

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 21, 1940, at 11:30 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. 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 June 19 (two meetings) and 20, 1940, were approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, and Messrs. Post, Hays, Dillard and Hale, Secretaries of the Federal Reserve Banks of Philadelphia, Cleveland, Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on June 18, by the Federal Reserve Banks of Cleveland, Chicago, and San Francisco on June 20, 1940, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memorandum dated June 18, 1940, from Mr. Nelson, Assistant Secretary, recommending that, for the reasons stated in the memorandum, (1) Julian B. Hammond, chauffeur, be promoted to the position of guard and that his salary be increased from the rate of \$1,260 to \$1,380 per annum, effective July 1, 1940; (2) Richard E. Hall, Jr., elevator operator, be promoted to the position of chauffeur and that his salary be increased from the rate of \$1,200 to \$1,320 per annum, effective July 1, 1940; and that (3) Lawrence A. Kerns and James A. Cameron, Jr., be appointed as elevator operators, each with salary at the rate of \$1,200 per annum, effective as of the date upon which they enter upon the performance of their duties after having passed satisfactorily the usual physical examination.

The above recommendations were approved unanimously.

Memorandum dated June 18, 1940, from Mr. Wyatt, General Counsel, recommending that Miss Charlotte M. Nell be appointed on a permanent basis as a stenographer in the office of General Counsel, to be effective at the expiration of her temporary appointment on June 24, 1940, and that her salary be increased to the rate of \$1,740 per annum, effective as of July 1, 1940.

Approved unanimously.

Memorandum dated June 18, 1940, from Mr. Morrill referring to the action taken by the Board on June 3, 1940, authorizing a special

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contribution by the Board to the Retirement System on behalf of E. T. Mulranen, Chief Telegraph Operator in the Secretary's Office, in the amount of \$2,130, in order to increase his retirement allowance to the rate of \$600 per annum on a life basis, and recommending, for the reason stated in the memorandum, that the amount of the special contribution be increased to \$2,441.32.

Approved unanimously.

Letter dated June 20, 1940, to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors of the Federal Reserve System has learned with regret from your telegram of June 18 of the loss sustained by your board of directors in the death on June 17 of Mr. John D. Middleton, one of the class 'B' directors of your bank.

"It will be appreciated if you will express to Mr. Middleton's family the deep sympathy of the members of the Board of Governors."

Approved unanimously.

Letter to The Organizers of the "First Bank & Trust Company of Utica", Utica, New York, stating that, subject to conditions of membership numbered 1 to 6 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 New York:

- "7. At the time of admission to membership, such bank shall have a paid-up and unimpaired capital of at least \$200,000."

The letter also contained the following special comment:

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"Since the application for membership was made on behalf of the proposed bank prior to its organization, it is requested that, in connection with the acceptance of the conditions of membership prescribed by the Board, the board of directors of the new bank ratify the action which has been taken on its behalf in making application for membership in the Federal Reserve System."

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

"The Board of Governors of the Federal Reserve System approves the application made on behalf of the 'First Bank & Trust Company of Utica', Utica, New York, for stock in the Federal Reserve Bank of New York, effective if and when the bank is duly authorized to commence business by the appropriate State authorities, 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 New York for his information.

"The application has been approved with the understanding that the new bank is being organized to take over the affairs of the First Citizens Bank and Trust Company of Utica in accordance with the plans outlined in the presentation memorandum submitted by the Reserve Bank. Therefore, if the absorption is effected substantially in accordance with such plans, it will not be necessary to submit the matter again to the Board for consideration under the provisions of condition of membership numbered 1.

"Before issuing stock in the Federal Reserve Bank of New York to the new institution, you are requested to satisfy yourself that its capital stock as required in condition numbered 7 has been paid in, and to ascertain that your counsel is satisfied with the legal aspects of the organization of the bank. In this connection, please forward to the Board a copy of the bank's charter and a copy of the resolution of the board of directors of the new bank ratifying the action taken on its behalf in making application for membership in the Federal Reserve System. It

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"is contemplated also that all agreements and contracts entered into in connection with the absorption by the new bank of the First Citizens Bank and Trust Company of Utica will be reviewed by your counsel and that he shall be satisfied as to their legal aspects.

"Standard condition of membership numbered 6 has been prescribed in order that its provisions may be invoked at any time in the future if necessary, but as in other cases and in accordance with the general authorization previously granted by the Board, you are authorized to waive compliance with the condition until further notice insofar as the condition applies to funds which are given statutory preference in the State of New York.

"If, when chartered by the State authorities, the legal name of the bank should be any other than First Bank & Trust Company of Utica as shown in the application, advice as to the correct legal name should be included in the telegram advising of the bank's admission to membership in order that the Board's records and public announcement may be correct."

In connection with the above matter, the following letter to the Federal Deposit Insurance Corporation was also approved unanimously:

"The Board of Governors of the Federal Reserve System today approved, subject to compliance with certain conditions, an application made on behalf of the First Bank & Trust Company of Utica, Utica, New York, for membership in the Federal Reserve System effective if and when the proposed institution is duly authorized to commence business by the New York State authorities. The proposed institution is being organized to succeed the First Citizens Bank and Trust Company of Utica."

Letter to the board of directors of "The Citizens State Bank", Knox City, Texas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve

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System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas.

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

Telegram to Mr. Hamilton, President of the Federal Reserve

Bank of Kansas City, reading as follows:

"Relet June 18. Board concurs in your opinion that in view of the relative sizes of the two banks and the nature of the assets to be acquired, the proposed absorption of the Union Avenue Bank of Commerce, Kansas City, Missouri, by Commerce Trust Company, Kansas City, does not come within the scope of condition of membership numbered 6 applicable to member trust company. Therefore, Board interposes no objection under provisions of the condition to the transaction."

Approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve

Bank of St. Louis, reading as follows:

"This refers to your letter of June 4, 1940, enclosing a copy of a letter from Mr. E. R. Muir, President of the Louisville Trust Company, Louisville, Kentucky, with regard to the deposit of mortgage loans in the trust department of that institution to secure trust funds deposited by the Louisville Trust Company in its own banking department.

"The Board has carefully considered Mr. Muir's letter and also the information regarding this matter contained in your letter of May 28, 1940, and it appreciates the problem the Trust Company has in adjusting the collateral it has deposited in its trust department to secure the trust funds carried in its banking department. However, the Board does not feel that it should modify its established ruling, which was described in its letter to you of May 9, that in order for mortgage loans to be considered readily marketable within the meaning of the Board's

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"requirements with respect to collateral for trust funds they must comply with the requirements relating to marketability contained in the regulation of the Comptroller of the Currency concerning investment securities. The information which has been submitted to the Board does not indicate that the mortgages now being used by the Louisville Trust Company for collateral purposes do comply with the requirements contained in the Comptroller's regulation.

"As indicated in the last paragraph of the Board's letter of May 9, 1940, it is contemplated that the bank be permitted a reasonable time within which to comply with the requirements of the condition of membership in question, and it is believed that such requirements can be met without undue hardship to the bank. While it is recognized that, at the time of the latest examination, the bank may not have had available sufficient eligible securities to cover the uninvested trust funds on deposit in its commercial department, this situation might be met in various ways, such as by the purchase and pledge of additional eligible securities; by more prompt investment or distribution, as the case may be, of the uninvested trust funds; or by redepositing such funds, or a portion thereof, in other banks."

Approved unanimously.

Memorandum dated June 20, 1940, from Mr. Smead, Chief of the Division of Bank Operations, submitting the resolutions adopted by the boards of directors of all Federal Reserve Banks declaring the regular semi-annual dividend payable on June 30, 1940, to stockholding member banks of record on that date, at the rate of 6% per annum. The memorandum set forth a comparison of the estimated dividend requirements with estimated current net earnings and the estimated amount available for dividends which indicated that each Federal Reserve Bank would have net earnings sufficient to cover dividends, and recommended

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that the payment of the regular semi-annual dividend by each Federal Reserve Bank be approved by the Board.

Approved unanimously.

Letter to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of June 15, 1940, with enclosures, to Mr. Paulger, Chief of the Board's Division of Examinations, presenting for consideration the question whether The Waterloo Morris Plan Company, Waterloo, Iowa, is a 'bank' within the meaning of section 8 of the Clayton Act.

"The information submitted with your letter respecting the powers and operations of the Company has been carefully considered and the Board sees no reason to differ from the conclusion reached by Counsel for your Bank and concurred in by you that The Waterloo Morris Plan Company, Waterloo, Iowa, is not now a 'bank' within the meaning of section 8 of the Clayton Act."

Approved unanimously.

Letter dated June 20, 1940, to Mr. Carlyle H. Richards, Cashier of The First National Bank of Springfield, Springfield, New Jersey, reading as follows:

"This refers to your undated letter stating that Mr. Carl H. Flemer, a director of The First National Bank of Springfield and The First National Bank of Millburn, Millburn, both of New Jersey, has been obliged by reason of the Clayton Act to tender his resignation, effective June 1, 1940, as a director of the bank first named above; and inquiring whether the Board may exercise any discretionary power to permit the continuance of Mr. Flemer's interlocking relationship with both institutions. Although you do not so state, it is assumed that Mr. Flemer's interlocking relationship was affected by the Clayton Act because the cities of Springfield and Millburn are only

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"about one mile apart and are accordingly 'contiguous or adjacent' within the meaning of the statute and the Board's Regulation L.

"Section 8 of the Clayton Act, as amended by the Banking Act of 1935, prohibits a director, officer, or employee of a member bank of the Federal Reserve System or branch thereof from serving at the same time as a director, officer, or employee of any other bank or branch thereof located in the same city, town or village or in cities, towns or villages contiguous or adjacent thereto, except in certain classes of cases enumerated in the statute and except that the Board of Governors may by regulation permit such service as a director, officer, or employee of not more than one other institution or branch thereof.

"The Board of Governors is not now authorized, as it was prior to the enactment of the Banking Act of 1935, to grant permits in individual cases. Its power of granting permission is limited to doing so by regulations of general applicability with the result that an exception applicable to Mr. Flemer's particular situation would be applicable to all similar cases and remove from the prohibitions of the Clayton Act numerous interlocking relationships which, it is believed, it was the intention of the Congress to prohibit. The Board has consistently taken the position that its authority to grant permission by regulations of general applicability should be limited to filling out the pattern established by Congress in the statute and that only such permission as conformed to this general principle should be granted.

"In view of the foregoing, it does not appear that the Board can, consistently with the purposes of the Clayton Act, grant permission which would provide for Mr. Flemer's situation. However, a copy of your letter and of this reply are being forwarded to the Federal Reserve Bank of New York and if you have any further questions respecting this matter it is suggested that it may be more convenient for you to discuss them with that bank which, because of its knowledge of the pertinent facts, is in a position to advise you fully as to the particular situation."

Approved unanimously.

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Thereupon the meeting adjourned.

Chesler Morrie
Secretary.

Approved:

W. S. Lewis
Chairman.