

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 15, 1940, at 10:30 a. m.

PRESENT: Mr. Eccles, 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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Vest, Assistant General Counsel
Mr. Gardner, Senior Economist in the Division of Research and Statistics
Mr. Solomon, Assistant Counsel

There was presented a draft of letter to the Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Referring to your letter of April 25, 1940, the Board approves payment of salaries for the period June 1, 1940 to May 31, 1941 to the officers named below, at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
L. H. Carstarphen	General Counsel	\$6,200
L. H. Bailey	General Auditor	6,600
Clifford Wood	Cashier, Little Rock Branch	4,800
Clay Childers	Assistant Cashier, Little Rock Branch	3,600

"If the salaries of the other officers of the bank are fixed by your Board of Directors at their present rates, as

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"shown below, the Board approves such salaries for the period June 1, 1940 to the end of their present terms of office in the case of the President and First Vice President, and for the period June 1, 1940 to May 31, 1941 in the case of the other officers.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
W. McC. Martin	President	\$20,000
F. G. Hitt	First Vice President	18,000
O. M. Attebery	Vice President	15,000
C. M. Stewart	Cashier and Secretary	10,000
A. H. Haill	Assistant Cashier	7,500
S. F. Gilmore	Assistant Cashier	7,000
F. N. Hall	Assistant Cashier	6,000
G. O. Hollocher	Assistant Cashier	4,500
H. H. Weigel	Assistant Vice President	3,000
	<u>Little Rock Branch</u>	
A. F. Bailey	Managing Director	\$9,000
	<u>Louisville Branch</u>	
C. A. Schacht	Managing Director	8,000
Fred Burton	Cashier	4,200
S. B. Jenks	Assistant Cashier	4,000
	<u>Memphis Branch</u>	
W. H. Glasgow	Managing Director	10,000
S. K. Belcher	Cashier	5,300
C. E. Martin	Assistant Cashier	4,800"

Upon motion by Mr. Szymczak the letter was approved unanimously.

In accordance with the decision reached at the meeting of the Board on May 10, 1940, consideration was given to a memorandum addressed to the Board by Messrs. Wyatt and Gardner under date of May 9, 1940, relating to certain questions to be decided by the Board with respect to the proposed Inter-American Bank. It was stated that, as pointed out in the memorandum, if the Administration should decide to seek legislation to grant a charter to the bank at this session of

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Congress, the Board may be called upon in the near future for a prompt expression of its views and that, therefore, it was important that it reach a decision as to what its position would be on each of the four questions set forth in the memorandum for the guidance of the members of the Board's staff who will work with representatives of the Treasury, the State Department, and any others who may have an interest in drafting the legislation.

The first question considered was whether the director representing the United States on the board of directors of the Inter-American Bank should be appointed by the President, by the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Board of Governors of the Federal Reserve System, the Federal Loan Administrator, or some other official or agency of the Government, or by a committee consisting of representatives of several departments and agencies. The question was discussed in the light of the position taken by the Board at the time the convention and the by-laws of the bank were being drafted on the question of the participation by the Federal Reserve System in the direction of the bank's affairs and in the light of the comments made in the memorandum submitted by Messrs. Wyatt and Gardner.

It was agreed unanimously that if the views of the Board were requested on this point the members of the staff working on the matter should state (1) that the Board would suggest that the Committee procedure be adopted, (2) if this procedure be not

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acceptable and a majority of the other departments and agencies favor the appointment of the director by the President of the United States, that the Board would not object to that procedure, (3) if neither of these procedures be acceptable, that the Board would not oppose a procedure agreed upon by the State and Treasury Departments, and (4) if some other procedure were proposed, that the matter would be considered by the Board.

There was also unanimous agreement on the point that if the committee procedure were adopted the committee should be provided for specifically in the legislation as a Committee on the Inter-American Bank with the function of selecting the American director and of receiving reports from and counseling and advising with the director, and that the law should provide that the Committee should consist of representatives selected by such agencies as it is desired to have represented on the committee.

On the question whether the existing ineligibility of members of the Board of Governors of the Federal Reserve System and certain other Government officials to serve as a director, officer, or employee of the Inter-American Bank should be removed, it was the unanimous opinion of the members of the Board that as it may be found desirable to have some official of the Government serve in one of these capacities, legislation might well be enacted which would make it clear that any Government official or employee could legally serve.

On the question how the funds for the United States' subscription to stock of the bank should be provided, there was unanimous agreement that this question was one for the Congress to decide and, therefore, one upon which the Board should not express an opinion at this time.

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With respect to the question to what extent, if any, should the powers of the Federal Reserve Banks be broadened to permit them to deal with the Inter-American Bank, the opinion was expressed and unanimously concurred in by the members of the Board present that the legislation should grant authority to the Federal Reserve Banks to do business with the Inter-American Bank subject to the consent of the Board of Governors of the Federal Reserve System.

In taking the above actions it was understood the representatives of the Board would report currently to the Board any discussions they may have with representatives of other departments or agencies on these matters.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead, Vest, Gardner and Solomon 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 14, 1940, were approved unanimously.

Memorandum dated May 13, 1940, from Messrs. Goldenweiser, Thurston, and Hammond, the committee appointed by the Board on February 21, 1940, to review and make suggestions with regard to the Banking Studies of 1940, recommending that Miss Marie Butler (Mrs. Maurice Leven) be appointed as an editorial assistant for a period of not to exceed six months, with salary at the rate of \$400 per month, effective as of the date upon which she enters upon the performance of

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her duties, and that Miss Butler be assigned to the Correspondence and Publications Section of the Secretary's Office.

Approved unanimously.

Letter to the board of directors of "The Farmers' Loan and Trust Company", Columbia City, Indiana, stating that, subject to conditions of membership numbered 1 to 6 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 Chicago:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$3,093.63, as shown in the report of examination of such bank as of March 18, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"It has been noted that the bank has outstanding common capital stock of \$50,000, which is in excess of the figure at which the stock is shown on the books of the bank. In this connection, the Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause the common stock to be shown at its par value. Such adjustments may be effected through conservation of earnings of the bank, through reduction of its outstanding common capital stock, if and when such a reduction may be accomplished under the applicable provisions of State law, or through such other means as may be within the power of the bank.

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"It has been noted that, although the bank is authorized to exercise full fiduciary powers, the volume of trust business is small, the trust officer is apparently serving without formal designation and no trust committee has been appointed. Acceptance of trust business entails serious responsibilities and should not be accepted, no matter how small the volume may be, unless the bank is organized and equipped to handle it properly. It is said that some thought is being given to discontinuing the handling of trust business; however, so long as the bank has any fiduciary responsibilities, it will be expected to handle the business in conformity with approved trust practices."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Farmers' Loan and Trust Company', Columbia City, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank, you are authorized, of course, in accordance with the general authorization previously granted by the Board with which you are familiar, to waive compliance with condition of membership numbered 6 until further notice.

"Your attention is called to the fact that stock of the Federal Reserve Bank should be issued to the applicant on the basis of capital of \$147,000, the aggregate par value of outstanding common stock and face amount of the debentures held by the Reconstruction Finance Corporation. In connection with the bank's capital debentures held locally, it will be recalled, of course, that debentures not held by the Reconstruction Finance Corporation are not to be taken into consideration in figuring

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"the number of shares of Federal Reserve bank stock to be issued to a member bank.

"It is assumed that your office will follow the matter of the bank's reducing to within statutory limits the excess balance with a nonmember bank and to bringing the savings account listed on page 16 of the report into conformity with the Board's regulations."

Letter to the board of directors of the "Elston Bank & Trust Company", Crawfordsville, Indiana, stating that, subject to conditions of membership numbered 1 to 6 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 Chicago:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$9,814.40, as shown in the report of examination of such bank as of April 1, 1940, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"It has been noted that the bank has outstanding common capital stock of \$200,000, which is in excess of the figure at which the stock is shown on the books of the bank. In this connection, the Board feels that the bank should, as soon as practicable, take such action within its power as may be necessary to cause the common stock to be shown at its par value. Such adjustments may be effected through conservation of earnings of the bank, through reduction of its outstanding common capital stock, if and when such a reduction may be accomplished under the applicable provisions of State law, or through such other means as may be within the power of the bank."

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Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Elston Bank & Trust Company', Crawfordsville, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"You are familiar, of course, with the fact that stock of the Federal Reserve Bank should be issued to the applicant on the basis of capital of \$320,000, the aggregate par value of outstanding common stock and face amount of the debentures held by the Reconstruction Finance Corporation.

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board with which you are familiar, to waive compliance with condition of membership numbered 6 until further notice.

"It has been noted that the bank has some problems that will require the best efforts of the management and directors and that the supervising examiner for the Federal Deposit Insurance Corporation has serious reservations as to the capabilities of the principal executive officer of the bank, stating in his letter to Mr. Young that his office has felt for several years that the executive management should be changed. It has been noted, also, that the management situation has been complicated by the recent death of the vice president and trust officer.

"The Board understands that you have given full consideration to the question of management and to the asset condition of the bank and that you have confidence in the board of directors to effect the needed strengthening of the official staff. The situation is one which apparently requires close supervision and it is requested that the

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"Board be kept advised as to developments, particularly with respect to the strengthening of the management.

"It is assumed that your office will follow the matter of designation by the bank of a trust committee; and also the matter of the periodic reductions in the carrying value of the stock of the bank's affiliate, the Crawfordsville Shale Brick, Inc., in accordance with the understanding with the State Department and the Federal Deposit Insurance Corporation.

"On page 17 of the report of examination for membership the examiner states that Director Huyck is president of a municipal bond house in Chicago and that upon the bank's admission to membership such relationship will be contrary to the provisions of Section 32 of the Banking Act of 1933. It is assumed, of course, that you will follow the matter to a conclusion. Please advise the Board of the steps which are taken in this connection.

"A letter to Ben Hur Life Association, Crawfordsville, Indiana, relating to its status as a holding company affiliate upon the admission of Elston Bank & Trust Company to membership, is enclosed and is to be transmitted to that organization. Two copies of the letter are also enclosed, one of which is for your files and the other is for transmittal to Elston Bank & Trust Company."

In connection with the above matter, the following letter to the Ben Hur Life Association, Crawfordsville, Indiana, was also approved unanimously:

"This refers to the Board's approval on this date of the application of Elston Bank & Trust Company, Crawfordsville, Indiana, for stock in the Federal Reserve Bank of Chicago, subject to certain conditions, and to the status of your organization as a holding company affiliate upon Elston Bank & Trust Company's becoming a member bank.

"The Board understands that your organization is a mutual life insurance company; that it owns 1,225 of the 2,000 outstanding shares of stock of Elston Bank & Trust Company; that such stock was acquired in 1939 in exchange for class 'B' debentures of the bank which your organization purchased in 1934 with the view of assisting

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"the bank and protecting your organization's interests as a large depositor in the bank; and that your organization does not own or control any stock of, or manage or control, any bank, banking association, savings bank or trust company, other than Elston Bank & Trust Company.

"On this basis, upon Elston Bank & Trust Company's becoming a member bank, your organization clearly will become a holding company affiliate of it within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

'The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization--

'(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank * * *'

"However, in view of the facts above recited, 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 the following provisions of section 2(c) of the Banking Act of 1933:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) * * * any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"As a result of such determination, your organization will not be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. However, the Board reserves the right to make a further determination at any time on the basis of the then existing facts and, if there should be such a change in the facts as to indicate that your organization might be deemed to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, this matter should again be submitted to the Board."

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Letter to the board of directors of "The Hoxie State Bank", Hoxie, Kansas, 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 Kansas City:

- "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. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Hoxie State Bank', Hoxie, Kansas, 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 Bank Commissioner for the State of Kansas for his information.

"In view of the disclosures in the report of the May 1939 examination of the bank by the Federal Deposit Insurance Corporation, it is assumed of course that the Reserve Bank will follow the situation closely and see that the practices criticized by the examiner have been discontinued in accordance with assurance given the Federal Deposit Insurance Corporation and State Department.

"It has been noted that the bank is receiving deposits from various individuals through persons operating so-called change counters at Park, Kansas, and Grinnell, Kansas. The facts presented are comparable to those of cases previously considered in which the Board ruled that certain so-called 'exchanges' did not constitute branches within the meaning of the term 'branch' as it is used in

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"Section 9 of the Federal Reserve Act; and, in view of the fact that one of them has been in operation, apparently without objection, since 1935, it is assumed that the State authorities do not consider the operations of the change counters in this instance to be in contravention of the State statutes making it unlawful for a bank to operate any branch bank, office, agency, or place of business. However, if there should be any change in the relationships between the bank and the change counters, the question as to whether branches are being operated would be one for further consideration, and it is suggested that the matter be followed closely."

Letter to Mr. C. I. Canfield, Vice President, First Security Company, Ogden, Utah, prepared for the signature of Mr. Clayton, Assistant to the Chairman, and reading as follows:

"This is in further reference to your letter of April 24, 1940, with regard to the amount of obligations of the Commodity Credit Corporation, the Reconstruction Finance Corporation, the United States Housing Authority, and the Federal Intermediate Credit Banks which may be held by a member bank of the Federal Reserve System.

"As you know, under the provisions of the Federal Reserve Act, State member banks are subject to the same limitations and conditions with respect to the purchasing, selling, underwriting and holding of investment securities and stock as are applicable in case of national banks under section 5136 of the United States Revised Statutes. The latter section provides that the limitations and restrictions therein contained as to dealing in, underwriting and purchasing investment securities by a national bank for its own account shall not apply to obligations of the United States and certain other types of obligations specifically mentioned. We are advised by the office of the Comptroller of the Currency that obligations of the Commodity Credit Corporation, the Reconstruction Finance Corporation, and the United States Housing Authority in the form of investment securities which, in accordance with law, are unconditionally guaranteed as to principal and interest by the United States, are considered by the office of the Comptroller as 'exempted securities'. Accordingly, a national bank or a State member bank may

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"purchase such obligations for its own account without regard to the limitations and restrictions of section 5136, United States Revised Statutes.

"Debentures of the Federal Intermediate Credit Banks are obligations issued under the authority of the Federal Farm Loan Act, as amended, and therefore are also 'exempted securities' by reason of the specific provisions of section 5136, United States Revised Statutes.

"I trust that this gives you the information which you desire."

Approved unanimously, together with a letter to J. L. Driscoll, Executive Vice President of the First Security Bank of Idaho, Boise, Idaho, which took the same position with respect to Commodity Credit Corporation obligations as that set forth in the letter to Mr. Canfield.

Thereupon the meeting adjourned.

Walter Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.