

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 11, 1940, at 9:40 a.m.

PRESENT: Mr. Eccles, Chairman
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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel

Mr. Ransom referred to the revised draft of the Federal Home Loan Bank Bill (S. 4095) introduced in the Senate by Senator Wagner on June 4, 1940, and to the request received from the Senator, as Chairman of the Banking and Currency Committee of the Senate, under date of June 5, 1940, for a report on the revised bill. Mr. Ransom said that a draft of report on the bill had been prepared by Mr. Dreibelbis, that advice had been received that the Banking and Currency Committee of the Senate would commence hearings on the bill this morning at 10:30, and that the matter for consideration at this meeting was whether the report should be sent and what, if any, further action should be taken by the Board in the matter.

The draft of report was read by the members of the Board and

6/11/40

-2-

there was a discussion of the legislative history of the bill up to the present time and the likelihood of its adoption at this session of Congress. Chairman Eccles stated that he would like to talk with Senator Wagner and ascertain whether it was expected that the bill would be reported out by the Banking and Currency Committee of the Senate at this session, and to determine on the basis of that information the course of action to pursue. The suggestion was also made that Senator Wagner should be advised that the Board might like to be heard or to submit a report and that it would request that the hearings be held open to afford the Board an opportunity to present its position on the new bill.

At the conclusion of the discussion, Mr. McKee moved that the draft of report and accompanying memorandum be approved subject to such changes therein as Messrs. Eccles and Ransom may wish to make and that the report be placed in their hands for such disposition as they decide should be made thereof in the circumstances as they develop.

Carried unanimously.

Secretary's Note: On June 13, 1940 Mr. Ransom reported that in accordance with the above action, the draft of report was changed to read as follows, and the revised report was handed on that day to Senator Wagner, as Chairman of the Banking and Currency Committee of the Senate:

"This is in reply to your letter of June 5, 1940

6/11/40

-3-

"requesting an opinion as to the merits of S. 4095, a bill 'To amend the Federal Home Loan Bank Act, Home Owners' Loan Act of 1933, title IV of the National Housing Act, and for other purposes.' The Board believes that the enactment of this bill would not be desirable in the public interest.

"You will recall that recently the Board expressed its concern over the broad implications of S. 2098, a bill for the same stated purposes as S. 4095. While some of the sections of S. 2098, to which the Board made specific reference have been changed or eliminated from S. 4095, the Board, considering the bill as a whole, is of the opinion that it also would permit the operations of the Home Loan Bank System to be expanded far beyond the scope of its original purposes. The Board is conscious of the valuable services performed by building and loan associations and similar institutions in the field of local mutual thrift and home financing and is in complete sympathy with the maintenance of the Federal Home Loan Bank System along the lines upon which it was originally conceived. But, in the opinion of the Board the enactment of S. 4095 would represent a material departure from the original idea behind their creation and would so enlarge the field of their permissible operations and the sources from which they could attract funds that it may be considered as having the effect of establishing a separate and complete banking system. Furthermore, as between Home Loan Bank members and savings banks, savings departments of commercial banks and other financial institutions, the bill would strengthen and increase competitive advantages of the Home Loan Bank group which are not enjoyed by the others.

"The Board believes that the questions involved in the present bill must be considered in the light of existing law in relation to the competitive problems which are being created between these institutions and savings banks, savings departments of commercial banks and other financial institutions.

"For the convenience of your Committee there is attached an analysis of provisions of the bill which, in connection with existing law, have caused the Board to conclude that S. 4095 in its present form should not be enacted."

Chairman Eccles stated that yesterday his Secretary received a telephone call from Senator Mead's Secretary in which the latter

6/11/40

-4-

stated that the Senator would like to have Chairman Eccles appear before the Banking and Currency Committee of the Senate in executive session on Wednesday, June 12, that, while he (Chairman Eccles) did not know, he assumed that the hearings would be on the bill introduced by Senator Mead to expand the authority of the Federal Reserve Banks to make industrial loans, and that he had instructed his Secretary to advise Senator Mead's office that he could not appear before June 13 and that he would await further advice from Senator Mead on the matter.

During a discussion of the nature of the statement that Chairman Eccles might make if he should appear before the Banking and Currency Committee of the Senate on the Mead Bill, Mr. Draper stated that he had just received word from his office that Senator Mead was trying to get in touch with either him or Chairman Eccles.

At the suggestion of Mr. Ransom, it was agreed unanimously that should Mr. Eccles or Mr. Draper be called upon to make any comments on the bill they should call attention to the report submitted by the Board to the Senate Banking and Currency Committee under date of June 1, 1940, after which they would be at liberty to make such additional comments as they may wish to offer; it being understood that if a proposal were presented in hearings on the bill or elsewhere on which the opinion of the Board was desired the matter would be presented again to the Board for consideration.

6/11/40

-5-

At this point Messrs. Thurston, Wyatt, Goldenweiser, and Dreibelbis 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 June 10, 1940, were approved unanimously.

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

"It is disturbing to note the apparent retrogression in the condition of the Bank of Great Neck, Great Neck, New York, which is reflected in the reports of examination made since the bank was admitted to membership in December 1937. When the bank's application for membership was under consideration its asset condition was described as generally satisfactory and the character of its management as satisfactory. Later reports of examination, however, have become increasingly critical of the bank's condition and its management and the current report of examination as of February 3, 1940, describes the general condition of the bank as unsatisfactory, the management as weak, the capital as inadequate, and the bank's future prospects as poor.

"In connection with the capital position, it has been noted that, while the State Banking Department and the Reserve Bank have been endeavoring for some time to persuade the bank to increase its capital account, the management has contended that no capital can be raised locally and was opposed until recently to the idea of additional Reconstruction Finance Corporation capital. According to later advice, however, the directors recently decided to make application to the Reconstruction Finance Corporation to purchase \$60,000 to \$75,000 additional capital in the bank.

"It has been observed that one of the directors who had substantial financial responsibility and was considered

6/11/40

-6-

"among the more valuable men on the board resigned recently and was succeeded by a son of the President. It will be appreciated if you will advise as to the reasons for and significance of this change.

"The examiner stated in the current report that no material progress has been shown in improving the unsatisfactory features of the bank's condition. In view of the disturbing trend in the situation of the bank which has taken place since its comparatively recent admission to membership it is hoped that your efforts in cooperation with the New York State Banking Department to bring about definite and substantial improvements will be productive of early and fruitful results. It is assumed, of course, that the management of the bank fully appreciates its obligations under the conditions of membership to maintain an adequate capital position and to conduct the affairs of the bank with due regard to the safety of its depositors. Please keep the Board advised as to developments."

Approved unanimously.

Letter to Honorable Jerome N. Frank, Chairman of the Securities and Exchange Commission, reading as follows:

"The Board appreciates very much the consideration given by the Commission, as shown by your letters of June 6 and 7, to the recent request for advice from the Commission with respect to the proposal of the New York Stock Exchange that Regulation T be amended with a view to removing or relaxing certain restrictions which the regulation now imposes upon the obtaining by specialists of additional capital which they are said to need at the present time for the proper performance of their function.

"It is our understanding that the Exchange is in touch with the Commission and is in the process of assembling for presentation to the Commission the information referred to in your letter of June 6, particularly in the last paragraph of that letter. After the Commission has considered the Exchange's proposal further in the light of this information, the Board will be glad to hear further from the Commission with respect to its views concerning the proposal."

Approved unanimously.

6/11/40

-7-

Letter to Honorable Henry B. Steagall, Chairman, Committee on Banking and Currency, House of Representatives, reading as follows:

"Your letter of June 3 addressed to the Chairman in regard to Bill H.R. 8230 has been brought to the attention of the members of the Board. Although this Bill is entitled 'A Bill To further amend section 14 of an Act entitled "An Act relating to direct loans for industrial purposes by Federal Reserve banks, and for other purposes", approved June 19, 1934 (48 Stat. 1105), as amended', it appears, upon an examination of its contents, that in fact it does not propose any change in the powers of the Federal Reserve Banks and that the amendment relates solely to powers of the Reconstruction Finance Corporation. In the circumstances, the Board assumes that the request was addressed through inadvertence to the Chairman of the Board of Governors of the Federal Reserve System and that you would prefer to have the views of the Reconstruction Finance Corporation."

Approved unanimously.

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

"In view of the large volume and wide distribution of excess reserves of member banks, it will not be necessary for you until further notice to prepare or submit to the Board the semi-annual reports on form F.R. 409 (formerly B-5) of deficiencies in reserves of member banks. These reports were requested in the Board's letter B-875 of February 1, 1933."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, transmitting forms and instructions in connection with the next call for condition reports of State member banks and their affiliates.

Approved unanimously.

6/11/40

-8-

Memorandum dated June 4, 1940, from Mr. Cagle, Assistant Chief of the Division of Examinations, to Mr. Ransom, stating that Mr. Luhnnow of the Trusts and Estates Magazine had called on the Division of Examinations and requested information with respect to the number of active trust departments of State member banks in each State, based upon reports of examination, as of December 31, 1938 and December 31, 1939; that Mr. Luhnnow had stated that similar information regarding national banks and nonmember insured banks had been obtained from the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, respectively; that this statement would be confirmed; and that, if it was felt proper by the Board, data would be prepared as of December 31, 1939, showing the number of active trust departments of State member banks for transmission to Mr. Luhnnow.

Subject to confirmation of the statement that similar information relating to national and nonmember insured banks had been furnished by the office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, respectively, the preparation of the data referred to in Mr. Cagle's memorandum with respect to State member banks was approved for transmission to Mr. Luhnnow in the usual way.

Letter to Honorable D. W. Bell, Under Secretary of the Treasury, reading as follows:

"Since we received your letter of April 24, 1940

6/11/40

-9-

"considerable thought has been given to the suggestions contained in the paper left with you by Mr. Fairbanks, relating to the replacement of actual United States securities by a system of accounts with security owners, susceptible of being charged and credited as ownership of securities changes hands.

"The prime purpose of Mr. Fairbanks' suggestion, as we understand it, is to save sellers and buyers of Government securities the cost of shipping them to or from securities markets. It is recognized that these transportation costs are relatively heavy, in large part because of the surcharges made by the Post Office Department on shipments of valuables through the mails. If the plan outlined by Mr. Fairbanks or a similar one were adopted, it is assumed that the offices maintaining the securities accounts would assess charges against those for whom accounts were maintained sufficient to cover at least the total cost of maintaining and operating the accounts. These costs would presumably be substantially less than the present transportation costs, and, in addition, the risks involved to owners in holding and shipping securities would be greatly reduced. The fact should not be overlooked, however, that the successful operation of such a plan would reduce the revenues of the Post Office Department.

"If the necessity of transporting and delivering securities on change of ownership were eliminated and costs were reduced, one might expect to see more active trading in the Government securities markets. Whether such a development would be desirable is open to question, and the Board would not be prepared to express a definite opinion in regard thereto without giving the matter considerable further study.

"No attempt has been made by the Board to determine the practicability, from the standpoint of the Treasury Department, of adopting a plan along the lines suggested by Mr. Fairbanks, but, if such a plan were found desirable, it is believed that, with the present volume of outstanding securities, such a plan could readily be worked out in cooperation with the Federal Reserve banks. However, if it is thought desirable to adopt a procedure designed to reduce the transportation costs involved in the purchase and sale of United States Government securities, it might

6/11/40

"be desirable as a first step to extend the so-called CPD transactions, which now apply to notes and bills only, to United States bonds, and to make a charge for such transactions which would be at least adequate to cover costs involved."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. C. C. C.
Chairman.