

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 16, 1940, at 10:45 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, 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. Dreibelbis, Assistant General Counsel

Mr. Ransom referred to the discussion at the meeting of the Board on May 24, 1940, when it was decided that, in view of the changed conditions since the Wagner Resolution was adopted by the Senate, no purpose would be served in the Board's attempting to answer immediately the large number of questions contained in the Wagner questionnaire, but that instead the staff should be requested to draft a legislative program covering the banking, credit, monetary, and fiscal field which might be presented for consideration in the event of the termination of war in the near future, as well as a program which might be considered in the event of a war of long duration. Mr. Ransom said that, while there had been developing a general impression since the action above referred to was taken by the Board that the Senate Banking and Currency Committee might not be disposed to press for hearings under the Wagner resolution, he knew that some agencies to which the

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questionnaire had been addressed were working on it, and that it was possible that if the Board did not prepare answers to the questions directed to it an embarrassing situation might result should interest in the resolution and the questionnaire be revived and the Board's answers called for. He made the further statement that, as previously had been suggested, the answers to the questions contained in the questionnaire were of two types, one of which called for factual answers and the other for expressions of opinion, and that on the latter group of questions it would be necessary for the members of the Board to reach a decision as to what their position would be. He also raised for discussion the question whether the Board had any responsibility to see that the factual information upon which the answers of the Federal Reserve Banks would be based was accurate in all cases.

It was stated that, in accordance with the request made by the Board at the meeting on May 24, 1940, the senior staff submitted to the members of the Board under date of July 3, 1940, a draft of a legislative program, and, at the request of Mr. Ransom, Mr. Goldenweiser said that, in addition, members of his Division were collecting the material that might be used in answering the Wagner questionnaire, that this material would be summarized or appropriate references to sources of material would be provided under each question, and that this would be made available to the members of the Board.

Mr. Ransom said that he would be willing to let the matter continue to take its present course unless other members of the Board had

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suggestions to make as to other action that should be taken.

Mr. Eccles expressed the opinion that answers to the questionnaire should be prepared by the staff and presented to the Board for approval or modification so that the Board would be in a position to submit the answers should it decide to do so.

Mr. Ransom raised again the question whether the staff should be requested to draft answers to questions on which the Board would have to express an opinion and Mr. Eccles replied that he would like to have the staff prepare answers to all of the questions which it would be appropriate for the Board to answer, that the answers should be based on a broad legislative program, and that where alternative proposals were suggested in the legislative program alternative answers should be prepared in the light of such proposals.

After a further discussion, Mr. Ransom suggested that the staff be requested to prepare answers to all of the questions which it is felt should be answered by the Board, in the light of the draft of legislative program which had already been submitted to the Board, together with such further answers as may be made necessary by such alternatives in the legislative program as the staff or members of the Board may wish to propose.

Mr. Ransom's suggestion was approved unanimously, and he was authorized to assign responsibility for the work to such members of the staff as he saw fit.

At this point Messrs. Morrill, Bethea, Carpenter, Clayton,

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Wyatt, Goldenweiser, Smead and Dreibelbis left the meeting and the Board went into executive session.

At the conclusion of the executive session, Mr. Morrill was called into the meeting and was requested to record in the minutes that, after discussion with the heads of the divisions concerned, the following salary increases had been approved unanimously by the Board to become effective as of July 16, 1940:

		<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
<u>SECRETARY'S OFFICE</u>			
L. P. Bethea	Assistant Secretary	\$8,000	\$8,500
S. R. Carpenter	Assistant Secretary	7,500	8,500
F. A. Nelson	Assistant Secretary	5,600	6,300
Bray Hammond	Chief of Correspondence and Publications Section	5,400	6,000
F. E. Spurney	Building Manager	5,000	5,500
<u>OFFICE OF GENERAL COUNSEL</u>			
B. M. Wingfield	Assistant General Counsel	9,000	10,000
John C. Baumann	Assistant Counsel	6,000	6,400
G. Howland Chase	Assistant Counsel	6,000	6,400
<u>RESEARCH AND STATISTICS</u>			
Woodlief Thomas	Assistant Director	9,000	10,000
<u>BANK OPERATIONS</u>			
John R. Van Fossen	Assistant Chief	8,500	9,000
J. E. Horbett	Assistant Chief	7,500	8,000
<u>BOARD MEMBERS' OFFICES</u>			
Alvin C. Walters	Secretary	3,300	3,600

The action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 13, 1940, were approved unanimously.

Memorandum dated July 15, 1940, from Mr. Nelson, Assistant Secretary, submitting the resignation of Mrs. Claire A. Bastable as a stenographer in the Secretary's office, effective as of the close of business on August 12, 1940, and recommending that the resignation be accepted as of that date.

Approved unanimously.

Memorandum dated July 10, 1940, from Mr. Szymczak recommending that the salary of A. M. Stone, Secretary to Mr. Szymczak, be increased from \$3,300 to \$3,600 per annum, effective August 1, 1940.

Approved unanimously.

Letter to the board of directors of "The Farmers and Merchants Bank of Rich Creek", Rich Creek, Virginia, 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 System and for the appropriate amount of stock in the Federal Reserve Bank of Richmond.

The letter also contained the following special comment:

"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 business, such as the power to guarantee the payment of bonds. Attention is invited to the fact that if the bank desires

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"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 for transmission through the Federal Reserve Bank of Richmond.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that 'The Sandborn Banking Co.', Sandborn, Indiana, became a member of the Federal Reserve System on July 13, 1940 and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter dated July 15, 1940, to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of St. Louis, made as of May 10, 1940, by

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"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 Martin.

"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.

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

"This refers to your letter of July 3, 1940, and enclosures, presenting for the consideration of the Board the question whether The Morris Plan Bank of Waterbury, Waterbury, Connecticut, is a 'bank' within the meaning of section 8 of the Clayton Act, since if the institution is not a 'bank', the statute is not applicable to certain of its directors who are also serving member banks of the Federal Reserve System.

"It is understood that The Morris Plan Bank of Waterbury was organized under the general business corporation laws of Connecticut, chapter 194 of the Public Acts of 1903; that its certificate of incorporation authorized it, among other things, to 'do any and all things incidental and necessary to the business of an investment company as provided by the laws of the State of Connecticut'; that on July 25, 1919, it voted to become an industrial bank, under the provisions of chapter 196 of the Public Acts of 1919; that on September 16, 1919, authority to become an industrial bank was conferred upon it by the banking commission of Connecticut; that its powers are now limited to and set forth in the provisions of Chapter 211 of the General Statutes of Connecticut, 1930, as amended; that section 4033 of that Chapter states that each industrial bank may use the word 'bank' as a part of its corporate title 'but it shall not employ such word in any sign or advertisement in such a manner as to indicate that such a corporation is a commercial bank of deposit or a savings bank'; that section 4035 of that Chapter, as last amended

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"by section 740d states expressly that 'no industrial bank shall receive money on deposit'; that section 4036 provides in effect that industrial banks shall be taxed in all respects as 'other state banks', and section 4039 as amended by section 124le of the 1939 Cumulative Supplement states that industrial banks shall be subject to certain provisions of the Connecticut banking statutes.

"It is further understood that The Morris Plan Bank of Waterbury formerly issued a form of fully paid investment certificate and contemplates resuming such practice as soon as its status under the Clayton Act is determined; that, at the present time, in lieu of such fully paid investment certificates, it issues a form of installment investment certificate which, for all practical purposes, takes the place of a fully paid investment certificate and is exclusively so used; that such certificates are issued for any amount; that, although it may and does redeem such certificates on demand, it has the right to require thirty days' notice in writing and to limit the aggregate amount of withdrawal payments in any one calendar month on all of its outstanding certificates of indebtedness to an amount not exceeding its net receipts of the preceding calendar month; that a withdrawal of the whole or any part of such certificates is permitted upon presentation of the account book and the signing of a receipt by the customer for the cash or check given; that the institution also issues the usual installment investment certificates but only in denominations of fifty dollars payable on an installment basis; that withdrawals from the installment investment certificate accounts are not permitted, although the whole of any amount paid may be withdrawn by cancelling the account; that, although both types of investment certificates issued by the institution provide for conversion into an actual form of fully paid investment certificate, such conversion is not made at the present time since the institution does not issue any form of the latter type; that the institution pays interest on both types of investment certificates issued by it, interest on the certificates which for all practical purposes take the place of the fully paid certificates, being payable semi-annually in cash at the present time, which practice, however, will be changed to payment by check when the issuance of a form of fully paid investment certificate is resumed, and interest on the usual installment investment certificates being payable upon completion of the required installment payments; that the major portion of the institution's transactions consists



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"of the making of loans and repayments thereon, approximately 4,000 loans having been made in 1939 and repayments thereon averaging about 400 per day; that payments on installment investment certificates average about eight per day and withdrawals on such certificates less than one per day; that payments on the certificates which are issued in lieu of fully paid investment certificates average about four per day and withdrawals on the same about one per day; that the average daily cash on hand carried in the institution's office is approximately \$7,350, no specific amount thereof being set aside for the payment of investment certificates in view of the small amount which is necessary for such purpose; that two windows are employed for payments of all types, both with respect to loans and investment certificates, the time required in connection with certificates for both payments and withdrawals being approximately one hour a day; that although there were, during April 1940, 96 payments and 26 withdrawals on the type of certificates issued by the institution in lieu of fully paid investment certificates, and 216 payments and 22 withdrawals on installment investment certificates, the actual number of certificate payments and withdrawals is less than indicated by these figures since, upon completion of the payments on an installment investment certificate, it is transferred to a certificate of the fully paid type; that the institution does not issue cashier's checks or drafts; that it does not accept deposits or funds in any form except in connection with the issuance of investment certificates; that it does not maintain any form of so-called checking account service; that it is prohibited by law from transacting and does not transact a trust business; that it does not offer safety deposit facilities to the public; that it transacts no escrow or agency business for the public; that it does not buy or sell securities for customers, except in cases where a customer requests the disposition of collateral held by the institution; that it is not a member of any clearing house association; that its business hours are not identical with those of banking institutions operating in the community; that, although it is subject to the supervision of an examination by the bank commissioner of Connecticut, so also are credit unions, building and loan associations and small loan companies; and that it is required to submit to the banking department reports of condition somewhat similar to those submitted by Connecticut banks and trust companies. It is understood also that the general public regards the institution as a lending corporation or finance company

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"operating primarily in the installment lending field and not as a bank of deposit.

"From the foregoing, it appears that the powers and activities of The Morris Plan Bank of Waterbury are essentially similar to those described in the Board's letter of October 19, 1939 (S-189-a). Accordingly, on the basis of the facts set forth above, it is the opinion of the Board that The Morris Plan Bank of Waterbury, Waterbury, Connecticut, is not now a 'bank' within the meaning of section 8 of the Clayton Act."

Approved unanimously.

Memorandum dated July 10, 1940, from Mr. Wingfield, Assistant General Counsel, recommending that there be published in the August issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Investments by Member Banks in Obligations  
of certain Government Agencies; and

General Licenses issued by Secretary of the  
Treasury.

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie  
Secretary.

Approved:

W. Steeles  
Chairman.