A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 9, 1940, at 11:00 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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 7, 1940, were approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

> "In accordance with the request contained in your letter of December 4, the Board approves the appointment, effective January 2, 1941, of N. L. Armistead as an examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to the board of directors of the "State Bank of Harbor Beach", Harbor Beach, 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

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

"This refers to your letter of November 19, 1940, and enclosures, relating to questions raised by Commerce Union Bank, Nashville, Tennessee, concerning the application of the following condition of membership to which the bank is subject:

'3. Such bank shall not engage as a business in issuing or selling either directly or indirectly (through affiliated corporations or otherwise) notes, bonds, mortgages, certificates, or other evidences of indebtedness representing real estate loans or participations therein, either with or without a guarantee, indorsement, or other obligation of such bank or an affiliated corporation.'

"The questions are set forth in a letter addressed to the manager of the bank's Mortgage Servicing Department by the bank's counsel wherein he states that he had been asked whether such Department properly could --

'(a) Act as an agent for individual mortgage security holders by performing services in connection with the making of renewals of mortgage loans which you are presently servicing and of those which you might service or act as agent under the second question hereinafter stated; your compensation to be paid by the note owner out of interest collected by you for him from the maker:

'(b) Act as agent for individual investors under arrangements whereby an individual desiring to invest in mortgage securities in this State would deposit with your Department the approximate amount of money he desired to

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"'loan on such security, the Mortgage Servicing Department attempt to locate a borrower, arrange for a tentative loan to be made by the proposed investor to the borrower, and, after the matter had been tentatively agreed upon, submit to the proposed lender, for his approval, information respecting the proposed loan, form of mortgage and note or notes to be used, etc., and, if the loan, security, etc., were approved by the proposed lender, then to act further as agent for the lender, by collecting interest and otherwise servicing the loan, and, after deducting from the interest thus paid an agreed percentage as commission, to turn over to the lender the net interest, etc.; and, in connection with these loans, as first stated, to act as agent of the lender in effecting renewals or extensions, etc.'

"With respect to the first question, it is the Board's view that the condition of membership does not prohibit the bank from acting as agent for the holders of the loans in connection with the renewal of mortgage loans which are being serviced by the bank.

"With respect to the second question the answer is not quite so clear. Operations under such a plan as that suggested by the bank might be so conducted as to defeat entirely the purpose of the condition which was adopted as a standard condition of membership in the light of experience which had shown that demands upon banks to repurchase mortgages sold had proved harmful, if not disastrous, to many banks even though a bank had no legal liability to repurchase them. On the other hand, it is recognized that a bank might exercise the agency functions proposed in such manner as to violate neither the letter nor the purpose of the condition. In the circumstances the Board will interpose no objection to the proposal outlined by the Commerce Union Bank provided the operations are carried out strictly as outlined and within the spirit and purpose of the condition of membership."

Approved unanimously.

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

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"This refers to your letter of November 22, 1940, transmitting the request of the Minden Bank & Trust Company, Minden, Louisiana, for permission to acquire the stock of a real estate corporation which it proposes to organize for the sole purpose of holding the banking premises, furniture and fixtures, and such other real estate as the bank may acquire in the course of its business in the future.

"In accordance with your recommendation, the Board will interpose no objection to the transaction as outlined in your letter and the accompanying letter dated November 18, 1940, from the president of the bank, in which he states that the stock of the realty company will be carried on the books of the bank at a value not in excess of that at which the bank premises and furniture and fixtures are now carried and gives assurance that, if at any time in the future the bank should desire to make use of the company for any other purpose than stated, the matter would first be submitted to the Reserve Bank."

Approved unanimously.

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

"It is requested that, in accordance with the usual practice, annual reports of holding company affiliates on Form F.R. 437 be obtained for the year ending December 31, 1940, or for the holding company affiliate's latest fiscal year if it differs from the calendar year. Please deliver to each holding company affiliate which has its principal executive office in your district, and which holds a general voting permit, three copies of Form F.R. 437, with the request that the annual report be filed in duplicate with your bank not later than February 1, 1941.

"The necessary supply of Form F.R. 437 is being forwarded to your bank under separate cover. The form has not been revised and is identical with the form used in connection with the annual reports of holding company affiliates for 1938 and 1939. Also, the instructions contained in the Board's letter of December 23, 1938 (R-368) and the memorandum enclosed with that letter (R-368-a)

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"are still applicable to the handling of the reports, except certain dates mentioned in the instructions. Accordingly, it is suggested that reference be made to R-368 and R-368a for information as to the procedure to be followed in obtaining the reports."

Approved unanimously.

Mr. Szymczak recommended that approval be given to the payment by the Board of the cost of the dinner ($101.86) which is being arranged for the Chairmen of the Federal Reserve Banks at the Columbia Country Club this evening.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.

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