

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, May 16, 1940, at 11:30 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

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 15, 1940, were approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of May 9, the Board approves the appointment of George I. Baggott as an examiner for the Federal Reserve Bank of St. Louis, and that of Earl H. Chapin as an assistant examiner. Please advise us of the dates the appointments become effective, and, as requested in letter S-178, please furnish us with recent photographs of the appointees."

Approved unanimously.

Letter to the board of directors of the "Newtown Title and Trust Company", Newtown, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 6 contained in the Board's

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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 Philadelphia:

- "7. 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 appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the power to act as surety in certain circumstances. 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. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Newtown Title and Trust Company', Newtown, Pennsylvania, 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 Secretary of Banking for the Commonwealth of Pennsylvania for his information.

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"In submitting the application Mr. Hill recommended that no special conditions of membership be prescribed in view of the fact that the managing officer of the bank had assured the Reserve Bank that upon admission to membership provision would be made for the estimated losses shown in the report of examination as of March 30, 1940, and that a program as to provision for depreciation in banking house and furniture and fixtures had been agreed upon. Accordingly, the usual condition regarding elimination of losses has not been prescribed. It is assumed, however, that you will satisfy yourself that provision has been made for eliminating losses in accordance with the assurances given. While the usual condition regarding provision for depreciation in banking house and furniture and fixtures has been prescribed, you will note that the condition is general in its terms and is not inconsistent with the program agreed upon.

"It is assumed that you will follow the matter of the bank's revising its certificate of deposit form and of also bringing into conformity with the Board's regulations the savings accounts listed on page 16 of the report of examination.

"On page 17 of the report the examiner states that Director Sidney F. Tyler is a partner in a concern which is considered to be primarily engaged in the issuance, flotation, underwriting and sale of stocks and bonds, which relationship, in the examiner's opinion, will be contrary to the provisions of Section 32 of the Banking Act of 1933 upon the bank's admission to membership, and that Mr. Tyler is to resign as a director of the bank in order to correct the situation. 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."

Letter to the board of directors of the "Sulphur Springs State Bank", Sulphur Springs, 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:

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- "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. 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 'Sulphur Springs State Bank', Sulphur Springs, Texas, 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 Commissioner of Banking for the State of Texas for his information

"It is assumed that you will follow the matter of the bank's bringing into conformity with the Board's regulations the time deposits listed on page 16(1) of the report of examination."

Memorandum dated May 10, 1940, from Mr. Smead, Chief of the Division of Bank Operations, recommending that Form F.R. 105, call report of condition of State member banks, be amended in the manner indicated on the copy of the form attached to the memorandum. The memorandum stated that all of the proposed changes were of a minor nature and were suggested merely in the interest of clarity and that it was understood that corresponding changes would be made by the Comptroller of the Currency and the Federal Deposit Insurance Corporation in the forms of call reports required of national banks and insured nonmember banks, respectively.

The proposed changes were approved unanimously.

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Letter to Mr. Upham, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of May 3, 1940, inquiring whether a loan made by the Liberty National Bank, Weatherford, Oklahoma, to the wife of Mr. C. H. McBurney, President of such bank, is in violation of section 22(g) of the Federal Reserve Act.

"It appears that Mrs. McBurney has a net worth of \$27,000 and that she does some business in her own name, but for convenience the husband and wife keep most of their funds in a joint account. It also appears that President McBurney, during the examination of the bank, paid one loan of \$1000 made to his wife and that he has paid the interest on the \$2500 obligation of Mrs. McBurney. The examiner concludes that the loan in question was made for the accommodation of her husband, while President McBurney states that the loan was not made for his individual benefit. Although it is not so stated, it is assumed that President McBurney is not legally liable in any manner in connection with the loan.

"In view of the conflicting statement of facts, the Board is reluctant to take a definite position in this case. The mere fact that the husband paid the interest on the loan in question is not conclusive evidence that the loan was for his accommodation and, on the other hand, the fact that the wife has rather substantial assets in her own name does not necessarily mean that the loan may not have been for the accommodation of her husband. We hope that you will appreciate our difficulty in attempting to reach a definite conclusion in cases of this kind where we do not have ready access to all of the details involved in the transaction and the statement of the executive officer appears inconsistent with the conclusion of the examiner. For your guidance, however, in view of the fact that the wife of the executive officer has separate assets in her own name sufficient to justify the loan and upon the assumption that he is not legally liable in connection with the loan, it is not clear in the opinion of the Board that the transaction was in violation of the law or the Board's Regulation O."

Approved unanimously.

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Letter to Mr. Paddock, First Vice President of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of May 2, 1940, with enclosures, regarding the applicability of the Clayton Act to Mr. Frederick H. Tarr, who is president and director of The Rockport National Bank, Rockport, Massachusetts, and a director of the Gloucester National Bank of Gloucester, Gloucester, Massachusetts.

"It is understood that the 'City of Gloucester' constitutes an incorporated political subdivision of a county; that its population is approximately 24,000; that its total area is approximately thirty-six square miles; that within this area are several distinct settlements or communities without corporate boundary lines; that among them is a community known also as Gloucester, the area of which is about seven-eighths of a square mile and the population of which is 18,000; and that the Gloucester National Bank of Gloucester is located in this community. It is understood that the 'Town of Rockport' constitutes an incorporated political subdivision of a county; that its population is approximately 3,600; that its total area is approximately four square miles; that within this area are two distinct settlements or communities without corporate boundary lines; that one of them is a community known also as Rockport, the area of which is less than one-fourth of a square mile and the population of which is approximately 2,600; and that The Rockport National Bank is located in this community. It is also understood that, although the corporate limits of the incorporated political subdivisions known as the 'City of Gloucester' and 'Town of Rockport' touch, the communities known also as Gloucester and Rockport, respectively, are a few miles distant from each other, thus presenting the question whether exception numbered (5) of section 8 of the Clayton Act is applicable to Mr. Tarr's services with the banks named above.

"From the information which you have submitted it appears that the distance between the business centers of the communities known as Gloucester and Rockport, where the respective banks are located, is slightly in excess of four miles; that the distance between the edges of the two communities on their nearest sides is slightly more than three miles and that the territory within this three mile section is practically unsettled since, owing to the topography

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"of Cape Ann, practically all of the settled areas in the region are along the coast; that the principal industry of Gloucester is the canning and preserving of fish, whereas Rockport is principally a residential town; that The Rockport National Bank has fifteen depositors who are residents of the 'City of Gloucester', but that these accounts are of long standing and constitute accounts of people, formerly residents of Rockport, who subsequently moved to Gloucester; that the Gloucester National Bank of Gloucester has sixty savings depositors who are residents of the 'Town of Rockport', the majority of whom either reside in the Pigeon Cove community or are employed in the community of Gloucester; and that, although the whole of Cape Ann is a summer resort by reason of which both Rockport and Gloucester benefit from the summer tourist trade, it is the opinion of Mr. Loeffler, vice president of the Gloucester National Bank of Gloucester, that the people (including to a large extent the summer tourists) residing in the 'City of Gloucester' and its various communities transact their banking business in Gloucester and the people residing in the communities of Pigeon Cove and Rockport transact their banking business in Rockport.

"On the basis of the foregoing, it appears that the situation presented in this case is similar, in its essential respects, to that discussed in the Board's letter of February 27, 1940 (S-205) to President Young regarding the 'Towns' of Guilford and Dover-Foxcroft, Maine, wherein the Board said that it 'is of the opinion that the word "town" in section 8 of the Clayton Act does not refer to a "Town" such as Guilford, and that the question whether two communities such as those ... discussed are "contiguous or adjacent" is similar to the question which would be presented in the case of two unincorporated villages in another State having a different system of subdivisions. In such a case, unless the two communities were, geographically, a single community ... it would be necessary to apply the principles stated in footnote 8 of Regulation L for determining whether or not two places are "adjacent".'

"Accordingly, the Board sees no reason to differ from the conclusion reached by your counsel that the communities known as Gloucester and Rockport are not 'contiguous or adjacent' within the meaning of exception numbered (5) of section 8 of the Clayton Act, and that such exception is applicable

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"to the services of Mr. Tarr as president and director of
The Rockport National Bank and as director of the Gloucester
National Bank of Gloucester."

Approved unanimously.

Thereupon the meeting adjourned.

Walter Moriel
Secretary.

Approved:

W. E. ...
Chairman.