

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 25, 1940, at 11:15 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 22, 1940, were approved unani-  
mously.

Memorandum dated June 19, 1940, from Mr. Nelson, Assistant Secretary, recommending that, for the reason stated in the memoran-  
dum, Miss Ida Goodloe be appointed as a stenographer in the Office of the Secretary, with salary at the rate of \$1,680 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical exami-  
nation.

Approved unanimously.

Memorandum dated June 22, 1940, from Mr. Nelson, Assistant Secretary, recommending that, for the reason stated in the memorandum, Miss Dorris M. Tyler be appointed as a stenographer in the Office of

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the Secretary, with salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated June 22, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, in accordance with the action taken at the meeting of the Board on June 18 and for the reason stated in the memorandum, Professor Alvin H. Hansen be appointed on a temporary basis for a period of three months beginning July 1, 1940, in connection with the program of work to be undertaken by the Division to answer certain questions submitted informally to Chairman Eccles by the President, with the understanding that the question of his services after the school term begins at Harvard will be taken up later. The memorandum also recommended that Professor Hansen be paid a salary at the rate of \$1,250 per month and that the Board also pay his railway fare to Boston not more than once a week. The appointment of Mr. Hansen and the amount of his compensation had been approved by Chairman Eccles on behalf of the Board.

Approved unanimously.

Memorandum dated June 20, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, George Jaszi be appointed as a Junior Economist in the Division, with salary at the rate of \$3,000

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per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated June 21, 1940, from Mr. Smead, Chief of the Division of Bank Operations, submitting letters dated June 13 and 20 from Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, the letter of June 20 recommending approval by the Board of a change in the personnel classification plan of the Bank to provide for an increase in the maximum salary from \$2,500 to \$2,700 per annum for the position of "Assistant Manager" of the Reconstruction Finance Corporation Custodian Department. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of June 19, the Board approves the appointment, effective July 1, 1940, of N. B. Harwell as an examiner for the Federal Reserve Bank of Atlanta."

Approved unanimously.

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 has learned with regret from Mr. Leedy's telegram of

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"June 22, 1940, of the loss sustained by your board of directors in the death on June 21 of Mr. Frank W. Sponable, one of the Class A directors of your bank.

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

Approved unanimously.

Telegram to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Referring your June 19 letter, Board approves payment of salary to A. C. Agnew as General Counsel of the Bank on a full-time basis at the rate of \$12,500 per annum for the period ending April 30, 1941, if fixed by your Board of Directors at such rate. Please advise date Mr. Agnew's appointment becomes effective. Assignment of Vice President West to immediate supervision of Bank Examination Department meets with approval of Board, and Board approves designation of Mr. West as an examiner for Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter dated June 24, 1940, to Mr. Coffey, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Minneapolis, made as of April 19, 1940, by the Board's examiners, a copy of the report of examination was left for your information and the information of the directors. A copy was also furnished President Peyton.

"The report does not appear to contain any matters requiring further comment at this time. The Board will appreciate advice, however, that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination or as to action taken or to be taken as a result of the examination will also be appreciated."

Approved unanimously.

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

"Reference is made to your letter of June 5, 1940, regarding a request by The City Trust and Savings Bank, Youngstown, Ohio, for permission under the provisions of condition of membership numbered 2 to effect a reduction in its common capital stock from \$750,000 to \$510,000.

"You indicated in your letter that the purpose of the proposed capital reduction is primarily to permit the bank to compromise for \$75,000 an alleged claim of the receivers of the Mutual Holding Company against the bank involving an amount of between \$200,000 and \$300,000 which arose in connection with the privilege exercised by the bank under a plan of reorganization whereby it exchanged assets held by it for those held by the holding company for the benefit of waived deposits.

"It is understood that the plan of common capital reduction has been approved by the State Banking Department and that counsel for your bank has approved the legality of the transaction. It is noted that the Reconstruction Finance Corporation, by resolution dated April 2, 1940, also approved the plan of common capital reduction with a proviso that the directors of the bank, by resolution duly adopted, authorize a redemption of at least \$212,500 principal amount of outstanding debentures of the bank subject to the approval of the Superintendent of Banks of the State of Ohio and the Federal Reserve Bank of Cleveland, and that such redemption of debentures shall be completed as soon as possible after the completion of the reduction in the common capital stock of the bank. In this connection, however, it has been observed that you have informed the management of the member bank, and that they definitely understand, that no consideration will be given by the Reserve Bank at this time to a reduction of the capital debentures.

"In view of all the circumstances and in accordance with your recommendation, the Board approves the proposed common capital reduction as outlined in your letter with the understanding that no part of the funds released by the capital adjustment will be returned to shareholders."

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Approved unanimously, together with the following letter also addressed to Mr. Fletcher:

"Reference is made to the matter of the compromise settlement of the alleged claim against the City Trust and Savings Bank, Youngstown, Ohio, by the Mutual Holding Company, which was discussed in your letter of June 5, 1940, in connection with a proposal of the bank to reduce its common capital. Since a number of banks in Ohio were reorganized under similar plans, the question is presented as to the possibility of like claims arising in other cases. It will be appreciated, therefore, if you will advise us whether other State member banks are in a similar position and what effect this settlement may have upon them."

Letter dated June 24, 1940, to Honorable Robert F. Wagner, Chairman of the Banking and Currency Committee of the Senate, prepared for the signature of Chairman Eccles, and reading as follows:

"At the hearing on Senator Mead's Bill, S. 3839, on Wednesday, June 13, 1940, you read extracts from a letter received from Mr. D. W. Bell, Acting Secretary of the Treasury, with respect to the bill and at the conclusion of the hearing you gave me a copy of Mr. Bell's letter for our information.

"In reading Mr. Bell's letter I found a number of statements about which I should like to comment briefly for your records. Mr. Bell states that 'It is the view of the Treasury Department that if the Federal Reserve banks are to continue to make industrial loans, as contemplated by the proposed legislation, they should be permitted to do so with their own funds and the Government should withdraw its funds heretofore advanced to the banks for this purpose and terminate the authorization for further advances.'

"For the reasons which I have stated in my testimony before your Committee on S. 3839 and in correspondence with you, it is the position of the Board of Governors that section 13b of the Federal Reserve Act should be repealed and the Reserve banks entirely relieved of their

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"responsibility for making this type of loan or that the section should be amended along the lines proposed in the bill.

"It was the understanding of the Federal Reserve System, when section 13b was added to the Federal Reserve Act in 1934, that it was contemplated that the Secretary of the Treasury would pay to the Federal Reserve banks such amount up to \$139,299,556.99, the amount the Reserve banks subscribed to stock of the Federal Deposit Insurance Corporation, as was needed to enable them to make the advances and commitments authorized. The Secretary of the Treasury, however, issued regulations under which he advanced funds to the Federal Reserve banks amounting to approximately 50 per cent of the outstanding loans and commitments of the Reserve banks. Following the issuance of the regulations by the Treasury Department, the Board conferred with the Department with respect to the accounting instructions to be issued to the Federal Reserve banks, and after several conferences instructions were prepared which the Board believed to be in accordance with the intent of Congress, and a copy was given to the Treasury. While these instructions have not received the specific approval of the Treasury, they have been the basis on which reports and payments have been made to the Treasury by the Federal Reserve banks.

"Mr. Bell states in his letter that it is not clear from the language of the statute whether the 2 per cent payments required to be made by the Reserve banks to the Treasury constitute payments of interest or payments upon the principal amounts advanced by the Treasury to the Federal Reserve banks. He also indicates that the enactment of S. 3839 'would still leave ambiguities whereby ultimate losses from these joint transactions could be charged to the funds advanced from the Treasury'. Under the existing law the Federal Reserve banks are required to make the 2 per cent payments in question only if they are earned, and they have done so with the understanding that the question as to whether the payments constitute a return of principal to the Treasury is being left for determination at a later date. No determination of this question has as yet been made, but it is believed that the enactment of S. 3839 would clear up both these questions and eliminate other ambiguities of the present law.

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"Mr. Bell points out that the aggregate outstanding loans and commitments of the Federal Reserve banks have, since April 1939, been less than the aggregate amount paid to the Reserve banks by the Treasury, and that as loans and commitments were liquidated the Federal Reserve banks have withdrawn their funds and are treating the remaining loans and commitments outstanding as being financed entirely with funds received from the Treasury. This has been done because of a provision in the agreement between the Secretary of the Treasury and each Federal Reserve bank, required by the Secretary's regulations, that 'In so far as it is practicable to do so on a sound basis and in accordance with the provisions of Section 13b of the Federal Reserve Act and the regulations of the Federal Reserve Board thereunder, the Reserve Bank will keep all sums received from the Secretary under the provisions \*\*\* of this agreement invested in loans, discounts, advances, or purchases made under Section 13b of the Federal Reserve Act; \*\*\*.' Whether this procedure will result eventually in a profit or loss to the Treasury is impossible to state at this time, but on the basis of information now available it would appear that for the Federal Reserve banks as a whole the earnings on industrial advances and commitments will approximately offset the expenses and losses incurred in connection with such loans.

"I understand that the letter from the Acting Secretary of the Treasury on this subject is to be included as a part of the record of the hearing which was held by your committee on June 13, 1940, and I will appreciate it if you will arrange to have a copy of this letter also included in the record of the proceedings on S. 3839."

Approved unanimously.

Memorandum dated June 17, 1940, from Mr. Paulger, Chief of the Division of Examinations, recommending that the item of printing and binding in the 1940 budget of the Division of Examinations be increased by \$500.00.

Approved unanimously.



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Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. ...  
Chairman.