, by a private publishing house,
or serially in the Federal Reserve Bulletin. Mr. Goldenweiser responded
that the committee had considered that matter and favored the publica-
tion of the studies by the Board for the reason that the Board would
then be free to determine the policy to be followed in the distribution
of copies and that it would be desirable if the Board would authorize
the committee to explore the possibilities as to the form the publi-
cation should take.

Mr. Draper moved that, subject to ap-
proval by the absent members of the Board,
approval be given to the publication of
the studies as a publication of the Board
in a form and manner to be decided upon
later.

This motion was put by the chair and
carried unanimously.

In taking this action it was under-
stood that, if the publication of the re-
port is approved by the absent members of
the Board, Mr. Goldenweiser's committee
will be authorized to make the necessary
investigation to find a person to edit the
studies and to make a recommendation to
the Board for his employment and assign-
ment to that work.

(Secretary's note: Subsequent to the
meeting Messrs. Eccles and Davis stated
that they approved the decision to pub-
lish the studies and to authorize the
committee to make the investigation and
recommendation above referred to.)

In connection with the above matter, Mr. Ransom suggested that
at the next meeting of the Federal Advisory Council inquiry be made of
the members of the Council whether they have any suggestions to make
with regard to the studies and that steps be taken to ascertain whether
the Chairmen and the Presidents of the Federal Reserve Banks, who up
to this time have made no comments on the studies, have any suggestions
to offer.

Mr. Ransom's suggestion was approved
unanimously.

At this point Mr. Williams and Mr. Hammond left the room.

There was presented a draft of letter to the Chairmen of the
Federal Reserve Banks, which had been prepared in accordance with the
action taken at the meeting of the Board on April 30, asking for any comments that the directors of the banks may wish to make with respect to the latest draft of the Mead bill which would amend section 13b of the Federal Reserve Act relating to industrial loans by the Federal Reserve Banks. Mr. Clayton stated that he had discussed this matter with Chairman Eccles who had taken the position that, in view of his statement to Congressman Ford that a majority of the Board would have no objection to the bill, he questioned the advisability of sending the letter at this time and that, if a request for a report on the bill were received from Congressman Ford, he (Chairman Eccles) would not favor holding the report until the replies from the Federal Reserve Banks were received.

Mr. Draper stated that, in view of the developments in connection with the bill, he doubted if a request would be received for a report on the bill and that there may be no point in asking the Federal Reserve Banks for their views. In the discussion which followed, members of the Board expressed the opinion that, inasmuch as industrial loan operations under section 13b are carried on by the Federal Reserve Banks, it would be well to get their views regardless of whether the legislation is enacted, although, if a request for a report is received from the House Banking and Currency Committee, the report should not be delayed pending the receipt of the Banks' replies.
It was agreed unanimously that the letter should be placed on the docket for further consideration at the next meeting of the Board when Chairman Eccles will be present.

Mr. Ransom said that since he would not be in attendance at the next meeting of the Board he would like to be recorded as being in favor of sending the letter.

In connection with the discussion of the above matter, it was stated that a request had been received by the Board from the Bureau of the Budget that it be advised as promptly as possible of the views of the Board on section 5 of a proposed bill which would amend section 24 of the Federal Reserve Act to permit national banks to make real estate loans for a period of fifteen years, provided the borrower is obligated to amortize 60 per cent or more of the principal of the loan within that period. Mr. Morrill read a draft of a reply to the request which stated that the Board would have no objection to the amendment, and there was discussion of the question whether the Board should approve the letter or take the position that there should be a study of the whole problem of banking legislation as contemplated by the Wagner resolution and that, in the absence of an emergency, the Board would not be willing to approve any further piecemeal legislation in the banking field.

It was agreed that the draft of reply should be circulated and placed on the docket for consideration at the next meeting of the Board.

There was also presented a letter dated April 29, 1940, from
Mr. Fleming, President of the Federal Reserve Bank of Cleveland, inquiring whether it would be possible for a member of the Board to attend the meeting of the board of directors of the Cleveland Bank to be held on May 23, 1940, at Columbus, Ohio, to which a number of other guests, including the directors of the Cincinnati Branch, were being invited.

It was understood that Mr. McKee would arrange to attend the meeting.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead, Dreibelbis, Vest, and Wingfield 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 May 1, 1940, were approved unanimously.

Bond, in the amount of $10,000, executed under date of April 22, 1940, by Mr. Walter Castella Coffey as Federal Reserve Agent at the Federal Reserve Bank of Minneapolis.

Approved unanimously.

Memorandum dated April 26, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting for approval by the Board the budgets for the statistical and analytical function, including library services, at the respective Federal Reserve Banks for the year 1940, and recommending that the Federal Reserve Banks be advised that the Board approves the proposed budgets as
Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of April 29, 1940, from which it is noted that the Marfa National Bank, Marfa, Texas, which is the only member bank in Presidio County, has made formal application to be transferred from the territory served by the San Antonio Branch to that served by the El Paso Branch and that the officers of the Reserve bank feel that the proposed transfer will be in the interest of better service to the applying bank and should be approved.

"In view of the above, the Board approves the transfer of Presidio County, Texas, from the San Antonio Branch territory to the El Paso Branch territory, the effective date of the transfer to be fixed at the discretion of your Board of Directors in connection with formal action by it on the application. Please advise the Board the effective date of the transfer."

Approved unanimously.
Thereupon the meeting adjourned.

Approved:

[Signature]

Vice Chairman.