

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 27, 1940, at 9:45 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary

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 September 21, 1940, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 24 and 25, 1940, were approved and the actions recorded therein were ratified unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Sanford, Post and Hays, Secretaries of the Federal Reserve Banks of New York, Philadelphia and Cleveland, respectively, Messrs. Walden and McLarin, First Vice Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Messrs. Dillard, Stewart and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, and Mr. West, Vice

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President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 24, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City and Dallas on September 26, 1940, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to the board of directors of "The Gaylord State Savings Bank", Gaylord, Michigan, 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 Chicago.

Approved unanimously for transmission through the Federal Reserve Bank of Chicago.

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

"This refers to your letter of September 12, 1940, submitting the application of the 'Wood & Huston Bank', Marshall, Missouri, for permission to exercise additional fiduciary powers.

"In view of the information submitted by you, and in accordance with your recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission, under the provisions of its condition of membership numbered 2, to exercise the

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"fiduciary powers now held by it under the authority heretofore granted to it by the Commissioner of Finance of the State of Missouri. The Board's approval is given subject to acceptance by the bank of the following standard conditions prescribed in connection with the admission to membership of State banks exercising trust powers:

1. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
2. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.

"The foregoing conditions are revisions of, and upon acceptance will supersede, conditions numbered 1 and 2 in the Board's letter of January 6, 1937, which were accepted by the bank when it was authorized to act as executor and administrator. The bank, of course, will continue to be subject to condition numbered 3 in such letter, the condition reading as follows:

3. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise the Wood & Huston Bank, Marshall, Missouri, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting conditions 1 and 2 set forth above, and forward a certified copy thereof to the Board."

Approved unanimously.

Letter to Mr. Andrew Barber, Joliet, Illinois, reading as fol-

lows:

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"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by your organization committee on behalf of the proposed 'Union National Bank and Trust Company of Joliet', Joliet, Illinois, and grants such bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Illinois, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"After the Comptroller of the Currency has authorized the Union National Bank and Trust Company of Joliet to commence business, you are requested to have the board of directors of the bank adopt a resolution ratifying the application of your organization committee for permission to exercise fiduciary powers and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Chicago for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded."

Approved unanimously.

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

"As you know, section 21 (a) (2) of the Banking Act of 1933 makes it unlawful for persons and certain organizations to engage in the business of receiving deposits unless such person or organization (1) is incorporated and authorized to engage in such business by the laws of the United States or of any State, territory, or District, or (2) shall be permitted by any State, territory, or District to engage in such business and shall

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"be subjected by the laws thereof to examination and regulation, or (3) shall submit to periodic examination by the banking authority in the State, territory, or District where such business is carried on and shall make and publish periodic reports of its condition in the same manner and under the same conditions as is required by law in the case of incorporated banking institutions.

"For your information in connection with this subject, the Board has been advised by the Department of Justice that there is pending in one of the judicial districts of Illinois a case brought under the provision of law referred to above against a so-called 'currency exchange'. This case is regarded by the Department of Justice as a test case to determine whether prosecutions will be had of other currency exchanges operating in such State. We will advise you of the outcome of this case upon receipt of such information from the Department of Justice.

"For your further information, it has come to the attention of the Board that in certain sections of the country organizations known as 'Exchange-Trusts' have been established in small towns having no banking facilities, which organizations purport to be members of the 'National Exchange-Trust System' located in Washington, D. C. It appears that in some cases the 'Exchange-Trusts' accept deposits withdrawable by check and savings deposits evidenced by pass books. They conduct a 'general exchange business' for the member-patrons, cashing checks, receiving money, drafts, checks and other exchange items for the account of their patrons. Their income is usually derived from service charges on checking accounts and commissions on loans which purport to be made from one customer to another rather than direct from the 'Exchange-Trust' to the customer. These so-called 'Exchange-Trusts' may, possibly, be operating in violation of section 21 of the Banking Act of 1933, depending on whether they comply with the provisions of such section.

"In a case involving an 'Exchange-Trust' which was recently brought to the attention of the Board by one of the Federal Reserve Banks, the Federal Reserve Bank contacted the State banking authorities to determine whether the 'Exchange-Trust' was being operated under the State law. It was found that it was not being so operated and the State authorities took steps to have the 'Exchange-Trust' terminated. We understand that the Federal Bureau

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"of Investigation has conducted an investigation of the National Exchange-Trust System and has been unable to establish its existence in Washington. We are advised, however, that the title 'National Exchange-Trust System' and also a charter, constitution, and by-laws of a so-called 'Exchange-Trust' have been copyrighted by Elmon Armstrong and Co. As you know, of course, the copyright laws do not grant authority to do business.

"The above is written solely as a matter of information and it is not intended to suggest any departure from the present practice of reporting apparent violations of section 21 of the Banking Act of 1933 to the appropriate authorities."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Donald H. Hanson
Vice Chairman.